Brand Extensions Differentiation: Implications for Strategy

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The purpose of competitive strategy is to create and sustain competitive advantage. Traditionally, this is done by finding a favorable opportunity in a well-defined market and creating relevant differentiation. In this framework, brand extensions can represent a favorable opportunity for developing a winning competitive strategy. However, a competitive strategy that is not based on meaningful differentiation of brand extensions leads to a transient competitive advantage. The solution proposed by this article is centered on creating brand extensions that provide momentum for the brand, yield positive energy, enhance differentiation and further intensify core brand associations. Furthermore, brand extensions should provide new features that transcend product category boundaries, thus increasing product functionality, reliability and capabilities. From a competitive point of view, brand extensions should decrease rivalry among competitors by establishing dominance on an untapped criterion of purchase.

Key words: brand extensions, differentiation, competitive advantage, competitive strategy

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1. Introduction

In order to obtain long-term profitability, companies must create and sustain a strong competitive advantage. In the quest for creating competitive advantage, companies struggle to build unique capabilities and to acquire the means to protect these capabilities. Consider the purchase of a Pepsi can. In the local supermarket the consumer considers buying the drink as part of a 6-pack for the smallest price available. However, the same consumer may pay even 50% more for a single can of Pepsi sold from a local vending machine on a hot day. This price premium is not due to a better or different product, but to a more convenient means of obtaining it. Basically, the customer values the fact that he is not forced to remember buying the 6-pack, store it or lag a can the entire day until he is thirsty and figure out how to keep it chilled. For sustaining this type of competitive advantage, companies create external linkages with customers, channel partners or even competitors (Dyer&Singh, 1998).

Creating linkages in the marketplace makes consumers unwilling or unable to switch to competitors, thus preserving competitive advantage. The general consensus is that only companies with a strong marketing orientation are capable of creating such linkages (Kirca et al. 2005). A company has a strong marketing orientation if it has mastered the art of listening to consumers, provides a better fulfillment of their needs than competitors and cares for customer satisfaction (Hedaa&Ritter, 2005). As a result, companies spend large amounts of money to implement or preserve this marketing orientation. For example, every year Coca-Cola spends one million dollars worldwide for focus-groups, large consumer surveys and social media tracking studies.

Reality shows that "the voice of the consumers reigns" ideology is no longer a paradigm for success. Nowadays, companies achieve greater results by defying what customers want and "shaping" consumer behavior. Competitive advantage cannot be sustained by continuously raising the bar on existing performance or differentiation criteria. Today market leaders are those that define what performance or differentiation really means for a product category. Mercedes sets the bar on elegance, shaping consumers' expectations for car design to interior tapestry. Dove makes women believe in themselves by redefining the beauty standard for women. Amazon promises consumers the best online shopping experience ever.

2. Differentiation for competitive advantage

In essence, competitive advantage reflects the top management's ability to understand and cope with competition (Dyer&Singh 1998). CEO's always aim to maximize market power. What eludes most CEO's is the conspicuous fact that market power is basically the same thing as sustained profitability. As a consequence, sustained profitability is becoming the cost of competing. Yet, competition for better revenue margins is fiercer that ever. Sadly, in the mad rush for revenue, companies start ignoring true strategy in favor of a short-term revenue boost, pursuing a utopia formed from various answers to the question "what else can we do?" In reality, strategy should be about making choices and deliberately choosing to be different. But this is becoming more difficult as companies are forced to compete.

Traditionally, businesses think of competitive advantage in terms of new or better products. Naturally, companies keep tabs of competitors in order to develop these products. But in the era of hyper competition every product promises its consumers to be bigger, better or improved (Moon, 2005), as companies embark on a continuous race for raising the bar on attributes or benefits. For example, when P&G created Ariel for black clothes, Henkel responded with Perwoll Black that also included balm. Paradoxically, consumers eventually have more benefits than they want or actually need. It is no wonder why every new product feels similar and brand loyalty is becoming a novelty. Consequently, today the big question is not anymore: "What else can we do for our customers?"

Nowadays, consumers and the market stand at the core of business together. As a result, competitive differentiation should be the core of competitive strategy, while competition should be the core of marketing orientation. According to some scholars, this is possible only when a company does not pursue to extend the brand (Keller, 2008). Brand extensions ultimately lead to strategy oblivion, because they expand brand associations instead of narrowing brand focus (Trout&Rivkin, 2008). Another issue related to brand extensions is the traditional view that, as competitors can easily catch up or imitate, competitive advantage slowly erodes. Thus, it is impossible to create competitive advantage through brand extensions.

