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BRAND LEVERAGE: STRATEGY FOR GROWTH IN A COST-CONTROL WORLD

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Capitalizing on the equity in established brand names has become the guiding strategy of product planners in the 1980s. In fact, firms have bought, sold, licensed, and extended brands to a degree unseen in the previous decade. Recognition of the value of established brands has reached such heights that almost half of all new package goods are brand extensions.

Indicative of this focus on brands is the merger mania of the past few years. During October 1985, *Advertising Age* wrote:

> In recent weeks, the business world watched as almost $15 billion and about 400 brand names changed hands in rapid-fire sequence. Before the dust began to settle, Procter & Gamble owned Richardson-Vicks, Philip Morris Inc. had General Foods, R. J. Reynolds Industries consumed Nabisco Brands and Monsanto took G. D. Searle & Co. . . . The brand name suddenly has emerged as the most coveted corporate asset of all. Brands no longer are merely products competing for market share; they're annuities being plugged into the big-money equations of corporate acquisitions. It has become wiser to grab somebody elses's established brands and extend the lines than spend $80 million or more trying to get a new name into the mix.

A parallel trend to selling the company is selling the brand. Licensing has grown rapidly as firms successfully offered once sleepy brands to bring leverage in new markets. Sunkist Soda, Hershey Chocolate Milk, Porsche sunglasses, Coca-Cola clothes, and many other licensing ventures brought a new emphasis on managing brands. As an example, Ocean Pacific (OP) Sunwear, which started as a clothing manufacturer, "quit making its own products in 1980. The company felt it would function more efficiently and grow more quickly by concentrating solely on selling its name" (*Los Angeles Times*, 1985).

Brand Equity

Marketers often use the terms brand equity, brand image, and brand personality interchangeably. The equity of a brand, however, means something much more than consumer perceptions. In financial terms the value of a brand might be the capitalized value of its expected earnings. However, this does not fully explain the big premiums being paid to buy brands. Part of the answer is in the prohibitive price of entry into new categories. The cost of buying share points escalated with the huge inflation of marketing cost during the '70s. Media costs were rising at 30 percent even when inflation was in the low teens. When cate-

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gories are growing, a new entrant can start small and grow with the trend. With the stagnant demand of the '80s, most categories are flat and share wars have resulted. This has further driven up the cost of entry. As a result, a firm wishing to enter a new category has *two options: purchase a brand in a new category or extend their own brand.* This is the essence of brand equity: the incremental value of a business above the value of its physical assets due to the market position achieved by its brand *and* the extension potential of the brand. *Brands have become the barrier to entry but they are also the means to entry.* Many examples exist of firms entering a new category (to the company) by leveraging their brand into that category—the process of brand extension.

Brand Extension

Brand extension is using a brand in one category to introduce products in a totally different category. In some instances licensing is used, but in most cases a manufacturer is searching for ways to cost effectively enter new categories.

Although the history of brand extension dates back to the '60s (Gamble, 1967) it was not until the 1980s that brand extension took off. In 1981, Ries and Trout wrote "When the marketing history of the decade is written, the single most important trend will have to be brand extension." In 1979, Tauber described a procedure to systematically research and select brand extensions. The benefits of brand extension are a perfect fit to the corporate needs of the 1980s; as a result, the concept took off. In 1985, Gibson wrote:

> Tauber popularized the notion of taking a disciplined approach to developing new products by leveraging an established brand name into categories new to that brand. He called it Brand Franchise Extension and since that time a wide array of successful examples have emerged.

Many trade press articles have extolled the benefits of brand extension (Abrams, 1981; *Time*, 1981; Stern, 1985; Alsop, 1984; Freeman and Winters, 1986; *Newsweek*, 1985), but, to date, none have offered a structure to help marketers understand what can be leveraged in a brand. This article will summarize what has been learned from over 50 brand-extension studies.

The New-Product Report Card: 1979

To understand why brand extension has grown and why the focus on brand leverage is so pervasive, we need to go back to 1979 and look at the changing dynamics facing new-product marketers. At the end of the decade of the '70s, many marketers began to question the processes and results of the system of new-product development in place since the early '60s. The conventional wisdom was that a company had to develop and market new products to grow. In the extreme, it was believed that without new products, a firm would eventually die. The product-life-cycle concept was assumed to be valid. Most consumer-oriented firms had a large staff or department of new-product specialists whose task it was to bring into existence the perpetual flow of new products that would form the future of the company. By 1980, many marketers were questioning the new-product myth.

In a study presented to major food companies, Tauber detailed the new-product trends and track records of the 10-year period of the '70s. This study evaluated every new product introduced to supermarkets for that 10-year period. Only 93 of over 7,000 items had resulted in a minimal size business ($15 million). The study also showed that there was little relationship of a company's new-product successes and their profitability. New products were not the key to earnings or growth. The Tauber study revealed that of the 93 successes during the 1970s, *two thirds were line extensions introduced in categories that the parent company already dominated.* As a result these produced very little profit contribution given the cannibalization and small share gains that occurred. This fact was not lost on management, and the search was on for a better way to build *new markets* for the firm.

