Abstract

Heading into the third millennium much has been written about the effects of branding and in particular, brand extensions, on equity. However, little research has examined the impact of the sale of a brand extension. Further, little is known about the impact of brand extensions in organisations that have on-going members rather than customers. Subsequently, this paper examines the effects of a company selling off a successful brand extension on the members’ perceived brand equity. The members’ perceptions of the parent company and the newly sold brand extension were examined through a series of 21 focus groups throughout Victoria.

The brand extension studied did have clear, beneficial links with the core brand. However, the sale of the successful extension introduced confusion into the minds of the members, causing damage to not only the core, parent brand but also to the previously successful extension. Upon analysis, it appears that the key linkages between the core brand and its extension were not explicitly addressed. That is, while the links were there, they were not leveraged. At a practical level, the firms’ marketing activities should explicitly leverage the key characteristics of the brand to maximise the success of an extension.

Brand Equity and Brand Extensions

Brand equity, the added value that a brand name gives a product, was seen by a 1991 Marketing Institute survey as the number one issue facing marketing management (Aaker 1991). Almost all conceptualisations of brand equity focus on the value added to a product by consumers’ associations and perceptions of a particular brand name (Aaker 1996; Baldinger 1990; Baldinger and Rubinson 1996; Dyson, Farr and Hollis 1996; Keller 1993; Park and Srinivasanan 1994). A successful brand extension can be a major boost for the brand equity of a product, if the extension is perceived positively by consumers (Aaker 1991; Keller 1991; Keller and Aaker 1992). It will increase not only the meaning of the brand to the consumers but may increase loyalty and also brand favourability on behalf of the consumers.

Brand extensions are often seen as a way for a company to increase growth in stagnant markets, introduce new products, or increase sales for a category or a brand while obtaining cost efficiencies, especially in advertising and distribution (Keller and Aaker 1992, Springen and Miller 1990; Tauber 1988). The benefits of brand extension are due to the ability of companies to trade on the value of existing brand names. The brand can be leveraged via distribution, existing brand name awareness and recognition amongst consumers, and an ability to gain entry to the consumers’ consideration sets.

Much research has been dedicated to what goes in to making a successful brand extension and
the factors that need to be included to increase the likelihood of success for a brand extension. A brand extension is optimal when: (a) strong brand associations provide a point of differentiation and advantage for the extension, (b) the extension helps the core brand, and (c) the category will not be able to support, or provide the resources, needed to establish a new name (Aaker 1996). Researchers have investigated the effect of brand name (Aaker and Keller 1990; Gurhan-Canli and Maheswaran 1998), feature similarity and brand concept consistency (Park, Milberg and Lawson 1991) and consumer attitudes to the parent product (Aaker and Keller 1990; Chakravarti, MacInnis and Nakamoto 1990; Park, Milberg and Lawson 1991; Reddy, Holak and Bhat 1994). Conversely, when the extension provides only name recognition and a perceived quality umbrella, the extension will often be vulnerable to competition (Aaker 1996).

In particular, consumers appear to react to brand extensions depending on how well the new brand fits with the category it is entering. The beliefs and affect of this category may transfer to a category where consumers perceive the fit between the extension and the category as being strong (Cohen and Basu 1987; Fiske 1982; Meyers-Levy and Tybout 1989; Sujan 1985). These brand associations should in turn affect the extensions.

Another factor often considered is the amount of negative or positive impact that a brand extension can have on the existing core brand. There has been some debate between the potential negative impact (Aaker 1996; Ries and Trout 1986) and those that have found no effect on the original brand name (Keller and Aaker 1992; Loken and John 1993; Romeo 1991; Tauber 1981).

As can be seen there is a range of literature on what makes a successful brand extension, how it contributes to equity and how to maintain an extension. What is not often covered is what happens to equity when a parent company sells off a successful brand extension to an unrelated outside company. This area warrants investigation as it may have ramifications on the attitudes that consumers hold toward the parent company and toward the brand extension. Subsequently, the central focus of this paper is to investigate (a) the value of links to the core brand and (b) how important is it to leverage such links?

