CHAPTER 1

INTRODUCTION

India is set to witness a consumer boom in the coming years with an estimated $400 billion worth demand for products and services. This would make India the second largest market in the world after the United States (Mohnot, 1999).

Recent trends in the Indian market shows a paradigm shift from mass production to customised production and conventional to relationship marketing. Though the existing range of products satisfy consumer needs, manufacturers are always in search of new and innovative products. 1990’s paved the way for nucleus families slowly vanishing joint family system which has brought many changes in the social and economic environment. Economic liberalisation has been sweeping the country for the last few years and changed the lifestyles of a large section of Indian population. Indian consumers have become more international in their outlook and aspirations, sophisticated and flexible in their attitude and highly demanding in terms of more varieties of high quality products.

The new industrial policy has brought a sense of optimism among entrepreneurs who started tapping the unlimited opportunities vested with rural India.
Changes in consumer attitude compel the industries to become more competitive and innovative. The Indian consumer who used to accept inferior products could no longer be taken for a ride. Enhanced consumer expenditure has brought qualitative changes in their perceptions pertaining to what they want and how they would be fulfilling it. This has resulted in making the corporates to reorient their business to go beyond consumer needs and wants.

The need to understand the emerging markets and consumers has become a big challenge to the corporate world especially in creating and managing a powerful brand. Brand managers are finding it very difficult in differentiating their brand name from competitors and in building a loyal customer base (Kar, 1992). Further, they have to incorporate adequate pulling power to their brands which can be leveraged to bring unexpected benefits to the organisation. According to Ries (1998), the common thread running through the entire marketing process is the brand and every organisation should have a powerful brand. By developing a powerful brand, corporates can establish ‘brand equity’ and this equity assist firms in a variety of ways to manage competition and to maintain market share.

**The emerging Indian market**

The face of today’s world is changing fast and India is no exception. After opening our economy to global companies, the pace of change that
India experiences in their socio-cultural milieu is mind-boggling. New market trends has resulted in a sudden demand for more types of products due to emergence of new consumer segments like single and independent working women, young working couple and the kid segment. Revolution in the packaging industry, explosion of the electronic media, introduction of teleshopping, invention of e-commerce and shifting to credit buying have facilitated the smooth flow of the products.

With rising awareness about brands, the discerning buyer is becoming more selective. Now, the Indian consumer is flooded with plenty of brands, both Indian and international. The liberalisation of the Indian market has paved the way for many international brands to enter the Indian market. To name a few - Kellogs in breakfast cereal; Baskin Robbin and Walls in the ice-cream segment; IDV and Seagram in the liquor market; Goldstar, Sansui, Samsung, Thomson in television market; Revlon in cosmetics; Ford, Opel Astra, Cielo, Santro and Matiz in the car segment; Morgan Stanley, Meryll Lynch and Alliance Capital in the financial service sector are the best examples. This activity is likely to intensify further as global giants are planning to release some more powerful brands from their product portfolio.

The arrival of new brands offered more variety with better quality for the Indian consumer. But from the perspective of Indian manufacturers, these new entrants are a major threat. The global firms may take control decades. Now they have started refurbishing their brands by renewing their marketing strategies. For example, Balsara Hygiene Ltd., is widening its
distribution network and searching out a herbal route to protect its customers from being attracted by global brands. Ranbaxy, Dabur and Dr. Reddy’s Laboratories have invested heavily in R&D, the only way to compete with multinationals.

The battle is across on all product categories - be it consumer durable, non-durable or the service industry. While BPL and Parry’s Confectionery adopt multibrand strategy, Videocon and Nirma prefer low price as their strategic weapon. Our Indian banks have now changed their attitude and offer unique service options to retain its customers.

In toto, the Indian manufacturers are striving hard to protect their market by adopting different strategies. Brand repositioning, strengthening of brand equity and consequent leverage of that equity through brand extension have become the major activities among Indian companies. For all these a thorough understanding of the concept of branding and its management are essential. These issues are briefly discussed in the following pages.

The brand

The word ‘brand’ owes its origin to the Norwegian word brandr which means to burn. Farmers used to put some identification mark on the body of their livestock to distinguish them from those of others. Similarly,
firms adopted branding to distinguish their products from similar products/services provided by their competitors (Lehmann and Winner, 1997).

Prof. John Philip Jones (1998) writes: 'A brand is a product that provides functional benefits plus added values that some consumers value enough to buy'. According to Husted, et al. (1989), a brand is a name, term, sign, symbol or design or a combination of them intended to identify the product or products of one seller or group of sellers and to differentiate the product or products for those of competitors. In simple words, a brand is a recognizable and trustworthy badge of origin and also a promise of performance (Cowley, 1991). The difference between a name and a brand name is that, while a name is an identifying designation, the brand name adds to that a sense of definition and personality (Marconi, 1992). Kapferer (1992) adds that branding is an indispensable activity and it is much more than the naming per se or the creation of an external indication that a product or service has received an organisation's imprint or its mark. Brands give products their meaning and direction and are built by persistent difference in the long run. Firms spend huge sums of money and time in creating brand identification, developing brand recognition and building brand loyalty.

King (1973) views that branding is the process by which a marketer tries to build a long term relationship with customers by learning their needs
and wants. In simple words, a great brand is one which delivers satisfaction to the customer through a consistent set of product values. Besides, success of any brand depends on the level of intimacy it enjoys with its customers. It is the strength of the emotional bond that exists between the brand and its users. The power of a brand can also be seen as the uniformity of its adoption across regions and cultures and national acceptability is its hallmark.

