Building your brand with brand line extensions

Nancy Giddens
"President’s Choice"; Wegmans introduced a premium quality line of pasta and related products under its “Italian Classics” line. This trend has been adopted by other supermarket chains and has resulted in consumers changing their perception of store brand products from one of low quality to one of premium quality. As the quality of store brand products has increased so have prices. The result is that not only are consumers buying more store brand products than ever before, but they are also paying higher prices which has contributed to a higher overall spending level for store brand items.

Although grocery chains such as A&P and Kroger have sold store brand products since their inception more than 100 years ago the concept is relatively new to retail drug chains and general merchandise companies such as K-Mart and Walmart.

Retail drug stores have found that consumers are receptive to private label products and sales have increased in recent years. Between 1993 and 1999 the number of units of private label products sold in drug chains increased from about 8 percent to nearly 14 percent of all items sold. In mass merchandise stores the sale of private label products increased from just over 8 percent to slightly over 12 percent of total units sold during this same time period.

At the end of last year retail executives from supermarkets, drug stores and mass merchandise firms were asked to forecast the growth in sales of private label products during this year (2001). Retail executives from mass merchandises were the most optimistic with a forecast of 15.9 percent growth followed by drug store executives who forecast a 8.1 percent growth and supermarket executive who projected a 6.7 percent growth of private label products in their stores.

What does this mean for the overall food system? Certainly it is a signal to national manufacturers of food and grocery products that competition from store brands will continue to increase. As retailers focus more on their own brands they will focus less on manufacturer brands; especially on nationally advertised brands that have a weak marketing program and small market shares. These weaker brands will be in jeopardy of being eliminated from the shelves of retail stores. Retailers will want to use this space for the ever-increasing number of store brands that the company offers to consumers. Customers could also benefit from a wider variety of higher quality store brand products to choose from and these products, in most cases, can be purchased at prices lower than comparable manufacturer brands.

Consumers should look for drug stores and general merchandise stores to add store brand products at a faster rate than supermarkets. The product mix in all types of retail stores will continue to change, but look for the shift to favor the stores own brands.

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This article is third in a five-part series on building and developing a brand in the market. The first article outlined the importance of branding and the process of creating a brand for a new product, while the second examined flanker branding strategies. This series continues with discussion of brand line extensions.

What is a brand line extension?

A company introduces a brand line extension by using an established product's brand name to launch a new, slightly different item in the same product category. For example, Diet Coke™ is a line extension of the parent brand Coke™. While the products have distinct differences, they are in the same product category and the extension (Diet Coke™) is very dependent initially on customer recognition of the brand name Coke™.

More than half of all new products introduced each year are brand line extensions. New flavors, package sizes, nutritional content or products containing special additives are included in this definition.

Why are brand line extensions important?

Brand line extensions reduce risk associated with new product development. Due to the established success of the parent brand, consumers will have instant recognition of the product name and will be more likely to try the new line extension. As a result, promotional costs are much lower for a line extension than for a completely new product. More products expand the company’s shelf space presence - enhancing brand recognition.
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For example, consider Campbell's Soups™ – the strength of the Campbell’s™ brand lowers costs of launching a new flavor of soup, such as Creamy Chicken Noodle™, due to the established brand name and package design. Consumers who have enjoyed Campbell's Chicken Noodle Soup™ are likely to try Campbell’s Creamy Chicken Noodle Soup™, even with minimal impact from advertisements and promotions.

In general, firms with broad product lines have
- More potential customers
- The opportunity to sell more to each customer
- Greater marketing efficiency
- Greater production efficiency
- Increased profits at the introduction and growth stages of product line extensions
- Lower promotional costs of product line extensions

Brand line extensions do present two potential threats. First, if the new line extension fails to satisfy, consumers' attitudes toward other products, carrying the same brand name may be damaged.

Second, there is potential for intra-firm competition between the parent product and the line extension, or between two or more line extensions. The key to avoiding intra-firm competition is to clearly differentiate between products. Although similar, the products must be different enough that they will not compete with one another as much as they will rival other companies' brands.

Will brand line extensions work for you?
A brand line extension strategy is not for every company. There are a number of questions that must be answered in order to make the best decision for your situation. The most basic questions include:

- Can my company develop a product extension with characteristics that clearly differentiate it from the established product?
- Are these characteristics believable and needed?
- Does my company have the resources necessary to develop a differentiated product?
- Will net combined sales of the established product and the line extension product be greater than sales of the established product alone?
- Will the cost of product development and promotion be covered by the sales of the new brand?
- Is there already a high level of diversity in the product category?
- Will my company have to borrow a large level of funding from the established brand in order to fund the line extension?

Successful brand line extensions are not entirely new products; they are simply new branches on the main plant. In order to optimize the power of the overall brand, line extensions have to make sense, be part of a long-term plan and reflect the core images and message of the brand.

The next article in the “Building Your Brand” series will examine another type of branding, brand leveraging.