Traditional technology-driven new-product activity had not produced very acceptable results in low-tech industries such as food and H&BA (health and beauty aids). Markets, overall, were still stagnant. Technological breakthroughs had not been easily translated to meaningful consumer benefits. Even Procter & Gamble had seen a number of its technology-driven ventures fail or achieve marginal success, e.g., Pringles, Citrus Hill, and Duncan Hines soft moist cookies.

The cost of introducing new products and new brands became prohibitive. In order to generate a revenue stream sufficient to fund the advertising, promotion,

and distribution costs that are necessary to gain shelf space and generate acceptable awareness and trial, today's new product must deliver sales of more than $50 million. The true cost of establishing a new *brand* is probably three times this. In some industries, it is almost impossible. The high level of concentration of brand share in a few firms has resulted in marketing wars that cement the current players and make new brand development prohibitively expensive. We have the soft cookie wars, the granola bar wars, diaper wars, soft-drink wars, toothpaste wars, fast-food wars, and on and on. Clearly, a firm needs more than dollars to successfully enter or build a category. The answer has been in buying, building, and ballooning brands.

Strategy of the '80s

If there is any doubt that by the mid '80s brand leverage is *the* product strategy of choice, one need only look at the new-products column in *Advertising Age*. A few recent titles tell the story: "P&G Unleashes Flood of New Tide Products" (6/16/86); "Franchise Players: Brand Expansion Preferred Route" (8/18/86); "Famous Names Breed Extensions" (9/1/86); and "Intros Bring New Wine, Old Bottles—New Products With Already Well Known Names Continue to Make Their Way to Market" (1/5/87).

What are the primary *benefits* of this strategy?

Extending a franchise offers a number of benefits which traditional new-product development does not. The major one is that extension capitalizes on the company's most valuable assets—its brand names. Thus, the company moves into a new category from a position of strength—the immediate consumer awareness and impressions communicated by the brand. A further benefit is that investment outlays typically necessary to establish a new brand—a significant expense—are minimal. An important related payoff is that introduction of a brand extension can increase sales for the parent brand. The advertising and heightened awareness of the new entry can have a synergistic effect on the original product. This corporate or umbrella effect can create important advertising efficiencies. Finally, there may be reduced risk of failure when the brand name already strongly conveys benefits desired in the new category.

The benefits of brand extension are a perfect fit to the corporate needs of the 1980s.

Using a brand name in one category to provide leverage to enter a different category is not new. However, the financial pressures of the 1980s make it appropriate for the times. *Making existing corporate assets work harder is paramount in a cost-control world.* Even "has-been" brands are being brought back to sell products (e.g., Brylcreem, Maypo, and Chase & Sanborn) (Saparito, 1986). Some of the biggest winners of the '80s are brand extensions: JELL-O Pudding Pops, Nestles' Quik Chocolate Milk in cartons, Oreo Ice Cream Sandwiches, Dole Fruit 'N Juice Bars, Philadelphia Cream Cheese Salad Dressings, and Ivory Shampoo. The list of all recent brand extensions would reach into the thousands.

Brand licensing arrangements are another boom area. Coke clothes, Sunkist Soda, Strawberry Shortcake Toys, and even Harley Davidson White Wine Coolers are all on the market.

What's in a Name?

A consumer is exposed to hundreds of brand names every day. Being a well-known brand is not sufficient to be a good brand extension. Few consumers want JELL-O shoelaces or Tide frozen entrees. A brand can be successfully extended to a new category when it has both *fit* and *leverage*.

- *Fit* is when the consumer accepts the new product as logical and would expect it from the brand.
- *Leverage* is when the consumer, by simply knowing the brand, can think of important ways that they perceive the new brand extension would be better than competing products in the category.

In other words, the brand is a logical fit (e.g., Hershey Chocolate Milk) and brings perceived superiority just from the brand itself (e.g., would be a more chocolatey flavored milk—a desired attribute).

The process of brand extension requires a company to study the elasticity and boundaries of a brand. Management must decide how broad or narrow they want to define the business of the brand. Since a brand's meaning can change over time as brand extensions are introduced, management needs to develop a *brand plan*—what extensions are introduced short term and what others become possible long term. Note the changing possibilities Ocean Spray faced as they moved from cranberries to cranberry juice, to being a full-line bottled juice supplier. One must develop a long-term scenario to avoid diluting important elements of the brand and to improve the odds of pursuing more

remote areas where the brand could have leverage.

After conducting many brand extension studies, some specific types of leverage in brands began to emerge.