Brands are the most valuable asset each company possesses. The leading brand always sells at higher prices. Consumers are prepared to pay this premium for a brand name, despite the fact that blind-folded taste tests of famous brands show that most people were not able to identify the difference between brands (King and Cook, 1990). That is why, when customers visit any store, they are influenced to buy products whose names are familiar, because they strongly believe that the particular brand would provide better service and higher quality. The brand name symbolises a certain level of quality and customers use their impressions of a brand name to make subsequent product choices. Customers buy brands because they trust brands and believe in their efficacy to deliver the expected benefits and reduce the risk. Brands provide security and confidence among the consumers.
Distributors prefer to sell reputed brands, because they secure higher sales. Brands provide them with security in their business strategy, assures guaranteed return on investment and help them maintain store name reputation.

To the marketer, branding helps to escape from the problems of competition - specifically in the areas of pricing, promotional efforts and inducement of repeat purchase (Husted, et.al., 1989). Moreover, established brands are difficult to be dislodged from the consumers’ mind, provided they are protected by consistent advertising. This ‘ad’ support in turn would help to maintain brand leadership and to prevent competitors’ entry (Boush, 1993a). Customer satisfaction and relationships provide protection for a brand from competition. Moreover, the value of brand name is associated closely with its awareness and quality perceptions engendered by related products and offerings (Aaker, 1991) and today, for many organisations, brands have become the primary capital.

Branding can be used as a differentiation strategy when the product cannot be easily distinguished or where products are perceived as commodities as in the case of salt, sugar and basmati rice. In these situations, marketers use branding as a differentiation strategy and try to develop an intimacy with their target customer groups.
According to Caroll (1985), brand building is a conscious, customer-satisfaction orientation process. Brand building requires an understanding of not just the consumer but also the business plan of the company and its competitors.

Successful brand building goes well beyond endearing the brand to the customer. It points out that brands have a strategic role to play in business. Brands are considered as important weapons in the company’s business strategy. They reflect the way the corporation has chosen to compete in its industry and gain long-term competitive advantage over others. And finally, to survive, the core competence of the corporation must be manifested in the core values of the brands (Prahalad and Hamel, 1990).

**Brand management**

Brand management is a formal component of corporate strategy and presently faces the challenge of understanding the dynamics of changing markets and managing brand associations. Needless to say, brand manager’s job has become more complex and more challenging to cope up with this change. Environmental factors like product innovation, globalisation of competition, strategic alliances, increased power of distribution, expectations of investors, etc., (Shocker and Weitz, 1994) pressure them to realise how competently they should respond to these challenges. The major forces are examined in the following pages.
(i) Globalisation of competition: The competitive scenario in India has become tougher due to the entry of MNCs. Entry of Sony and 3M products in computer floppy segment, Yardley and Copper in perfume segment, BMW, Daewoo and Ford in automobile segment and introduction of Elle 18 in cosmetics segment have forced the Indian brand managers to have a globalised strategic thinking.

(ii) Strategic alliance: In the face of global competition, domestic firms may seek alliance with foreign companies to seize the opportunity of the other Indian companies to have strategic alliance with those MNCs. To survive, companies often have to share costs, risks and rewards. Increasingly, they are also forced to share knowledge, distribution and even capital via strategic alliances that can stretch organisational capabilities and change the nature of brand management. ‘Kwality’ and ‘Walls’ joined together to face the stiff competition from Vadilal and Arun ice creams. P&G and Godrej combined their skills in new product development and distribution network to compete with HLL, but unfortunately this strategic alliance lasted for a short period only. Lakme also joined hands with HLL for synergetic effects. Similarly, Kellogs, Pepsi and Levis have gone for joint promotion with Times of India.

(iii) Product innovation: Innovation has become part of corporate strategy for sustaining competitive advantage. Brand managers are compelled to act
creatively even for matured products. Often, innovation in the non-product dimensions such as distribution, pricing, packaging, sales promotion schemes and creative pricing can create differentiation. The brand manager has to think of ways to enjoy the advantages of innovation.

Changes in the environmental factors and emergence of new trends at the global level have made the role of brand managers very crucial. Brand managers have to think strategically to win over the competition both in short and long-term perspectives (Hubert, et al, 1990). One such way of overcoming competition is leveraging the ‘equity’ of a brand that has been created through the long time franchise of loyal customers. Brand equity research is currently receiving considerable attention (Low and Fullerton, 1994). The concept of Brand Equity and its applications are discussed in the following section.

Concept of brand equity

The word ‘Equity’ is borrowed from the world of finance and stands for a sort of capital which is equivalent to assets minus liabilities. Brand Equity was first used by the U.S. advertising practitioners in the early 1980s (Barwise, 1993). It was not defined precisely, but in practical terms it means the long term franchise of a brand and the financial value of that franchise. Financial brand equity comes from the strength of a brand’s
customer franchise. Now, it is widely accepted that a brand can last for a long time if the firm maintains its customer value.

There have been two general motivations for studying brand equity viz., financial based and strategy based. The financial based motivation is to estimate the value of a brand for accounting purpose or for merger or acquisition purposes. The strategy-based motivation is to improve marketing productivity.

