

Högskolan I Halmstad
Section for Business and Technical studies (SET)



ADVANTAGES AND DISADVANTAGES OF BRAND EXTENSION STRATEGY FOR COMPANIES

C-level dissertation in Marketing

Tutor: Venilton Reinert

Authors: Sébastien Jaulent 850918N452
Katia Luxin 850423N005
Yna Sacko 840805N228

Foreword

This work about brand extension strategy was really interesting and we learn a lot thanks to it. It gave us a great overview of the way companies take decision about their brand policy. It is an important decision which will have most of the time an impact on the companies' sales and fame.

To start, we would like first to thank our two responders, M. Marcel Bottom and M. Sudre who agreed to give us some of their time to make interviews.

We also would like to thank our tutor Venilton Reinert for the guidance he was giving us during and after the seminars. He has been a great help during the whole process of our research.

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I. Introduction

The consumer, who needs to make its shopping, makes a decision to take an article of a specific range of products; this decision leads him to choose a brand. The brand name is a key-element leading the consumer to buy. Companies know that and focus on their brand 's portfolio. When a company wants to launch a product, it has a range of decision regarded brand that it can take. The company has to decide if it creates a new brand for the product, if it chooses the company brand or if it does not give it a name at all for example.

Brand extension is one of the strategies a company can use and it is not actually a new concept. This marketing strategy dates back from the 1960`s (with retailers` brands in different products categories in this period) but it really becomes popular since the 1980`s. Indeed, it is very expensive to create and launch a new brand in the market. In addition, the market is already full of different brands.

Thus brand extension is a way of “restricting” expenses and risks compared to the creation of a new brand.

This strategy consists in using a current brand name to launch a product in a category considered as new for the company-according to Aaker&Keller (1990). This new product has different functions and a different nature in comparison with the product the brand used to do. For instance, Mars is well-known in the sweets department but can be found in the ice-cream department as well. Usually, this current brand has a good image within consumers what drives this process “easier” because the brand already benefits both from a good fame and from a recognized level of quality within consumers. Thus these latter are less reluctant to test the new product because they like buying what they already know. Usually they don't like to “take risk” by trying a new product from an unknown brand.

This strategy of brand extension can be very efficient for companies to reach new consumers and penetrate new markets. However, a company has to be careful when using this strategy because it can, for example, weakened the image of the main brand.

Thus, this paper will first study this strategy of brand extension and then consider the advantages and risks linked to it. The strategy of Danone will be studied to have a practical example of company using it. Indeed, Danone launched Taillefine in the dairy product with

0% fat in 1964. Then Danone used the image of both leanness and well-balanced food associated to the dairy products with 0% fat of Taillefine in order to extend this brand to the light cookies. As a consequence Danone saved time and surprised its competitors in the cookies market. Three years after the launch of Taillefine in the biscuits fields in 1998, the success has been extraordinary. And, in 2000, the sales of Taillefine increased from 40%. With this success met by this extension, Danone decided to target the water market still with its brand Taillefine and the same promise than with the dairy product: the leanness which is a segment that has been controlled by Contrex (the water brand of a competitor, Nestlé).

I.1. Problem

A brand needs to evolve or change products if it wants to continue existing. Face to the tough competition, companies have to reduce the amount of brands owned -e.g. Unilever decided to keep only the 400 most sold brands out of 1600. To reduce the brand's portfolio companies have several strategies and brand extension is one of them. This is a method which seems appealing at first but actually there are some constraints with it.

So, is the brand extension a good strategy for companies instead of brand creation? However this strategy cannot only have advantages so what are the weaknesses of this strategy and which precautions have to be taken when using it?

This paper will have to go through all these questions in order to consider if it can be a viable strategy for companies nowadays.

I.2. Delimitation

This paper will focus on the strategy of the group Danone which decided to use the brand extension strategy with its brand Taillefine. Indeed, it is only for Taillefine that Danone decided to use brand extension because otherwise, it prefers creating new brands. So, it will be interesting to study the reason why Danone is not giving the priority to brand extension even if in our theoretical part, David Taylor (2004, p1) said that a 2003 Brandgym survey showed that 83% of managers considered that brand extensions were the most important way to launch new products and services in next 2-3 years to 2% for new brand creation.

II. Frame of reference

II.1. Presentation of Danone

Danone has been founded in 1919 in Spain and is now the leading brand worldwide in the fresh dairy products. Danone yoghurt was first selling in pharmacies because of research led by Isaac Carasso after thousands of children contracted intestinal disorders. He wanted to relieve them. He looked into Nobel-prize-winning research led about 10 years ago about yoghurt lactic acid bacteria. Afterwards, he bought “lactic cultures from the Pasteur Institute in Paris and launches the first Danone yoghurt through pharmacists” Matt Haig (2004, p119). Danone decided to operate in the mass market but it still considered as a healthy brand. Furthermore, the “Danone Vitapole research ensures that the health claims made by the brand are scientifically backed up” Matt Haig (2004, p119).

