# Competitive differentiation through brand extensions in the era of hyper competition

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*In the era of hyper competition, competitive differentiation has become increasingly important. Brand extensions are used by companies across various industries for competitive differentiation. But in the era of hyper competition, a successful differentiation strategy requires that a brand emphasizes on uniqueness rather than commoditization. In this article, we make a case for creating a meaningful differentiation strategy. We emphasize the role of brand extensions for competitive differentiation and highlight the main perils of using brand extensions as a primary differentiation strategy. By using qualitative research, we identify primary objectives for brand extensions in practice. This investigation uses in-depth interviews with 14 senior brand managers across various industries to highlight brand portfolio strategies in relation to the brand differentiation strategy. Findings reveal that for business at the base of the pyramid, in markets such as Romania, brand managers are using brand extensions to increase sales or to boost short-term revenue rather than to implement a coherent differentiation strategy. We conclude with multiple recommendations for improving brand extension usage as a strategic instrument for creating meaningful differentiation in the era of hyper competition.*

*Keywords:* brand extension; competitive differentiation, differentiation strategy, hyper competition.
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## Introduction

At the heart of every marketing strategy stands brand positioning. Creating a successful positioning strategy means finding the proper "location" in the minds of consumers, so that they think about the brand in a desired way, in order to

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maximize potential benefits to the organization[8]. Essentially, a good positioning strategy is the base of brand differentiation by offering consumers strong reasons to consider purchasing the brand. Nowadays most brands, regardless of industry, are deficient at developing various differentiation strategies. In the context of a brand, these differentiation strategies should add gist and connotation. But a meaningful differentiation strategy should be more than creating points of difference from competitors and providing consumers reasons to believe these points of difference.

A successful differentiation strategy requires a brand to emphasize on uniqueness[22]. In reality most brands pursue commoditization by adding new features to their products. In this context, competitive differentiation has become increasingly important. For example, brands like Starbucks or Nike tend to have a strong cultural relevance for consumers. However, success for these brands is the result of sustained efforts to create, shape and sustain the cultural debate rather than a strategy of embracing the cultural trend.

Brands frequently promise consumers more services, better products and more benefits. As a consequence, consumers tend to have more choice possibilities, but less time to make those choices[13]. From a marketing standpoint, differentiation results by offering consumers a value that surpasses their expectations[2]. In order to meet consumer expectations, in practice brands frequently create various brand extensions. A brand extension implies that a firm uses an already established brand name to introduce new products[8].

Basically, if we consider the product as a set of concrete benefits, a natural tendency is to augment the product by adding new benefits or developing already existing ones. For example, Initially, Colgate's value proposition was centered only on the idea of combating tooth decay Today, Colgate promises alongside fighting tooth decay a fresh breath, whiter teeth and gum protection. Another natural tendency in product augmentation is to offer specialized product versions for satisfying some specific consumer needs. Coca-Cola Cherry, Coca-Cola Light or Coca-Cola Vanilla are good examples of product augmentation through specialization. The problem with brand extensions resulted from product augmentation is a high degree of product similarity that can affect brand loyalty and word of mouth[21].

In this article, we make a case for creating a meaningful differentiation strategy through brand extensions. First, we emphasize the role of brand extensions for competitive differentiation and discuss the potential drawbacks of product augmentation. Secondly, we try to identify primary objectives for the use of brand extensions in practice by using qualitative methods. Finally, we conclude with multiple recommendations for improving brand extension usage as a strategic instrument for creating meaningful differentiation.

**Conceptual Background**

Many years ago, Rooser Reeves proposed the unique selling proposition as a tool for differentiation[19]. In the past, products still had a huge potential to be or to become different. In recent times, many brands are trying to stand out from competitors by creating brand extensions. However, in their quest to pursue differentiation, brand extensions often ironically increase the perceived similarity between brands. In reality, conceptualizing brand differences is often impossible, even though identifying brand differences is extremely easy for consumers[2]. By creating brand extensions, the already existing differences between brands become shallow, irrelevant or simply disappear.