Brand equity can be discussed from the perspective of the investor, the manufacturer, the retailer and the consumer. It is clear that brand names add value to each of these groups. Keller (1993) argues that a firm’s most valuable asset for improving marketing productivity is to understand the knowledge that has been created in consumers’ minds from the firm’s investment in previous marketing programmes. Manufacturers and retailers, on the other hand, are motivated by the strategic implications of brand equity. To them, brand equity affords a differential advantage that enables the firm to generate greater volume and greater margins. Brand equity provides a strong platform for introducing new products and insulates the brands against competitive attacks. From the perspective of trade, brand equity contributes to the overall image of the retail outlet (Biel, 1993). All these aspects end with a clear recognition of the distinction between the brand and the product.
Defining and measuring brand equity

Since the emergence of brand equity, there has been a burgeoning interest in the subject among marketing academicians and practitioners. Researchers have focussed primarily on defining and measuring brand equity in a wider perspective. Shocker and Weitz (1988) refer brand equity as the *incremental cash flow resulting from the product with brand name verses that would result without brand name*. The Marketing Science Institute (Baldinger, 1990) presented a fairly comprehensive definition. *The equity of a brand name is in the value that is added by the name and rewarded in the market with better profit margins or market shares. It can be viewed by customers and channel members as both a financial asset and as a set of favourable associations and behaviours*. It can be noticed that, this definition included (a) behavioural measurement of sales, profits, shares, etc., and (b) attitudinal measurements such as ‘favourable associations’. One important point to be noted is, two brands with equal sales/profits may vary significantly in their equities.

Much of the writing on brand equity has been concerned with how better the concept of ‘brand equity’ could be explained. According to Aaker (1991), *Brand Equity is a set of assets or liabilities linked to a brand, its name and symbol, that add to or subtract from the value perceived by a product/service to a firm or its customers*. He is one of the few authors to
incorporate both attitudinal and behavioural dimensions to explain the concept. He suggested using a brand earning multiplier that is based on weighted average of the brand on five key components of brand equity, viz., awareness, associations, perceived quality, loyalty, patents and trade marks. Figure 1.1 clearly shows the sources and outcome of brand equity as suggested by Aaker (1991).

**Fig. 1.1. Components of brand equity**

![Diagram showing the components of brand equity](image)

- **Name Awareness**
- **Perceived Quality**
- **Brand Associations**
- **Other Proprietary Brand Assets**

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**BRAND EQUITY**

Name / Symbol

Provides value to customer by enhancing customer's:

- Interpretation/Processing of Information
- Confidence in the Purchase Decision
- Use Satisfaction

Provides value to firm by enhancing:

- Efficiency and Effectiveness of Marketing Programs
- Brand Loyalty
- Prices / Margins
- Brand Extensions
- Trade Leverage
- Competitive Advantage

Brand equity refers to the power that a brand may command in a market by means of its name, symbol and associations (Winters, 1991). Srivastava and Shocker (1991) say that consumers evaluate brand equity by viewing it as consisting of two dimensions - brand value and strength. Brand strength stems from marketing activities like positioning, advertising and channel support. Brand value, which is dependent on these strengths, is a financial measure (Wentz, 1989). According to them, brand values are the gains that accrue when brand strength is leveraged for assured returns. Kamakura and Russell (1991) offer the first customer-based definition for brand equity. They state that brand equity is the differential effect of brand knowledge on consumer response to the marketing of a brand. Thus, brand equity is conceptualised from the perspective of the consumer. Customer-based equity occurs when the consumer is familiar with a brand and holds some strong, positive and unique associations in his memory (Lassar, et al., 1995).

As Crimmins (1992) observes accurate measurement of brand equity must precede effective equity management. It is difficult to manage ‘added value’ without knowing the actual value that a brand name adds to a product. A number of alternative methods have been suggested for measuring brand equity. The techniques tend to be either financial or consumer-related. Sullivan (1993) used movements in stock prices to capture the dynamic nature of brand equity, on the theory that the stock
market reflects future prospects for brands. Another measure that is applicable only when launching a new product is based on brand replacement cost. That is, the quantum of funds required to establish a new brand coupled with the probability of success.

One of the most publicised financial methods to measure brand equity has been developed by Financial World (Ourusoff, 1993). Financial world’s formula calculates the net brand related profits and then assigns a multiple factor based on brand strength. Brand strength refers to a combination of leadership, stability, trading environment, globalisation, communication advantage and legal protection.

Irmscher (1993) viewed brand equity in three perspectives, viz., financial, marketing and extension. The last one relates to the extendibility of a brand name (Rangasamy et.al., 1991). He argues that brand equity represents the effects of branding activities and it is the yardstick for measuring the marketing efficiency and hence equity is considered as a non-financial character. He further argues that brand value is different from brand equity. He defines brand value as the economic value of a brand and it is the financial yardstick in the brand equity concept. But there is no consensus on the valuation of brand equity. Lin (1993) differs from Irmscher (1993), by arguing that brand equity and brand value are one and the same. He defines brand equity as the value which includes tangible
assets such as machinery and buildings, profit, etc. and intangible assets like goodwill. He proposes a better way to measure equity by emphasizing a brand's relative repeat purchase strength incorporating the views of financial analysts and marketing managers. His formula is,

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\text{Brand value} = \text{Weighted average earning} \times \text{Earning multiple}
\]

It is widely accepted that advertising is one of the major contributors to the measurement of brand equity (Aaker and Biel, 1993). Advertising can influence brand equity in a number of ways. It can create awareness of the brand and increase the probability of success. It develops brand associations which are translated into behavioural predispositions.

Keller (1993) offers the following customer-based perceptual definition: *The differential effect of brand knowledge on consumer response to the marketing of the brand.* That is customer based brand equity involves consumers' reaction to an element of the marketing mix for the brand in comparison with their reactions to the same marketing mix element attributed to a fictitiously named product. Brand knowledge has been divided into brand awareness and brand image. Brand image is a resultant of recall and recognition. Brand awareness refers to the combination of strength, favourability and uniqueness of associations. Among the methods relying more on consumer behaviour, Kamakura and Russell (1993) used scanner data to come up with ways to measure brand equity. One such
measure is perceived value and it has been defined as the value of the brand which cannot be explained by price and promotion. Brand dominance ratio provided an objective value of the brand’s ability to compete with price.