For the promotion of products made by Danone, a special importance is given both to their health benefits and their taste. In the United States, the motto is “How can something that is so good for you taste so good?” So, they are simple messages but they “tackle the main consumer deterrents of health food (taste worries) and tasty food (health worries) both together” Matt Haig (2004, p119).

The secrets of success of Danone can be listed as following:

Differentiation, Danone products are creating a new market instead of taking share on an old one. This difference is can be seen with the packaging with for example the unique bottle shape and “dose” size of the product Actimel -belonging to Danone.

Education, Danone can easily explain a complicated science concept into a simple message for customers.

Health associations are putting forward both by the different Danone institutes and by its International Prize for Nutrition.

It is because Danone is associated with health that it could launch successful extensions with its brand Taillefine.

II.2. Advantages and disadvantages of brand extension strategy

II.2.1. Advantages of brand extension strategy

According to David Taylor (2004, p1), this strategy of brand extension is popular because it is less risky and cheaper compared to the creation of a new brand. Leslie de Chaternatony and Malcolm McDonald (1998, p315) point the same economical advantage by indicating that “the economics of establishing new brands are pushing companies more towards stretching their existing name into new markets. Daunted by the heavy R&D costs, and more aware of the statistics about failure rates for new brands, marketers are increasingly taking their established names into new product fields” Leslie de Chaternatony and Malcolm McDonald, (1998, p315).

Taylor (2004, p1) emphasizes the advantages connected to this strategy instead of brand creation as following:

Consumer knowledge: the remaining strong brand used to “promote a new product” makes it less critical to create “awareness and imagery”. The association with the main brand is already done and the “main task is communicating the specific benefits of the new innovation” Taylor (2004, p1).

Consumer trust: the existing well-known-strong brands represent a promise –of quality, useful features etc. - for the consumer. Thus, the extension will benefit from this fame and this good opinion about the brand to create “a compelling value proposition in a new segment or markets” Taylor (2004, p1). In addition, according to a Brandgym survey in 2003, “58% of UK consumers will be more likely to try a new product from a brand they knew, versus only 3% for a new brand”, Taylor (2004, p1).

However, this has still to be done with ability to be successful.

Catherine Viot (2007, p42) agrees to this concept when she considers that “the customer is expecting to transfer his information from the brand to the extension. If the general opinion about the brand is favourable, the behaviour regarding the extension should be the positive as well”. She adds that a successful brand extension can enable to get the customer loyalty. A satisfied customer by an extension will be more willing to repurchase the same brand. For

example in the sport field, a customer will more likely prefer a brand offering a complete equipment-shoes, outfit and accessories.

Lower cost: compared to launching a new brand, brand extension strategy is cheaper especially because the new product use the name of an already well-known brand.

Taylor (2004, p2) said that “Studies show that cost per unit of trial is 36 % lower and that repurchase is also higher” with an extension

Indeed, Smith & Park (1992, p296) confirm this idea when suggesting that regarding the advertising effectiveness, it seems for same market share, the advertisement budget for brand extension are smaller than for new brands.

Aaker (2004, p194) gives some advantages more or less close to Taylor or C. Viot (2007) beliefs:

Enhancement of brand visibility: when a brand appears in another field it can “be a more effective and efficient brand-building approach than spending money on advertising” In addition, he suggests that the relationship with loyal customers will be strengthen because they will use the brand “in another context” and it is expected as well that they will rather this brand to the competitors’ one.

Provide a source of energy for a brand: the brand image-especially when the brand is a bit tired- is expected to be reinforced by the extension. Indeed, this latter gives energy to the brand because it increases the frequency with which the brand is associated with good quality, innovations and large range of products. In addition, the customer sees the brand name more often and it can strengthen his idea that it is a good one.

Thus, C. Viot states that the presence of the brand on a wider number of products should improve the popularity of the brand. The probability of being in contact with the brand –both in the communication and in the supermarkets – is more important and then should improve the brand memorization.

Defensive strategy: an extension can prevent competitors from gaining or exploiting a foothold in the market and can be “worthwhile even though it might struggle” according to Aaker (2004).

Microsoft for instance has decided to operate in different areas with the aim of limiting the “ability of competitors to encroach on core business areas”.

II.2.2. Disadvantages of brand extension strategy

However, this strategy cannot only have advantages. Thus, there are different disadvantages listed by these authors.

