Brand Extensions Hold More Promise than Peril: Parent Brands Tend to Withstand Failed Extensions

Kevin Lane Keller, Amos Tuck School, Dartmouth
Sanjay Sood, UCLA Anderson School of Management

More and more firms realize that some of their most valuable assets are the brand names associated with their products or services. Creating, maintaining, and enhancing the strength of those brands has become a key management imperative. One important advantage of having a strong brand is that it can facilitate acceptance of new products launched using that brand name, i.e., brand extensions. Because they reduce consumer risk and significantly lower the cost of introductory marketing programs, brand extensions have become the predominant new product strategy, and the last two decades have seen an explosion in the number of brand extensions.

Well managed brand extensions not only provide new sources of revenue, they can also reinforce brand meaning and help to build brand equity. A concern of many managers, however, is what happens when brand extensions are not successful. After all, most new products fail, and brand extensions are no exception. Will a failed brand extension damage the parent brand in some way, squandering the millions of dollars and countless man-hours invested in building its equity? If so, brand extensions could pose considerable risk, and managers would have to develop much more cautious approaches with their brand extension strategies.

Because of its fundamental importance, much academic research has been directed at understanding brand equity dilution. The good news from this research is that, by and large, parent brands do not appear to be particularly vulnerable to failed

brand extensions. Research on brand extensions reveals a surprising robustness of parent brand equity when examining failed extensions that varied in similarity or “fit” to the parent brand.

The clear conclusion drawn from recent studies is that parent brands are more resistant to changes in evaluations than perhaps previously thought. Years of brand building activities evidently help consumers develop well-learned brand knowledge structures that can withstand the negative impact of a failed extension. Consumers use their knowledge about the parent brand to determine whether or not the negative extension experience is relevant enough to warrant a change in attitude.

The general rule of thumb that emerged from early academic research and industry experience was that an unsuccessful brand extension potentially could damage the parent brand image only when there was a high degree of similarity or "fit" involved. Because similar extensions represented an area where the company should have considerable expertise, consumer confidence in the parent brand was more likely to be weakened as a result of a failed similar, rather than dissimilar, extension.

Subsequent research has examined moderating factors or “boundary conditions” which provide some important qualifications to these basic findings and has identified other circumstances where brand dilution could potentially occur. The authors examined the effects of direct experience with the extension and alternative extension naming strategies. In a beverage context, dilution effects resulted when consumers directly experienced a poorly performing, similar brand extension. On the other hand, as expected, consumers did not downgrade parent brands after a

negative experience with dissimilar beverage extensions. Moreover, no dilution effects were found when consumers were only provided with negative product ratings of similar extensions or if they evaluated these extensions without direct experience. This suggested that direct experience led to dilution because consumers considered it to be more diagnostic than other forms of learning about the extension.

Interestingly, we found that if the extension was sub-branded (e.g., Quencher by Pepsi) rather than family branded (e.g., Pepsi), dilution effects disappeared *even though consumers tasted exactly the same drink*. This indicates that direct experience with a close extension provides consumers with a vivid, compelling experience that creates the potential of a change in parent brand attitudes. Sub-branding, however, credibly sends a signal to consumers to expect differences in the extension and distances the extension from the parent brand.

Sub-branding strategies can thus alter consumer attributions regarding whether or not the parent brand should be held directly responsible for failed extensions. Marketplace evidence also supports these findings. For example, a recent study found that the sudden acceleration problems associated with the Audi 5000 automobile had greater spillover to the Audi 4000 model than to the Audi Quattro model, which she interpreted as a result of the fact that the latter was branded and marketed differently. Thus, sub-branding is one managerially controllable factor that permits firms to engage in a more active extension strategy, allowing the brand to “make mistakes” and extend farther than otherwise would be the case.

Brand extension dilution has also been shown to depend on consumer involvement at the time of the extension experience. When consumers actively process negative information about an extension, the vividness of the negative experience can overwhelm the effects of similarity and lead to dilution for both similar and dissimilar extensions.