Mackiewicz (1993) views that brand equity is directly linked to business strategy. Business strategy identifies opportunities to leverage powerful brand names. For instance, Canon leveraged its name and reputation for high quality photography and lens equipment into Canon copier machines. He stresses that the process for leveraging brand equity for global competitive advantages begins by determining the specific or unique attributes of a brand name and identifying how best these attributes can be converted to satisfy the needs of the target market. He points out that there are several crucial benefits that a company can expect from developing a focussed brand equity strategy. These include enhanced profitability, reduced product introduction cost, ability to demand a premium price and high name recognition. He cautions that a firm should involve in equity building only after carefully analysing factors such as the brand’s associations, its perceived quality, brand assets and technologies.

Mahajan, et.al. (1994) use the potential value of brands of an acquiring firm as an indicator of brand equity. The monetary value that the firm pays for a brand depends on the perceived benefits obtained from that brand by capitalising on its brand equity.
Park and Srinivasan (1994) have developed a survey based method to measure brand equity. Their method divides brand equity into attribute-based and non-attribute based components, thus providing the brand managers an indication of various dimensions of measuring equity. They operationalize brand equity as the difference between an individual consumer's overall preference and his or her multiattributed preference based on objectively measured attribute levels.

Lassar, et.al. (1995) also support the views of Keller (1993) and Kamakura and Russell (1991) that brand equity should be defined from the viewpoint of consumer perception than financial performance. Lassar, et.al. (1995) strongly believes that brand equity is not absolute but relative to competition. Brand equity is the consumers' perception of the overall superiority of a product carrying that brand name when compared to other brands. Brand equity can be measured only in comparison with other brands under the same category. They have developed a brand equity scale based on certain dimensions viz., performance, value, social image, trustworthiness and commitment.

Walgren, et.al. (1995) differ from the opinion of Lassar, et.al. (1995) on the measurement of equity. Walgren argues that brand equity can be measured either in relative or absolute terms. They have examined the effect of equity on consumer preferences and found that the brand with
higher equity generated significantly greater preferences and purchase intentions.

Wendy Gorden is a strong proponent of the idea and states that the degree of emotional closeness between brand and consumer is an integral part of brand equity (Bijapurkar, 1995). Consumers form perceptions about the physical and psychological features of a brand from various sources viz., consumer reports, advertising and personal experiences. These perceptions, in turn, contribute to the meaning or value that a brand adds to the consumer, i.e., brand equity. Brand equity influences consumer preferences, purchase intentions and ultimately brand choice (Walgren, et.al., 1995).

Brand equity is a pivotal element to brand management, particularly when given the possibility that it can enhance brand loyalty and serve as a basis for growth through brand extensions (Blackston, 1995). The measurement and management of brand equity have become top priority issues in recent years as evidenced through growing literature on the subject. The importance of brand equity is that it increases the probability of brand choice and insulates the brand from competitive threats. Brand equity is viewed as the goodwill of a brand name and assists to gain competitive advantage (Farquhar, 1989). Besides, brand equity helps the firms to command higher prices than their competitive brands and results in
higher awareness. This high awareness increases the effectiveness of marketing communications.

Farquhar (1989) points out that brand equity can be built, borrowed through brand extension or purchased through acquisition. Firms should think strategically while choosing the method of obtaining brand equity and investing their resources. Brand equity gives security and stands for the trust and belief of consumers. This trust and belief, held by consumers, is the equity which can be capitalized on (Irmscher, 1993). One of the important methods of capitalizing brand equity is 'brand extension'. Brand extension, which is the main focus of this study is discussed in a detailed manner in the following pages.

**Brand extension**

Brand equity has been defined in a variety of ways, depending on its particular purpose. The goal of this research work is to facilitate brand managers in the effective use of equity of a brand with the main focus on understanding the components of brand extensions. The advantage of understanding the extension concepts is, to enable managers to develop effective marketing strategies to make the new launch a successful one. In this section, the meaning and importance of brand extension concept are examined.
In a competitive environment the success of a corporate firm depends on how it outperforms its competitors in creating values for its brand name at a minimum possible cost (Rao and Rajakumar, 1997). Successful brand name is one of the most coveted corporate assets of any organisation and has a tremendous potential to generate customer goodwill and serve as a base for future growth. The cost of introducing and establishing a new brand name in consumer goods market is highly expensive. It requires brand building activities like, sales promotion schemes, channel expenditure and advertising.

The rise of introduction costs can be attributed to the following factors. Firstly, most of the consumer markets have reached a saturation stage and entering into these highly competitive markets require high investments. Secondly, there has been a dramatic inflation of advertisement costs with the proliferation of different media and marketing techniques like event sponsoring, direct marketing, net advertising, etc. Thirdly, the growing power of retailers and the continuing segmentation of markets need more money for trade and consumer promotions. And lastly, even this high investment cannot insure against failures. Approximately, 85 per cent of all new brands fail in the market (Irmscher, 1993). Crawford (1993) says that the cost of launching a new brand in approximately $100 million (Ourusoff, 1992) with a 50 per cent probability of failure.
It is now crystal clear that introducing a new brand and making it powerful is a difficult task, because launching a new brand not only requires considerable amount of money and time, but also high creative skills and innovative strategies (Ansoff, 1979). As a result of the above discussed points two sorts of branding strategies have become popular among brand managers. They are ‘brand purchasing’ and ‘brand extension’. The first strategy is *acquisition*, which involves so many uncontrollable factors with a lot of legal formalities that need to be complied with. Firms that have huge financial reserves can only think of adopting this strategy. Hence, it is no wonder that brand managers prefer the second strategy, which means leveraging the brand equity through brand extension.