**Method**

**Members as a Specific Type of Customer**
In this research, the relationship between the organisation and its members differs from the traditional relationship that exists between an organisation and its customers because members are required to pay a membership fee. Despite the numerous paid membership associations in existence, little research has occurred on such organisations, with only two recent studies occurring on paid membership, which looked at not-for-profit organisations (Bhattacharya 1998; Bhattacharya, Rao and Glynn 1995). Findings of these studies indicate the importance of member identification with the organisation, a property that makes them a rich context for the development of brand equity. We would also acknowledge the parallel literature with its emphasis on stakeholders, especially within the context of public relations (e.g. Cutlip, Center and Broom 1985; de Bussy and Ewing 1997; Jones 1995), but focus here on the brand extension literature where this paper seeks to make its main contribution.

Subsequently, this paper will focus on what happens to consumers’ perceptions toward the parent brand and the extension after the sale of the successful extension, where the consumers
are members of a business association. Both the associations’ core activities and the activities of the extension were services. The case at hand deals with a state-specific industry association that undertook a very successful brand extension on its original brand by creating a new product to further satisfy its members. (Note: Further information about the case organisation is constrained by commercial-in-confidence considerations.) As part of this brand extension the organisation diversified into a new industry in order to provide more benefits to members. This product was well received and subscribed to by members and lead to increased sales for the company and high levels of customer satisfaction. Management changes led to a change in focus and an emphasis on their core activities. During the mid 1990s the parent company decided to sell off the successful brand extension to a multinational company. The sale of the extension was done without comprehensive consultation of the general membership and also without clear communication of the deal once it had been completed. Further, the extension kept a very similar logo to the core brand. The sale of the extension was finalised and announced widely to the membership approximately 12 months prior to this research project. The members’, now customers, perceptions of the brand extension presents a rich context for the analysis of brand extensions.

The methodology was a series of 21 focus groups conducted statewide to cover both regional and city based members. An average of eight people attended each group, with a total of 169 people participated in the process. All of the participants in the focus groups were members of the association. Approximately 40 percent of participants were also a consumer of the brand extension and a further 20 percent were a consumer of the extension until the extension was sold. The focus groups make up the preliminary stage of a research-based project, which is investigating member attitudes, opinions and beliefs of what has happened to both the parent brand and the extension since the sale.

**Results and Discussion**

The overall result emerging from across the focus groups was that members wanted the association to re-focus on its core activities before putting resources into extensions. That is, the members wanted resources focused more on the value-adding activities that were closer to the associations’ core business and main competitive advantages.

Dealing with members instead of customers presented unusual challenges to the brand extension process and the sale of the extension. Overall, the members feel a strong sense of ownership where the resources of the association are theirs and recognise that the association has limited resources. Subsequently, members felt that if scarce resources are to be diverted away from the core activities of the firm, that they need to be convinced of the value in doing so.

Compounding this situation is the importance of communications. The association was not seen to have communicated the reasons behind the sale of the extension. Indeed, there appeared to be a widespread lack of knowledge about the change in ownership of the extension. The new extension owner benefited from both the long-term association of many of its clients with the association and the perceived stability and credibility of the association. Similarly, the extensions’ market is characterised by consumers with limited knowledge and experience, seeking an intangible benefit that is difficult to evaluate. Subsequently, when faced with decisions about the choice of offering within the category of the extension, consumers were reluctant to change.
Out of this flux emerged the feeling among members that the new extension owner had deliberately kept the change in ownership quiet. When members who were customers found out the difference in ownership through a secondhand source, their resentment was exacerbated. Members that did not know the ownership of the extension and had assumed it was still the association, were often hostile to the change. For example a representative feeling was voiced by one member who “felt betrayed by the sellout.”

The linkage in name between the association members and the new extension owners was seen as an opportunity that had gone begging. If association membership provided benefits to them as clients of the extension, the members felt that a beneficial relationship could emerge. Similarly, an opportunity for the future raised by members was that they would be more receptive to the extension if their membership “meant something” to the extension. An example of this sentiment, from the focus groups, was:

“...operate under our banner then they [the extension owner] should look after our interests.”