Brand managers often pursue differentiation without a consumer focused strategy and create brand extensions while losing connection with the people that actually buy their brand. Consumers never go to the local store to buy something different, but something that actually appeals to them in a cognitive or affective manner[15]. Basically, perceived differences are not a motivation for consumers, but rather a catalyst in the acquisition process. When a new brand extension is created, consumers assume excellence and upgrades, but they also need to be excited and involved in order to actually buy it. In response, newly introduced brand extensions should fit consumer lifestyle and self-expression needs[16] rather than attempt to impress consumers with their newly added features.

Statistically, 7 out of 10 brand extensions fail in the first two years after they have been created[20]. The main reason for this situation is the brand extension failure to gain a significant market or segment share[3]. In their search for more customers or revenue, some brands widely broaden their mandate or attempt to redefine the sector in which they are trying to compete. Basically, companies try to invigorate demand by introducing new product lines or creating category brand extensions without an actual concern about meaningful differentiation.

On the other hand, some brands like Virgin, Samsung or Siemens have done an excellent job extending their brand. These brands have not become bigger, better and more attractive by ignoring their brand equity for short term results. Successful brand extensions are those that expand, exceed or disrupt the product category[14]. Brands that create successful brand extensions capitalize a series of advantages regarding competitive differentiation.

First, brand extensions can clarify brand meaning to consumers by creating a broader meaning[15]. For example, Eurosport means "sports", Elseve means "hair care" and Heinz means "sauce" to consumers. Due to their nature, brand extensions can help managers avoiding "marketing myopia" and not mistakenly drawing boundaries that can impair brand growth.

Secondly, brand extensions are the primary means of obtaining the best financial returns from a strong brand, because they reduce the risks associated with developing new products or services[11]. In this case, return of investment is considerably higher for both introductory and follow-up marketing programs. For example, advertising costs will be lower for the parent brand and its extensions as a whole when the brand becomes associated with multiple services or products.

Moreover, brand extensions can help avoiding the costs of developing new brands by cutting the expenses needed for creating a new brand identity[8]. For example, the significant costs of designing high-quality packages or symbols and an adequate slogan associated with the brand name are no longer necessary. Due to increased consumer demand for a new product introduced as a brand extension, it is easier to gain retailer support for the brand extension[7]. For example, in a buying situation consumers tend to use brand reputation as a first means to triage different products[18].

Last but not least, brand extensions help reducing perceived consumer risks. A large part of brand extensions' success depends on the consumers who adopt them. Extensions from well-known brands ease the adoption process by communicating longevity and sustainability due to a synergetic effect[17]. For instance, a brand that established a reputation for producing high-quality products will have a high credibility level and a low risk margin when introducing a brand extension due to brand trustworthiness[6].

Despite all these inherited advantages regarding competitive differentiation, companies tend to fail in creating and sustaining competitive advantage by brand advantage through brand extensions. For example, Colgate disrupted the product category by creating Colgate Total, but they have been unsuccessful in extending the category further with products like Colgate Peroxyl or Colgate Orabase. This failure was due to Colgate's inability to extend the consumer experience while increasing the overall brand equity.

The purpose of a brand extension strategy or brand architecture is to establish a core set of rules that ensure brand extensions "fit" together in one coherent offering[8]. Companies should periodically analyze and revise their brand architecture to ensure a coherent differentiation strategy. When pursuing competitive differentiation, certain issues can appear in the brand architecture.

First, creating products that are new and improved can lead to a situation where there are simply too many brands for a coherent brand architecture[8]. Some brands tend to suffer from the "brand proliferation syndrome". For instance, the hotel industry across the globe seems to be affected by new specialized brands emerging on a daily basis to address the needs of constantly shrinking consumer segments. Brand extensions must actively seek to create some distance from the parent brand for a successful differentiation strategy[19]. For example, in order to avoid this situation Apple devised iPhone, iMac, iPad, and iPod but also created MacBook, Airport or Apple Watch.

Secondly companies may face a diluted brand meaning or a loss of relevance due to brand stretch[12]. Some brands simply deserve to die because they have reached the end of the product lifecycle. Other brands lost their initial meaning in an ocean of brand extensions[13]. When a brand like Special K appears on everything from cereal bars to mineral water and salty snacks, it has lost its meaning and offers nothing special or unique for consumers, thus suffering a loss of distinctivness.