The key premise of brand extensions criticism as a strategic instrument for competitive advantage is that causing a customer to think is never in the brand's best interest. The choices need to become crystal clear, so the customer or prospect does not need to think. Consider Louboutin Shoes who paints the sole of every shoe bright red and charges no less than $2000 for a pair. In this case, women do not buy based on rational attributes like good craftsmanship or premium materials, but they buy that alluring red sole as a purely emotional reaction. As consumers, the less information we are given, the more probable it is for us to remember it. In this manner, virtually any focus becomes better than no focus.

3. Brand extensions differentiation for competitive advantage

The purpose of competitive strategy is to create and sustain competitive advantage. Competitive differentiation should be at the core of competitive strategy (Johnson et al. 2008). In creating a differentiation strategy for a brand extension, managers must focus on brand extension relevance to preserve brand focus (Keller, 2008). In order to become relevant, a brand extension must be both visible and credible for consumers to actually purchase it.

Scholars tend to ignore that competitive advantage is cumulative, expanding with the number of customers served. For example, the competitive advantage of The Simpsons is not "stored" somewhere in the FOX Studios, but is represented by the 12 million viewers who watch the show every Sunday night. Not only does a brand extension provide the ability to serve more customers, but it also provides momentum for the brand. Therefore it is logical for FOX Network to capitalize The Simpsons brand by creating t-shirts, toys, mugs, board games and other related items. In this case, competitive advantage is all about network effects: people want to spend their money and time on what is popular. The more viewers the show attracts, the higher the probability that their friends will join them. As the show popularity grows, it is likely that more viewers will also buy other related products.

The very nature of competitive advantage is not only cumulative, but is also comprehensive. Companies pay two million dollars for 30 seconds of media presence at the Super Bowl End Season Finale. Even if the target customer may not be an American Football fan, companies still spend large amounts of money because such actions assure customers that the brand is "alive". Brand extensions can further enhance brand associations rather than mitigate them. Consider a company like Disney that first started in the animated movies industry and then expanded through Disneyland theme parks, while diversifying their range of movies. Today, Disney strives in resort hotels, retail stores, video games, TV broadcasting, cruises, retail and even on Broadway. By extending, Disney didn't only manage to develop an edge over competitors, but from a strategic perspective its brand extensions provide higher visibility for the brand.

In the era of hyper competition, brands proliferate by slicing product categories wafer-thin or even creating a category of their own (Moon, 2005). As a result, the battle for customer mindset has become fiercer while customers' mind space is becoming scarce. Audi does not claim to make a better car than

Mercedes, nor the other way around, but just a different one. In consumers' minds, Mercedes is associated with luxury and classiness while Audi is associated with elegance and sportiness. Even though the target customer may have similar characteristics, the two automakers emphasize different criteria for purchase, which appeal to a totally different mindset. As a result, brand related competitive advantage is created by convincing customers of the relative importance of each specific purchase criteria.

Under these circumstances, brand extensions can provide energy for creating and sustaining a brand based competitive advantage by reshaping consumers purchase criteria. In this context, the main focus is on consumer needs and on positioning brand extensions relative to their purchase criteria. By introducing a brand extension, the company can influence how consumers perceive the brand and can even redefine competition. For example, due to limited distribution and some technical glitches, Segway HT didn't appealed to the wider population after it was introduced, despite attracting a core base of loyal customers. However, the company resolved this issue by offering customized vehicles and multipurpose units that transcend the incremental functionality Segway HT offers over other no-emission forms of transportation such as walking or biking.

Brand extensions can also prevent a brand energy loss by complying to a different set of purchase criteria. For example, if there is a perceived risk to the brand, a brand extension can be created to provide some distance. Brand extensions like Pizza Hut Express, Intel Celeron or Budget Rent-a-Car are all good examples of brands created to provide protection from a downscale offering that could hurt the brand.

4. Brand extensions and competitive strategy

Competition should be at the core of marketing orientation. In the marketplace, the nature and intensity of competition is determined by five forces that shape the product category: rivalry among existing competitors, threat of new entrants, bargaining power of buyers, bargaining power of suppliers and the threat of substitute products (Porter, 2008). The configuration of the five competitive forces tends to differ by industry, but always the strongest force determines profitability. Sadly, in most cases, the strongest force is not the most prominent. For example, even thought rivalry is fierce in the toys industry, low revenue margins are the result of superior substitute products such as video games.

In a traditional manner, strategy can be viewed as creating defenses against competitors or finding a position where the five competitive forces are the weakest (Porter, 2008). For instance, Wal-Mart managed to successfully position itself in a structurally very challenging industry. Competition is fierce in the retail industry and is composed from a wide range of different competitors: from small stores to large international retail chains like Carrefour or K-Mart. Consumers always demand lower prices so price competition is rampart, while unions and trade labors exercise a strong supplier power. But in this setting Wall-Mart has chosen to focus on a cost leadership strategy that proved to be successful.