Dilution of the existing brand image: C. Viot (2007) underlines that the extensions are using the most important asset of the company that i.e. its brand name. It can be a major advantage for the extension but it represents as well a huge risk for the existing brand because the brand image can be diluted. Park, McCarthy & Milberg, (1993, p60) said that those positive and negative consequences are “reciprocity effects” and defined as “a change in the initial customer’s behaviour regarding the brand, after an extension”.

She explains that a brand extension can damage the brand. A dilution of the brand capital can happen by the occurrence of undesirable associations or by the weakening of the existing associations. This latter can be a consequence of new associations transferred from the extension.

Indeed, an accident occurring with a product can lead to tarnish the image of the all brand. In addition, it is sometimes difficult to associate one brand to two products without weakening the brand position in the customer’s mind.

Aaker (2004, p211) points this problem when he argues that “the associations created by an extension can fuzz a sharp image that had been a key asset, and at the same time reduce the brand’s credibility within its original setting”. So he claims like the former authors that companies have to be careful of the confusion in the customer’s mind when making extensions.

Aaker (2004, p211) adds that when a brand benefits are ensure by the fact that it is not “for or available to everyone”, doing too much extensions could reduce this image of brand selectivity. He takes the example of the overuse of the name Gucci – at one moment there were 14,000 products Gucci- was a part of the factors leading to the “fall of that brand”.

Cannibalization: Aaker (2004, p214) states that the extensions can cannibalize the existing products of the brand when there are positioned in a close market. It means the extensions sales are increasing while those of the existing brand’s products are following the opposite curved. Aaker (2004) underlines that these good sales figures for the extensions can

not compensate the damage produced to the original brand's equity. He argues that this situation is however better than seeing this happening with a competitor's brand.

Taylor (2004) listed as well this risk and he says like Aaker that this situation can happen when range extensions are "brand clones" i.e. they can not be enough differentiate from the existing products. He gives the example of the brand Crest which was launching for years new toothpaste twists –e.g. gum protection and whitening, tartar control. Its share fell from 50 with one product to 25% with 50 products. Thus, "each introduction competed for the same usage occasion and introduced novelty value but not enough added values to create incremental growth" Taylor (2004, p25). And David Taylor continues his reasoning by saying that people wanted an "all-in-one version" successfully provided by Colgate i.e. Colgate Total.

A disaster can occur: Aaker (2004, p212) explains that a disaster which can not be controlled by the firm –e.g. that Firestone tires used for the Ford Explorers were potentially unsafe- can happen to any brand. The more extensions the brand made, more important the damages will be. This occurred to Audi when the Audi 5000 cars were suspected to have sudden-acceleration problem. Adverse publicity started to appear from 1978 and continue to the extent that it was mentioned on CBS's "60 minutes" in November 1986. Audi did not make efforts to change this situation and as a consequence its sales fell from 74000 in 1985 to 23000 in 1989. Audi needed fifteen years to recover while it was manufacturing good cars.

III. Methodology

III.1. Qualitative or quantitative data

III.1.1. Qualitative research

According to Kumar (2001, p218) “the purpose of qualitative research is to find out what is in a consumer’s mind. It is done to access and also get a rough idea about the person’s perspective. It helps the researcher to become oriented to the range and complexity of consumer activity and concerns. Qualitative data are collected so researchers can know more about things that cannot be directly observed and measured. Feelings, thoughts, intentions, and behaviour that took place in the past are a few examples of those things that can be obtained only through qualitative data collection methods”. Focus group, in-depth interviews and repertory grid technique are typical methods used in this type of approach.

For this dissertation we want to know feelings, thoughts, intentions and behaviors comparing to brand extension. For that we apply in-depth interviews.

III.1.1.1. Data collection

Individual in-dept interview

For this dissertation, this approach will be followed and two individual in-depth interviews will be made to understand “the feelings, thoughts, intentions and behaviour compare to brand extension” like advice it Kumar (2007). To make these individual in-depth interviews a list of questions need to be prepared to be asked and answered by the respondent.

For this dissertation, Danone has been chosen as an example so it is crucial to question one person working in Danone marketing team.” In qualitative research the concern are more the quality and depth than the proportions of people that gave one response or another” Hague, Paul (2004, p63). To have an interview with this person the graduate yearbook of the Business School of Toulouse will be used. When this person will be found, it will be possible to ask for an interview through the phone because it will be easier because of his or her workplace.

III.1.2. Quantitative Research

While according to Craig, Samuel (1999, p318) the “qualitative data collection techniques aid in identifying relevant constructs and concepts to be examined, survey research provides a means of quantifying these concepts and examining relevant relationships in-depth”. It is possible to say that quantitative research let quantify or precisely measure a problem. It is often used for sophisticated statistical procedures and scientifically drawn samples.