Researchers have found that when consumers were not highly involved (e.g., the extension decision was seen as fairly inconsequential), dilution effects were only observed with similar extensions. Less similar extensions were considered exceptions and their impact on the parent brand was reduced. When consumers were motivated to more deeply process information about an extension, however, they found that unfavorable experiences with even dissimilar extensions could potentially lead to parent brand dilution.

Similarly, a recent study found some evidence of greater brand dilution for consumers with a high need for cognition (i.e., consumers who generally like to think), as compared to those with a low need for cognition, presumably because they processed extension information more deeply. Finally, researchers have observed parent brand dilution for both failed similar and dissimilar extensions when attitudes were measured immediately after an extension trial experience. When parent brand attitudes were measured after a delay, however, then only unsuccessful similar extensions led to dilution.

Collectively, these findings imply that unless consumers are enticed to more extensively consider the reasons behind a product failure, dilution effects are only likely to be manifested when the extension is seen as highly similar to the parent

brand and thus as *diagnostic*. A product failure may not harm the parent brand if the extension category is far enough removed because consumers can compartmentalize the brand's products and disregard its performance in what is seen by consumers as an unrelated product category.

Another factor influencing the likelihood of brand dilution is how familiar consumers are with the parent brand. One important factor influencing familiarity is brand ownership or usage. In an experimental study, one of the authors observed different patterns of brand dilution depending upon whether consumers owned the automobile brand being extended. When low-priced extensions were introduced, dilution occurred with owners of a prestige brand (e.g., BMW) but not with owners of a non-prestige brand (e.g., Acura). Similarly, using national household scanner data, researchers found evidence for potential negative effects of unsuccessful extensions among prior users of the parent brand but not prior non-users.

An implication of these results is that even successful extensions can lead to brand dilution because the basis of brand meaning may be different for loyal users compared to non-loyal users. Loyal users have richer, more developed knowledge structures of the brand and may have deeper convictions regarding what is central to brand meaning than non-users. Extensions may therefore be successful in attracting new users and increasing sales, but at the same time these extensions may be perceived to be inconsistent by loyal users and result in brand dilution with this group of consumers. To the extent that loyal users are more valuable to the firm, successful extensions could dilute total brand equity.

Research suggests that brand dilution seems to occur only under very specific circumstances. That is, consumers must be confronted with a compelling extension experience that is seen as relevant to existing parent brand associations, and they must be convinced that the experience conflicts enough with their beliefs to warrant a change. In other words, a strong, diagnostic, and inconsistent extension experience is necessary for consumers to update their feelings towards the parent brand.

Formally, we propose that parent brand dilution is a function of these three factors, as follows:

1) ***Strength of the extension experience****.* Only an extension experience that is sufficiently strong has the potential to trigger brand dilution. Strength of extension experience can be viewed in terms of salience (i.e., how attention-getting) and ambiguity (i.e., how objectively interpretable). A strong experience is salient and unambiguous. A weak experience – whether it is less salient or more ambiguous – may be ignored or discounted.

2) ***Diagnosticity or relevance of the extension experience****.* The diagnosticity of an extension experience concerns whether consumers find the experience as relevant to the parent brand. Experience will only impact parent brand evaluations if consumers feel that extension performance is indicative, in some way, of the parent brand (e.g., when the extension is similar and close in perceived fit).

3) ***Inconsistency of the extension experience with the parent brand image***. The evaluative inconsistency of the extension experience depends on the relationship of the experience to the corresponding parent brand image. A consistent extension experience is less likely to change the existing parent brand image. An inconsistent extension experience creates the potential for change – the direction and extent of change depending on the relative strength and favorability of the experience. Note that highly inconsistent extension experiences, however, may be discounted or ignored if not viewed as relevant.

Given the strategic value of brands as a key intangible asset, brand dilution is a critically important managerial topic. Our review of the academic literature revealed that the circumstances under which a parent brand is damaged from a failed extension would seem to be actually fairly rare, such that in the vast majority of cases, unsuccessful extensions would not hurt the parent brand. These research findings underscore the important point that although consumers “own” a brand in terms of the expectations, perceptions, attitudes, etc. that they hold about the brand in memory, marketers can – and should – actively manage consumers’ brand knowledge structures. Creating a strong brand with much brand equity not only permits further growth opportunities but also helps to provide a defense against a failed brand extension.