Rivalry among competitors intensifies naturally over time. Competitors are becoming similar as consumer needs and expectations converge (Dawar, 2013). Competitive differentiation becomes the norm for competing. In these circumstances, eliminating rivals becomes a high risk strategy because removing today's competitors can attract new competitors and generate backlash from consumers or suppliers. As a result companies often attempt to stop intense competition. This leads to a situation in which a product is neither new nor improved, but the company charges more for it because this will be a good differentiator.

In order to reverse the trend brand extensions should be on the same rampage against competition. In this case, the best possible strategy is to actually choose your competitors. The generally accepted belief regarding competition is that a brand is stuck with its competitors no matter the circumstances (Dawar, 2013). However, a brand extension offers the opportunity to actually choose or at least influence its competitors. Practically, successful brand extensions destroy self referential strategy frameworks by working against the current. For example, when developing a new shampoo assortment, brand managers have the choice of how to position it: a shampoo for women, an antidandruff shampoo, a gentle care shampoo or maybe even a shampoo for kids. Thus the target segment and the competitive frame of reference are changed. In each of these instances, the benefit provided by the product is different and the consumer is more likely to compare the product to different competitors.

Also, brand extensions provide an opportunity to establish dominance on a free chosen criterion of purchase (Keller, 2008). Surprisingly it is easier to differentiate a brand extension because it is easier to pay attention to the target market and identify competitors. For avoiding competitors, the brand extensions should simply do something different. To avoid familiar cues to customers, a simple analysis of a product category is often enough. For example, a visit to the local supermarket shows how similar many products are: most sweets are sold in similar packages, contain the same ingredients and their marketing communication is often indistinguishable from each other. It is no wonder why the first brand to emphasize a difference gains a significant competitive advantage. This difference could simply be a brand extension that redefines the market or creates a new relevant criteria for purchase.

Brand extensions can offer massive expanding opportunities for new features that add product functionality and an even greater reliability for the current features. Extensions can provide much wider product functionality by adding new capabilities that transcend product category boundaries. For instance, Jägermeister is a well-known alcoholic beverage while also being positioned as a strong cough syrup. Also brand extensions can increase reliability of current product features by incorporating credible benefits that augment the core value proposition. For example, McDonald's added salads and other healthy food to the menu in order to provide customers' more options for their daily menu.

Successful brand extensions often disrupt value chains and can alter industry or product category structure. As a result, companies are forced to rethink the nature of competition and almost everything they do internally in order to respond properly to new competitive opportunities and threats.

Companies usually prefer a smaller slice of a vast market in the detriment of a large slice of a smaller market (Martin, 2014). The rationale behind it is that a vast market can provide an unlimited growth potential. But, giant opportunities encourage bad strategy (Neilson et al. 2008). Such companies miss the opportunity where to play and how to win. However, through an undifferentiated market approach, when everyone is a potential customer, it is becoming impossible to determine who to target and what customers really want. In other words, companies just stop pursuing competitive advantage.

Brand extensions offer smaller market opportunities that force the company to develop an adequate value proposition in accordance with market development. In other words, brand extensions reiterate the need for competitive differentiation starting from scratch. In these cases the success often depends on the core brand's value proposition. If the value proposition of the parent brand is mainly functional, there is a small growth potential. For example, people buy Volvo cars mainly because Volvo is the leading authority in car safety. On the other hand, if the value proposition of the parent brand is mainly symbolic, the growth potential is vast. For instance, Louis Vuitton products are valued more for the lifestyle they project rather than for their functionality or the manufacturer’s expertise in the product category. As a result, only people that value safety will buy other Volvo products, while a larger group of people who share or aspire to the lifestyle projected by Louis Vuitton will buy their products.

5. Final thoughts

Almost all strategic frameworks and instruments used today are based on the idea that the sole purpose of strategy is to create and sustain competitive advantage. This transforms competitive strategy in a quest of finding the next best opportunity. In general, companies are improving their ability to understand what consumers really want and provide an overall better experience for them. In these circumstances, brand managers view brand extensions as the primary tool for finding these opportunities.

The main problem regarding brand extensions is the fact that they often lead to a transient competitive advantage. On the other hand, one advantage of brand extensions is that competitive differentiation for brand extensions can transform them in a tool of competitive strategy. An even better advantage is that brand extensions are an unassailable source of differentiation once integrated in the proper competitive strategy framework. At the end of the day, managers who learn how to correctly use brand extensions in a competitive framework achieve an early start in the process of creating and maintaining a long-term competitive advantage.

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