Brand extension refers to using a popular brand name for a new product either in the existing categories or in new categories. The first is called ‘line extension’ and the later is called ‘category extension’ or ‘franchise extension’ or ‘brand extension’. Brand extension is the term mostly used by researchers and managers.

Taubcr (1988) explains that brand extension is using a brand name in one category to introduce a product or products in a totally different category. Aaker and Keller (1990) view that brand extension is a process wherein a current brand name is used to enter a completely different product class. According to Kotler (1992), a brand extension strategy is an effort to
utilise a successful brand name to launch a new product or product line. For example, Hindustan Lever Limited, has extended its ‘Lux’ brand name into shampoo category. Similarly, ‘Cello’ a known brand name in thermoplastics product category, introduced ballpoint pens under the same brand name. Schmitt and Dube (1992) add that, in brand extension, marketers attach an existing brand name to a new product category in order to transfer favourable brand attitudes to the new product. The success of extension strategy largely depends on how consumers perceive and categorise this extension.

Brand extension is attractive to organisations, because they take advantage of brand name recognition and brand image to enter into new markets. As John Grenians, the President and CEO of Nabisco brands pointed at the 1990 ANA meeting: At Nabisco, all our new product activity is founded on one fundamental belief. And that belief is that clever but careful stretching of brand equities is the surest way to profitable growth... (Baldinger, 1992).

Extending their popular brands has become the new priority for most of the FMCG Companies (Gremilton, 1996). The aim of any marketing programme is to create a loyal customer base for its brand within a short span of time and converting this into brand equity (Majumdar, 1997). In such cases, companies make brand extensions with the hope that the extension will be able to ride on the equity of a successful brand and that
than new name products and create synergy between it and its parent brand (Smith 1992; Pitta and Katsanis, 1995).

Brand extensions offer a number of advantages to both manufacturers and consumers. A strong brand offers to a new product an instant recognition which would be otherwise impossible to be generated without extra resources. The familiarity also provides consumers with another benefit in the form of perceived low risk with a new product.

Brand extension is a strategic decision because it is built upon the association of the core brand. If an extension can bring or add something good to the brand and at the same time does not discrediting the original brand, then extensions can serve as a potential instrument for growth.

Brand extensions enjoy the advantages of image of the parent brand initially and once established it improves the equity of the parent brand (Cowley, 1991). Brand extensions are often used to add new attributes to the existing brand and to mask some of the negative attributes. In this context, Schoenfeld (1985) remarks that firms should have a brand plan to guide decisions about brand extension. For example, Nestle India Ltd., did not extend its popular brand ‘Latogen’ into ‘Infant cereal food’ category; instead created a new brand ‘Cerelac’.

Aaker (1991) categorises the results of extension as under:
(i) extensions can enhance the core brand, by reinforcing the image of core
brand rather than draining its goodwill. (ii) The brand name *aids* the extension by transferring its powerful association and perceived quality which is a key ingredient to the success of its extension. (iii) The brand name fails to help the extension, because the name is added simply to provide recognition and credibility. Due to the absence of proper *fit* between the core brand and extension category, extensions which are initially successful, will be vulnerable to competition. (iv) Unsuccessful extensions can easily damage the original brand, by creating undesirable attribute associations, damaging the brand’s perceived quality and confusing the existing brand associations.

**Type of brand and ability to extend**

The more the brand extension covers categories of dissimilar products, the more it must draw on the deeper meaning of the brand. Otherwise, the extension would drain the meaning of the brand. Figure 1.2 shows the various stages in brand extension (Kapferer, 1992) with respect to degree of similarity. These stages arise because of the ability of a brand name which assist in extending into dissimilar product groups.

Close extensions (B) are compatible with *formula* brands. For example, Reynolds can easily extend its name into sketch pen or engineering drawing set. Extensions one degree (C) further correspond to *know-how* brands. ‘Maggi’ adds quickness/convenience to everything it
touches in product categories like soups and sauces. The further extensions (D), to be compatible with the first product (A), assumes a brand defined by its centre of interest - its focal point. BPL and Videocon, for example, focus on 'Quality Home Appliances' and hence sell an entire range. The next aspect is philosophy. This is especially true of corporate brands like Tata which signifies quality and trustworthiness and is used for extensions in widely dissimilar products. 'Godrej' can also be quoted under this category. In concrete terms, brands without depth and clear identity cannot support wide ranging extensions.

Fig.1.2. Type of brand and ability to extend

Source: Kapferer (1992)
Criticisms on brand extensions

Though brand extensions provide several advantages to the firms, they also pose a few drawbacks. Concern about the negative effects of extension is on the increasing trend. Ries and Trout (1981) criticise brand extensions, by arguing that even if the brand name is not used on an incongruous extension success of the extension will come at the expense of destroying the brand image of the original brand. Fannin (1987) postulates that if a known brand gets attached to a product failure, the possibility exists for negative ruboff on the parent brand.

Ogiba (1988) agrees that there may be negative effects on the core brand if a brand extension is unsuccessful. Gibson (1990) has warned that, repeated or frequent extensions may even result in a total extinction of brand equity. Loken and John (1993) have identified that unsuccessful extensions result in the dilution of brand equity. Even repeated extensions might diminish the equity of a brand and yield equity ‘wear-out’ (Pitta and Katsanis, 1995).

Several research studies have revealed that brand extension may result in brand cannibalism (Sharp, 1993). Cannibalization means that a new product gains its sales at the expense of sales of an existing product. For example, Pepsodent is trying to convert the users of toothpaste to use its toothpowder, which may result in the sales decrease of its toothpaste.
The continued practice of brand extension exposes a greater range of brands to the possible spillover of negative publicity. Bad publicity for one brand may spillover to other products using the same brand name. For instance, failure of Pond’s toothpaste and toilet soap affected the sales of Pond’s shampoo (Sabnavis, 1997).