Thirdly, some complications may appear when trying to differentiate brand extensions. Sometimes the brand extension may challenge the parent brand positioning[19]. This is the case of Nèstle cereals, which mostly have a similar and competing positioning strategy. Occasionally, a brand extension name may signal a wrong message to consumers[8]. For instance, in the U.S. Coca-Zero is often associated with the hippie current "zero" rather than with zero calories. Another issue with brand extensions is the creation of brand vampires that have way too many branded features[12]. For example, brands like McDonald's or KFC have to maintain more brand names associated with their products that they can really afford.

The main issue with competitive differentiation through brand extensions resides in brand managers' understanding of the nature and complexity of brand architecture. We expect from brand managers a high level of brand architecture understanding and a deep knowledge of brand extensions advantages in relation with the product category. In contrast, we expect from brand managers a low level of understanding the correlation between brand architecture and brand differentiation.

**Methodology**

We chose brand managers as a focal point for our research because their skills and expertise are of substantial importance to brand differentiation through brand extensions. We adopt a large view on competitive differentiation by taking into account various executive positions related to marketing in companies.

This investigation uses in-depth interviews with 14 brand managers or persons in key marketing positions across various industries to highlight brand portfolio strategies in relation to the brand differentiation strategy. We selected brand managers based on product category, while considering industry specific issues regarding differentiation and not the general context related to a specific brand or brand extension. The profile of participants is presented in table 1. In order to enforce consumer confidentiality we use numbers to further identify them.

**Table 1**

**Profile of study participants**

| #ID Number | Brand portfolio length & width* | Position | Industry | Product category |
|---|---|---|---|---|
| #01 | 5(11/4/7/9/10) | Senior brand manager | fashion | clothing |
| #02 | 1(3) | Marketing&sales executive | hospitality | lodging |
| #03 | 1(2) | Brand manager | services | home delivery |
| #04 | 1(8) | Senior marketing specialist | software | internet security |
| #05 | 4(7/5/8/11) | Marketing&strategy director | FMCG | candy |
| #06 | 2(2/3) | Marketing&sales supervisor | services | life insurance |
| #07 | 1(3) | Brand manager | services | banking |
| #08 | 6(2/2/1/1/5/3) | Senior brand manager | software | video games |
| #09 | 3(7/8/4) | Marketing executive | FMCG | body care |
| #10 | 1(4) | Marketing coordinator | auto | cars |
| #11 | 3(2/1/3) | Marketing&sales director | retail | sales |
| #12 | 2(2/1) | Brand manager | hospitality | restaurants |
| #13 | 3(4/4/3) | Marketing director | FMCG | detergents |
| #14 | 2(5/7) | Brand manager | FMCG | pet food |

*Note: The width of the brand portfolio is presented in parenthesis for each subsequent brand.

Narrative content can provide some key insights on the position adopted by marketing managers towards differentiation. The relation between brand extensions and competitive differentiation cannot be fully understood without a deeper examination of key brand extension decisions. Basically, the missing link in understanding competitive differentiation through brand extensions is how a brand extension relates to the differentiation strategy by integrating it in the already existing brand architecture. These aspects can be uncovered through stories and narratives that expose the rationale behind a brand extension related to the general context.

**Findings**

We unfold the main findings using a series of illustrative statements that allow us to emphasize on the general context. These statements represent the pattern emergent from the complete data set. The broader data set offers a better understanding on the issue of brand differentiation through brand extensions while the statements provides a more nuanced picture on the issues related to competitive differentiation and brand extensions. We summarize the implications in two distinct subsections.

Brand Differentiation through Brand Extensions

Because the primary contribution of our study is to examine competitive differentiation through brand extensions, we briefly outline the pattern regarding brand differentiation through brand extensions depicted by brand managers.