This quest for a better deal from the extension owner was tempered by a lack of knowledge among the members about the nature of the link between the association and the new extension owner. Further, many members felt that it was “false advertising” for the extension owner to use the associations’ name as part of its branding. The depth of this feeling among members is typified by the comment that:

“...surely it should be illegal to have the same logo?”

Upon finding out that the entities were separate the members then often shopped around for their service offerings. This is exemplified by the following comments:

“[the brand extension] shouldn’t hide behind the name as they no longer listen to or are controlled by the members.”
“Thought we were with [the association] but found out it had nothing to do with [the association]. Now we’re just another number for a multinational who don’t care.”
“No longer a marriage, but a commercial decision.”

Perhaps the strongest commonality to these issues is the sense of ownership members had towards the brand name. Although such an ownership is very appealing to marketers, the sale of the extension illustrated the differences between members and customers. Given their financial involvement with the association, such ownership is a key distinction between members and the typical customers that are the focus of much of the marketing literature.

For most of the linkages that can exist between a brand and its extension, the new extension owner in this situation could have utilised those linkages and enhanced the success of the extension. That is, the results supported the contention that an extension should “fit” the brand. More specifically, “there should be some link between the brand and the extension. The fit could be based on a variety of linking elements, such as common-use contexts, functional benefits, links to prestige, user types, or symbols” (Aaker 1996, p 274). The brand extension did have clear links with the core brand and subsequently could have been successful and did “fit”. However, the critical element in this case was that the extension emphasised name recognition and perceived quality, thereby leaving it vulnerable to competition (Aaker 1996).
The members felt that if the linkages between the extension and the core brand were emphasised, they would find the linkages with the parent brand to be positive, which, in turn, would have a beneficial impact on the brand equity for the extension and the parent brand. The key failure appeared to be that the primary characteristics of the brand (e.g. user types, and common-use contexts) were not leveraged.

Notably, the sale of the extension did not obtain the cost efficiencies, especially in advertising and distribution (Keller and Aaker 1992, Springen and Miller 1990; Tauber 1988), that it would otherwise have had. The main benefits of the brand extension examined here were due to the ability to trade on the value of an existing brand, however the sold extension was not able to leverage distribution to the same extent as an internal extension. Again, the message here appears to be that brand extension owners need to explicitly leverage the core brand in order to be as successful as possible.

The results from the focus groups went further and suggested that extensions that tapped more of the elements of the core brand would be more likely to be successful and to a large degree were already quite successful. Most, if not all, of these other extensions are still owned by the original company and they may be incorporated into a later stage of the research project.

A possible explanation for this finding is that the success of extensions is dependent upon the proximity of the extensions to the firms’ main competitive advantages. An extension can still be successful if it is reasonably distant from the core brand, however the managers of the extension will need to ensure that the more distant extension uses and harnesses the linkages with the core brand.

**Implications**

Once a company has a positive brand extension it should be protected and the owner generally should maintain the extension under their own umbrella brand. Here we have seen that selling a viable extension can introduce confusion into the minds of the consumers, causing damage to not only the parent brand but also the previously successful extension. The positive associations from the successful extension were lost, negative attitudes formed and they were then transferred back to the original company. These implications are especially relevant to brands of membership associations (and possibly other high-involvement services), because the members will feel an ownership of the brand. Whereas dissatisfied consumers simply reject the brand if they feel the new owners are not satisfying them, members felt a sense of loss over the sale and reported feelings of betrayal and a lack of control. This sense of ownership can be either a strength or a weakness, but either way it is an issue that marketing managers need to consider in their decision making. Brand extensions are more successful when based on key (strategic) characteristics of the brand and, more importantly - in terms of implementation, those characteristics need to be explicitly pursued (e.g. through distribution).

Basing the extension on key characteristics of the brand is a necessary condition for the success of the extension and, especially with strategically critical characteristics, basing the extension on the brands’ key characteristics can also be sufficient for success. However, the extension will be more successful if the key characteristics are explicitly leveraged. Marketing managers need to identify the key characteristics of the brand that the extension will be based upon and then explicitly leverage those characteristics.
References