One of the strong arguments against the practice of brand extension is that it weakens the overall brand image or blurs the original brand’s image and consequently harms the core brand by creating undesirable associations. This means that mindless extensions may lead to confusion among customers about the image of a particular brand. Then answering the question ‘What does a brand stand for?’ might become difficult. Let us imagine that Dabur has introduced toothbrush in the market. Now, the consumer may be confused as to associate Dabur’s name, with ‘Herbal health care’ or ‘Oral hygiene’.

In some extreme cases, failed extension might tarnish the image and reduce market share of the core brand. ‘Enfield’ can be quoted as an example. This company launched colour TV under the same brand name. The new product failed in the market, because consumers were not able to identify the ‘fit’ between ‘350 CC bike name’ and ‘colour TV’. This failure caused heavy damage to the bike sales which is the core product for the company (Rao and Rajakumar, 1997).
A study conducted by Sullivan (1992) compares the survival rates of 84 new non-durable products and has found no significant difference between the survival rate of extensions and new brand launches. Kapferer (1992) further adds that, *when there is scarcely any difference in quality between an extension and its competitors, the extension could well bring about a short-term increase in sales as a result of the family name but, over a longer period, it would adversely affect the brand and the confidence which it has inspired, by associating it with a product which the consumer does not immediately find effectively superior to others of its kind*. Aaker and Keller (1990) has also endorsed this point.

Ries and Laura Ries (1998) argue that a brand becomes stronger when it narrows down its focus. The sharper the brand’s focus, the stronger it becomes. When a brand tries to represent more categories, then it becomes less stronger due to the absence of sharp focus. Finally, when a company adopts brand extension as its growth strategy, it loses an opportunity of creating a new brand name. Perhaps, this new brand name may become another asset to the firm with equity.

**Dimensions of extensions**

Extensions can be accomplished in a variety of ways as shown in figure 1.3. The question is whether the extension is in the same category or
different product category and accordingly an extension can be classified as either horizontal or vertical extensions (Pitta and Katsanis, 1995).

Horizontal extension is further divided into two types, which differ in terms of their focus (Aaker and Keller, 1990). They are termed as 'Line extension' and 'Franchise extension'. Chocolate Horlicks and Chocolate Kellogs are best examples for line extension. Franchise extension or brand extension is grouped into close extension and distance extension. Kapferer (1992) calls close extension as associated extension or continuity extension.

Fig. 1.3. Dimensions of extension

- **Extension**
  - **Horizontal**
    - **Line extension**
    - **Brand or Franchise extension**
  - **Vertical**
    - **Upscale extension**
    - **Downscale extension**
  - **Close extension**
    - Associated, continuous & similar extensions
  - **Distance extension**
    - Discontinuous & dissimilar extensions
Close extensions may be in the same product category and share the same features of the core brand. This can also be called similar extension. Distance extensions are known as discontinuous extensions (Kapferer, 1992) or dissimilar extensions. These extensions are real diversification strategies (Ansoff, 1979). For example, Yamaha manufactures both motorcycles and electric pianos.

Vertical extension is divided into upscale vertical extension and downscale vertical extension. Both these extensions involve introducing a reputed brand in the same product category but with a different price and quality balance. The high priced ‘Surf Excel’ is the best example for upscale vertical extension and the low priced ‘TVS Suzuki Max-100’ can be cited as example for downscale vertical extension. However, Kapferer (1992) and Desai and Hoyer (1993) argue that the above extensions are line extensions.

It should be remembered that horizontal extension involves a change in the concept of the brand, whereas vertical line extension does not involve any concept modification. Colgate Dental Cream to Colgate Floride and to Colgate Tartar Control stand for horizontal extension, involving a change in the product concept, whereas Colgate Floride in 100 gm and 150 gms packs stands for vertical extension which does not require any change in the product concept.

At this juncture, a brief discussion about line extension is necessary to draw the boundary line between brand and line extensions.
**Line extension**

‘Line extension’ uses the same brand name to launch new variants in the same product category. According to Aaker and Keller (1990), line extension is the process where a popular brand name is used to enter a new market segment in the same product class. In simple words, line extensions come in the form of different packages, flavours, sizes, shapes, ingredients, etc. Introduction of ‘Horlicks Chocolate’ flavour is line extension, whereas, launching of ‘Horlicks Biscuits’ is brand extension.

Desai and Hoyer (1993) have proposed a framework classifying different types of line extensions which can be easily understood by referring to figure 1.4. They have developed a 2x2 matrix by considering two important dimensions. The first dimension is the type of *attribute* used to extend the brand and the second dimension is *target customer*, that is to whom the line extension is meant for.

**Fig. 1.4. A classificatory framework of line extensions**

<table>
<thead>
<tr>
<th>USER</th>
<th>CURRENT</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>SAME</td>
<td>* Pack Size  * Pack Types  * Flavours</td>
</tr>
<tr>
<td>TR</td>
<td>NEW</td>
<td>* Improvements  * Combination of attributes</td>
</tr>
<tr>
<td>UT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TE</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Desai and Hoyer (1993).*
Brand managers have to choose between brand and line extensions which can act as the primary form of achieving growth for the company. To make a risk-free decision, Sridhar (1994) has suggested that the firms should classify the association of their brands either as ‘product class related’ or ‘non-product class related’, before thinking about extension option. By conducting a study of 23 brands, he has concluded that brands having stronger product related associations are more suitable for line extension than brand extension, since the former can retain the basic brand concept.