Each brand manager revealed several key aspects regarding the relations between brand architecture and brand extensions. For many brand managers, brand extensions are "a part of brand architecture" (#01/#03/#04/#07/#08/#09/#11) that can "help cut overall costs" (#01/#03/#07/#14), "reduce consumer perceived risk" (#02/#07/#11) and "ensure a healthy brand development strategy" (#01/#07/#09). For some brand managers, brand extensions are "an instrument to implement and pursue a specific brand architecture" (#02/#05/#10) in correlation with integrated marketing communications (#02) or the marketing strategy (#05/#10). Rarely, brand managers view brand extensions as a strategic tool "to flank another brand from the portfolio" (#13/#14) or to "gain market share" (#07/#13).

Brand differentiation is seen "as a must" by all study participants. But the view on brand differentiation through brand extensions can severely differ. Generally, brand extensions tend to be seen as "a new possibility to enter new market segments" or "a possibility to offer choice alternatives for consumers". Only a few participants (#3/#7/#12) view brand extensions as a means to develop healthier relations with consumers or to increase their satisfaction. This situation seems to be a particularity of the service sector. To illustrate this consider respondent #3, a brand manager in the hospitality industry that offers home delivery:

*"Many of our customers demanded our quality products at home or at their working place. We found this a good opportunity to extend our relationship with our loyal customers and to make them happy. A satisfied customer is a loyal customer".*

Regarding the innovative nature of brand extensions, all participants agreed that the main focus is on creating products or services that are new or improved compared to their already existing counterparts. For each type of situation, managers offered examples of brand extensions from their brand portfolio that are totally new or which are just aimed to improve an already existing product. Sadly, only few participants (#2/#3/#10) emphasize the importance of developing "unique brand extensions" that are different from competitors. Also, no example made reference to an actual innovative process. In practice innovation is important because it is the single means for a brand to disrupt the product category[4]. In fact brand managers view innovation as another form of product augmentation that extends the brand portfolio length. To illustrate, consider respondent #9, a marketing executive from the FMCG industry that offers body care products:

*"We try to constantly improve our products and be ahead of our main competitor by offering new types of shower gels and soaps. We redesigned our most popular product three times and created five new assortments in the last nine years to meet consumers' demands. But we also try to innovate by creating products that provide gentle skin care or bio-products".*

This confusion regarding the potential innovative nature of brand extensions emerged repeatedly during our interviews. Despite the fact that almost all participants agreed that brand extensions must actively seek to create some distance from the parent brand for a successful differentiation strategy, the main focus appears to be brand image and not innovation. To illustrate, consider respondent #08, a senior brand manager in the video game industry:

*"When marketing our franchise games we try to emphasize on game attractiveness and strong points that we know our players enjoy. We have a well established identity that is popular in the gaming community[...]. Player interaction with our games is important and we try to promote emotional aspects capable of providing a rich imagery for our games. We try to ensure our potential players that we offer the best experience suited for their personality".*

3.2. Competitive Differentiation and Brand Extensions

From a theoretical standpoint, competitive differentiation, brand differentiation and brand extensions are in a synergistic relation. Directed by our efforts to examine competitive differentiation through brand extensions, we uncover the relation between brand extensions and competitive differentiation depicted by brand managers.

In regards to competitive differentiation, all respondents pointed out the need for a coherent brand architecture. On the other hand, opinions regarding the process of creating a solid brand architecture tend to differ. Many respondents point out that the richest opportunities for competitive differentiation are represented by the possibility of extending to new markets or targeting new consumer segments. In each of these cases, the main approach is based on implicit brand flexibility that permits the creation of different brand extensions. Only a few respondents (#3/#11/#13) pointed out the need for a prioritizing goal management approach for brand extensions.

When pursuing competitive differentiation, managers tend to rely solely on intuition to establish the degree of fit between the parent brand and the brand extension. One possible cause for this issue is represented by large shortcomings in the training of marketing specialists[5]. To illustrate, consider respondent #13, a marketing director from the FMCG industry that offers detergents:

*"There is no need for marketing research regarding this issue* (note: brand extension fit). *We already know what new products we try to develop and we use marketing research to determine our consumers' expectations concerning those products".*

These issues tend to lead to a dangerous situation where a coherent offering ceases to exist and the brand loses credibility. Furthermore, if there is no "fit" between the parent brand and the brand extension, the extension will fail[1], thus affecting all future brand extensions[9]. When confronted with this issue, managers point out that the main problems regarding brand extensions regard brand positioning. To illustrate this, consider respondent #1, a senior brand manager in the clothing industry:

*"We are not very concerned about how consumers perceive our products in relation with each other. After all, it is unrealistic to expect consumers to buy all clothing garments from one single place. The more pressing issue regarding new collections resides if the new collections actually fit our image and meet consumers' expectations".*

Another respondent (#4) pointed out another facet of the same problem:

*"When trying to extend our brand we try to create products that fit with consumers' daily routine. But there are various issues when we try to position these products because our consumers' needs are sundry and often not overlapping".*

Besides the problems regarding brand positioning, competitive differentiation through brand extensions dilutes brand meaning especially for prestige brands. Almost all respondents concluded that extensive brand stretching is not healthy for competitive differentiation. Respondents pointed out that brand extensions may weaken the brand image (#1/#3/#4/#7 /#10/#11), diminish brand identification with the product category (#1/#7/#13), or can send improper messages to consumers (#3/#5/#12). To prevent brand dilution, many companies that are adopting a brand extension strategy for growth seek exclusive partnerships with a single retailer. To illustrate, consider respondent #1, a senior brand manager in the clothing industry:

*"We have created an exclusive licensing partnership with two major retailers to protect our brand from unwanted discounts and to ensure a strong brand image for all our clothing products ".*

## 4. CONCLUSIONS

In this article we have examined competitive differentiation through brand extensions in the era of hyper competition. We highlighted the primary means of creating a meaningful differentiation strategy. In particular, we examined brand differentiation through brand extensions and the relation between competitive differentiation and brand extensions.

From a theoretical standpoint, our findings contribute to the extent body of knowledge regarding competitive differentiation, competitive advantage and brand extensions. One of the most important contributions of our findings is related to brand extensions as a tool for competitive differentiation. Fundamentally brand extensions are considered to be the primary focus in long-term competitive differentiation[3]. We emphasize the fact that brand extensions have only a short-term effect on competitive differentiation. On the long-term, competitive differentiation based solely on brand extensions is inefficient due to certain issues mainly related to brand positioning that can appear in the brand architecture. The main problems brand managers face are related to brand dilution and brand positioning.

Also, from a theoretical standpoint the relation between brand architecture and competitive differentiation through brand extensions is not fully understood[10]. We provide some critical information regarding this issue. First, we show that brand managers plan their brand architecture primarily for targeting new market segments, thus using brand extensions to increase sales. Secondly, we reveal that brand managers favor boosting short-term revenue rather than implementing a coherent differentiation strategy. Thirdly, we uncover that they are more inclined to pursue differentiation through brand image and have a tendency to disregarding innovation when developing brand architecture.

From a managerial perspective, we emphasized the situations in which a brand extension is able to capitalize on potential advantages. First, brand extensions are good for pursuing competitive differentiation only when corporate and competitive factors can sustain brand differentiation. Secondly, brand extensions can sustain brand differentiation only when a coherent brand architecture already exists. Thirdly, when evaluating potential candidates for a brand extension the relation between potential brand extension drawbacks and competitive differentiation must be carefully considered. Fourthly, for already extensive brand portfolios, brand extensions may not be a good solution for competitive differentiation.

We also highlight some useful information regarding the relation between brand differentiation, competitive differentiation and brand extension that combined with a better understanding of competitive differentiation can help brand managers to avoid or at least minimize brand extensions disadvantages. First, a coherent brand architecture can prevent brand positioning errors when creating a new brand extension. Secondly, leveraging secondary brand associations for brand extensions is necessary for avoiding brand positioning problems. Thirdly, brand extension feedback effects to the parent brand should be carefully managed to avoid brand dilution.

This study has some limitations that can also become solid venues for future research. Despite extensive contributions to this topic, competitive differentiation through brand extensions is not yet fully understood. A coherent model concerning brand extensions and competitive advantage must be developed and tested. This model should include the influence of various exogenous and factors on brand differentiation and competitive differentiation. Also future contributions are required for determining how brand architecture in general and brand extensions in particular help companies pursue competitive differentiation in order to create and sustain competitive advantage.

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