Types of Brand Extensions

A systematic study was made of the types of leverage in brand extensions. A sample of 276 brand extensions was selected from a list of thousands of new products introduced since 1976. There were 115 different brands represented and categories included consumer hard goods and soft goods. Although some items do leverage more than one thing, all could be classified into seven categories. Thus, it is believed that there are seven types of leverage which a company should consider when seeking to extend its brands:

(1) Same products in a different form
(2) Distinctive taste/ingredient/component in the new item
(3) Companion products
(4) Same customer franchise
(5) Expertise
(6) Benefit/attribute/feature owned
(7) Designer image/status

Same Product in a Different Form. One of the simplest ways to leverage a product into a different category is to change its form. If it's a food, make it a beverage. If it's frozen, offer it shelf stable. Ocean Spray created cranberries into a drink with cranberry juice cocktail. General Foods offered JELL-O pudding in frozen form on a stick (pudding pops). Dole created pineapple sauce to compete with apple sauce. This type of extension can "work" because it is a known item.

Distinctive Taste/Ingredient/Component in the New Item. An alternative to offering a new form of an existing product is to take an ingredient or component of the product you own and make it part of an item in a different category. For example, Kraft "owned" the Philadelphia brand cream cheese market. Where else would this ingredient be desired?—Philadelphia Cream Cheese Salad Dressing. Owning a taste or ingredient allows ownership of a distinctive new product in a different category. Other examples are Tylenol Sinus Medication, Haagen Daz Cream Liqueur, Oreo Cookies and Ice Cream, and Arm and Hammer Carpet Deodorizer.

An important related payoff is that introduction of a brand extension can increase sales for the parent brand.

Companion Products. Some products are used with other products. These natural companions lend themselves to leverage in the other category. Log Cabin, a premier brand of syrup, introduced a Log Cabin Pancake Mix. Aunt Jemima, the pancake mix brand, has Aunt Jemima pancake syrup. Sometimes the companions are situational. Coleman is primarily known for its camping stoves and lanterns but successfully moved into tents and other camping gear that go along with the stove. Some companions are "close-in" products to the parent— e.g., Mr. Coffee coffee and Colgate Plus Toothbrush. Other companions can leverage the association in more of a forward or backward form of integration. For example, Duracell offers Durabeam Flashlights which hold their batteries and Kodak batteries can go into their cameras. Bacardi Tropical Fruit Mixers in frozen concentrate form leverage the association of their rum with companion tropical drinks.

Same Customer Franchise. Many brand extensions represent a marketer's efforts to "sell something else" to its customer base. In effect, this is a strategy to leverage the consumer franchise. VISA travelers checks offer another product to the host of VISA customers. Obviously, these extensions must be something the current customers want and believe this brand of it would be good. Sears has capitalized on their huge customer base with extensions like Sears Savings Bank.

Expertise. One of the most effective types of leverage is expertise—offering extensions in a category where consumers believe you have special knowledge or experience. Honda was known to make excellent small engines. Their lawn mowers were a not so obvious but logical extension. BIC was an expert in disposable inexpensive plastic pens. They chose to leverage their expertise in disposable plastics and offer disposable lighters and razors. Minolta and Canon successfully leveraged their photography expertise into copying machines.

Benefit/Attribute/Feature Owned. Some brands "own" a benefit or property. Do brands come to mind that own "softness," "mildness," "Italian," "deodorizes"? Lysol has built a line of products that deodorize the air, the toilet, the tile, and so on. Ivory is mild and people want a mild shampoo when they use it daily—hence Ivory Shampoo. In general, every brand extension leverages some perceived consumer benefit or association with the parent product to provide an edge with

the new product. However, some brands clearly stand out as owning a property and this becomes the dominant leverage point in those cases. Vaseline Intensive Care Bath Beads, Gillette's Dry Look line, and Sunkist Vitamin C tablets are examples.

Designer Image/Status. Brands can offer status and hence create an image for the new item and its user. Designer labels such as Pierre Cardin have appeared on hundreds of categories. More mundane brands also convey an image and brand extensions of these more common names are fast appearing. Coca-Cola clothes and JELL-O clothes are examples. Makers of cars and restaurants are finding leverage in their names. Porsche sunglasses and Ferrari watches have style. Benihana frozen entrees convey an image and expertise. Wolfgang Puck frozen desserts are fancy. American Home Products said it could not compete with Ragu in pasta meals in jars without the Mama Leone's brand.

Growth in a Cost-Control World

Management in the 1980s has learned that it is possible to grow in an environment of cost containment by leveraging the assets of the firm. Consumers know brands; they do not know plant, equipment, technology, or the work force. Thus, the value of most major products or services is lodged in their brand names. For the remainder of the decade, it seems likely that world-competitive pressures and slow-growth markets will keep cost containment as a primary management imperative. In this environment, growth through brand leverage will continue to flourish. ■

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