**Rationale for line extension**

The following factors explain why brand managers have pursued line extensions as a significant part of their marketing strategy.

1. **Customer segmentation**: The most fundamental reason is the presence of a genuine ‘need gap’. Line extensions provide products to meet the needs of various customer segments.

2. **Impulse buying**: Two-thirds of the purchases made for cosmetics, groceries and personal-care products are made on impulse while the consumers visiting the shops. Thus line extension helps to attract the attention of the buyers which is converted into purchase.
3. **Pricing cushion**: Line extensions often help the organisations to set higher prices and increase unit profitability by moving the current customer to a premium segment. They also give an opportunity to offer a broader range of price options to satisfy wider audience. Similarly, some line extensions are priced lower than the lead product. For example, American Express offers its 'optima' card for a lower annual fee than its standard credit card.

4. **Excess capacity utilisation**: Since line extensions require minor changes in some specific cases, excess manufacturing capacity can be fruitfully utilised.

5. **Market domination**: Line extension helps to dominate the market by offering different variants of the main product. Line extensions make it difficult for the retailer to replace a range of established products with privately branded products. This is largely applicable to western countries where the domination of retailer-chain stores is high. However, with the increase of super-market stores in India coupled with the trend toward branding of commodity products, this will become relevant for India in the near future. It also blocks the entry of competition.
6. **Managing true innovation:** Line extension helps to enhance the value proposition and expand the usage context.

7. **Short-term gain:** Line extensions can increase the sales quickly with less expense. The time and cost involved in the development of line extensions are less than that of creating a new brand. Line extensions offer quick rewards with minimum risk.

8. **Energising the brand:** Line extension can help the mother brand to look more relevant and create a basis for differentiation. It revitalizes the tired brand and stimulates sales. The sales of Reynolds 045 ball pens shot up when the company introduced 045 designer range of pens.

9. **Extend the core benefits to new users:** Line extension can expand the core promise of mother brand to new users. A brand may have a strong image that promotes loyalty but is exclusionary. By offering the existing benefits, of course, in a different form to new users, the sales and market share are likely to go up (Hardle, 1994).

10. In some specific cases, line extensions are deliberately used to phase out old or obsolete products.
Limitations of line extensions

The problems and risks involved with line extensions are discussed briefly in the following lines:

1. **Over segmentation**: Line extensions may touch a point of over-segmentation which ultimately results in confusion among customers. Some customers may switch over to other simple products offered by competitors.

2. **Stagnant category demand**: Line extension seldom expands the total category demand. There is no positive correlation between category growth and line extensions.

3. **Poorer trade relations**: Due to limited shelf space availability at the retail stores, competition among the manufacturers to grab whatever space available is in an increasing trend. Pulsing greater demand for their shelf space, the retailers start giving preference to those who pay extra. This cost escalation can lead to strained relationship between the manufacturer and the retailer.

4. **Cannibalisation**: Another obvious danger is that line extensions lead to cannibalisation. For example, introduction of ‘Polo Paan’ flavour from Nestle India Ltd., reduced the sales of regular ‘Polo Mint’. The
positioning of the mother brand and line extension should be such that the scope for cannibalisation should be minimum.

5. **Diffuse the image**: Line extensions give a deceptive clue of success due to short-term increases in sales or market share. But this may mask the danger of weakening the core brand, diffusing rather than reinforcing brand’s image.

In addition to the above, line extensions may lead to complexity in production, run-out situations of some variants and disturb the existing buying patterns of loyal customers.

In the last decade, products as well as brands have proliferated in every category of consumer goods and the deluge shows signs of letting up. But such aggressive tactics can be hazardous. Making an appropriate extension strategy requires the evaluation of customer needs and long term impact on brand equity.

Brand extension assists organisations,

(i) to achieve growth in the cost controlled world (Tauber, 1988),
(ii) to capitalize brand assets (Tauber, 1981),
(iii) to refine the nature and direction of a firm’s business (Tauber, 1981),
(iv) to gain economics of scale in advertising with less marketing expenditure (Hastings, 1990) and
(v) to gain immediate trial purchase, by endowing it with the goodwill of the parent brand (Aaker, 1990).
Too much reliance on brand name mostly results in mindless extensions. This leads to competitive clutter and in some cases it may result in buyer confusion. Hence, brand extensions should be based on a deep understanding of the core product benefits and its area of expertise.

According to Allen Rosenshine (Mackiewicz, 1993), Chairman of BBDO, leveraging a brand name without strategic thinking can backfire. Gillette in the United States, decided to launch a female oriented antiperspirant deodorant. In the absence of prelaunch analysis, subsequent experience confirmed that the Gillette name, linked with the strong masculine imagery, did not have the associations that women were looking for in personal hygiene product. Furthermore, the introduction of a product for women also had serious risks for Gillette’s male consumer franchise. Therefore, managers must develop a clear understanding about a brand’s key elements and develop guidelines to leverage them. If each brand extension reinforces the brand’s equity, there is a greater chance of increasing its loyalty.

Keller (1993) insists that marketers should evaluate potential extension candidates for their viability and their feedback effects on core brand image by (i) identifying possible extension candidates on the basis of core brand association, (ii) overall similarity of extension with core brand and (iii) evaluating the potential of the proposed extension by measuring the
salience, relevance and favourability of core brand’s association with extension product category.

**Need for the study**

This study deals with the concept of brand extension in the context of Indian market. Brand extensions have become relevant as the number of brands entering into the market are on the increasing trend. Proliferation of brands obviously confuses the consumers in identifying the attributes of various brands.

As the costs of building powerful brands have skyrocketed and the failure rate of new brands is high, brand managers have started *refocussing* their attention on extensions rather than building new brands. This trend is bound to continue and intensify, especially in the context of the entry of foreign brands from world’s powerful companies.

Corporates require information about consumer’s judgements on brand extension strategies, in order to make concrete product decisions. This field needs to develop many new principles which can become a basis for sound and realistic practice. Review of literature about brand extension reveals that majority of the published research works are based on the findings of the studies or experiments conducted with sophisticated western consumers.
Though many companies adopt brand extension strategies less attention has been paid for research in the area of brand extension. As a result, comprehensive body of knowledge is not available. This fact initiated the researcher to carry out a study on brand extension strategies in the Indian context. Many examples can be given for successful extension as in the case of BPL products and unsuccessful extensions, like Pond's toothpaste. Now, it has become an important issue for brand managers to find out why some extensions are accepted by the consumers while others are not accepted. This created a curiosity in the mind of the researcher to find out the factors that contribute to the favourable evaluation about brand extensions.

One of the important factors that decides the destiny of any brand extension strategy is the kind of association a brand enjoys with the consumers. The associations may be in the form of 'specific association' or 'product category association' or 'abstract association'. Hence, it has become the need of the hour to formulate a research study with a special focus on understanding how do consumers react when brands belonging to these associations are extended from non-durable category to durable category and vice-versa.

The influence of association with reference to the perceived degree of similarity between the core brand and extension category needs to be studied. Further, identification of factors leading to the success or failure of
a brand extension would provide the basis for brand managers towards better decision-making. The outcome of the study would certainly help the organisations in formulating a strategic plan with respect to the extension of their powerful brand.

A thorough understanding of the influence of factors like brand affect, fit characteristics, consumers’ knowledge on extension product class and image perceptions can provide guidelines to brand portfolio executives. Knowledge of these relationships helps managers to take the right decisions regarding where to extend their brand name and where not to extend.

In a nutshell, the goal of this research study is to present a comprehensive list of factors influencing the success of brand extension and to provide guidelines for developing brand strategies. These guidelines, in turn, would be helpful in addressing some of the new challenges in formulating strategies. Also, this study intends to expand the existing knowledge on brand extension strategies and to help the firms in careful application of this concept.

The specific objectives of this research study are listed below:

**Objectives**

1. To examine the influence of ‘brand associations’ with a view to find out a brand’s extendibility to different product categories.
2. To study the impact of ‘awareness’, ‘satisfaction’ and ‘product class knowledge’ on the consumers’ intention to buy the proposed new products.

3. To explore the direction of ‘brand affect’, when brands are extended into similar and dissimilar categories in order to understand its effect on consumers’ preference for extensions.

4. To elicit consumers’ relative preference for extension products over other popular brands in that product category.

5. To identify the variables which influence brand extension evaluations and offer suggestions to brand executives for ensuring the success of brand extension strategies.

**Limitations**

Any research work is bound to have a few limitations due to some external uncontrollable factors. Such important limitations of this study are stated below:

The respondents of this study belong to urban and semi-urban areas. So care must be taken while generalising the results with rural population. Since, the sample size is 486, that too taken from Tamilnadu state, applying the results of this study outside Tamilnadu is a question to ponder.
Responses were elicited on the spot, without any time for prior thought. Obviously, respondents might not have used their regular purchasing decision process while evaluating the hypothetical brand extensions. Therefore, the interpretation of the results of this study is restricted to the degree of involvement by the respondents. However, the issue of involvement in brand choice itself is a major area of research.

No cues were given to the respondents about the proposed extensions. Evaluations by the respondents were made based on the knowledge they had about the core brand. But in the real world, these judgements are influenced by advertisements and other promotional techniques.

Caution must be applied in generalising the results of this study, since only one brand name was tested in each of the four different categories. Hence, there is a need to use several brands in future research to apply the results more confidently for real world purpose.

Review of literature revealed that the success or failure of intermediate extensions are likely to influence the consumer reaction toward new extensions. During the course of research, products like dosa mix, macroni and pickles were introduced under ‘Maggi’ brand name. Consumers’ experience with any of these products might have influenced their reactions toward questions on Maggi’s proposed extension. Both
positive and negative spillover effects could have taken place. In this study, the effect of intermediate extension was not explored.

A brand’s association may change over a period of time, depending on the type of products introduced under the same name. This has happened in the case of BPL. Based on the association identified in the pretest, new extension categories are selected for the research purpose. But, it is feared that, this association might have changed during the period of data collection because of the introduction of products like Pagers, Mobile phone service and Modems. These could have led to the formation of a new association like ‘BPL is for digital electronics’. Executives might have evaluated the extensions by linking BPL’s name with the associations cited above and hence they may feel incongruence with the extension ideas. This could have affected the mean purchase intention rating of BPL’s extension products.

Chapterisation

The present study is organised in five chapters. The first chapter introduces the basic concepts related to the study and sets out the objectives, need for the study and limitations of the study.
Some significant past studies in brand extension area have been reviewed in the second chapter. This chapter also includes a conceptual framework and formulation of hypothesis.

Chapter three is devoted to provide a broad outline about the pretests conducted with the purpose of shortlisting the stimuli brands. The methodology part of the main study viz., sampling design, data collection and operationalisation of variables, are also dealt in this chapter. Profile of the organisations are also provided.

The importance of various factors influencing consumer preferences toward brands with different associations are examined in the fourth chapter, employing different statistical tools. This chapter also evaluates the influence of selected variables on purchase intention, by using multiple regression analysis.

The last chapter presents a brief summary of findings, conclusions and provides suggestions. Managerial implications with an orientation towards policy formulation are also discussed. Directions for future study are indicated at the end.