It is possible to collect quantitative data from respondents by two means: “the communication and the observation” Kinner and Taylor (1996). In our case, we will not use qualitative data because we will only do two interviews and not questionnaires.

III.2. Research methods

III.2.1. Secondary data

First of all, to collect some information about brand extension, look for some secondary data was the first step because “the researcher should always start with secondary data.” Churchill, Gilbert A., Iacobucci and JR. Dawn (2005, p167).

Indeed, as they argue, secondary data represent “*cost* and *time* economies” because you only need to “get online or to go to the library, locate the appropriate sources and extract and record the information desired”. With this data, the researcher can have a first idea about what have already been done about his topic. Most of the time huge amount of information can be gotten through secondary data.

However, secondary data are not enough to answer a problem and has furthermore two main disadvantages. So they argue as well that “they typically do not completely fit the problem, and there may be problems with their accuracy”. Indeed, according to them first of all, the data had been “collected for someone else’s purposes”, so it is unusual that they can answer your problem perfectly. It can occur that the class definition is not what the researcher is expecting i.e. he wants maybe to study the behaviour of people between 18-24 years old but can only get data about those of 25-34 years old for example.

The second disadvantage is the problem of accuracy. Indeed at least when collecting and analysing the data some errors are always possible misleading the researcher using them to

make decisions. As a consequence, the researcher has to be critical when using secondary data.

Among the secondary data, it can be found the internal and external data. The internal data are “originate within the firm” Churchill, Gilbert A., Iacobucci and JR. Dawn (2005, p173). In this paper, the opportunity of having this kind of data was able with thanks to the information got both from M. Sudre -working for Danone- and from a letter –dating back from March 2005- to inform the shareholders of Danone about its financial situation.

The external one originates from outside sources. Thus, information originates from Internet and Danone website has been used, articles and literature dealing with brand extensions as well.

III.2.2. Primary data

As it was previously stressed, secondary data cannot be sufficient to help answering a topic. Thus, we need as well to use primary data. It is important to find out what companies are thinking about brand extension strategy. Thus, in this paper, communication techniques will be used by making an interview of someone working in the Marketing field at Danone Company through telephone. This technique is used as well to interview M. Marcel Bottom working at Nomen France, which is a company creating brand names or companies names. This method is quick and implies lower cost. Indeed, according to Churchill, Gilbert A., Iacobucci and JR. Dawn (2005, p215), the “communication is often a faster means of data collection, because researchers are not forced to wait for events to occur as they are with the observation method”.

However, using communication has some weaknesses. Indeed, it is not sure that objective answers will be obtained and data collected are less accurate when using communication because this method is dependent of the respondent willingness or capability to give the information desired. “For example, respondents are often reluctant to cooperate whenever their replies would be embarrassing or would in some way place them in an unfavourable light” Churchill, Gilbert A., Iacobucci and JR. Dawn (2005, p215).

Use Danone’s website seems to be a good idea to have more details about Danone’s strategy.

III.2.2.1. Population and sampling

In this paper, the population considered are companies which are using or which used brand extensions. Indeed, this work is about the advantages and disadvantages of the brand extension strategy for companies so they are the proper target.

This way, it will be possible to ask them if they would agree to make an interview to get more information about brand extensions such as the reason explaining that the company decided to use it, the advantages and disadvantages of this strategy.

While looking for these companies, Danone appeared to be a good target for this paper. Indeed, the strategy of brand extension has been used by one of Danone`s brand: Taillefine; and it is the case study.

So, an interview with a brand manager of Danone in Spain was made. The purpose was to know if brand extension was still considered as a good alternative to brand creation and which are the problems the company may had to face.

The questions were asked to the respondent personally so, he did not have too much time to prepare a “politically correct” answer and it is a means to get frank answers. Moreover even if it has been done through the phone, it can be considered as a personal relationship so it was maybe easier for the respondent to feel at ease to answer. This method is as well cheaper, quick and more convenient.

This respondent had been chosen because he was a former graduate student from the Business School of Toulouse and one of our group members is actually studying there. As a consequence, it was easier to ask for an interview. This interview had been done through Skype –enabling cheaper call from computers to landlines or to mobiles- and had been recorded in order to have the opportunity to listen this record several times and try to lower the amount of information missed in relation with an interview realized without recording. This interview lasted approximately 20 minutes. However, it has to be stressed that this interview was sometimes difficult to make because the quality of the connection was not very good. Thus, it was necessary to call a second time to finish this interview because the first time, the interlocutor could not hear correctly the questions and in the opposite side his answers and in addition he found the questions too theoretical. So, the questions had to be rephrased. It has to be emphasised that if it was possible to make this interview again it would be better to call him from a landline or a mobile phone to have better connection.

For additional information, another interview had been made – about 15 minutes through mobile phone- with M. Marcel Bottom who is working at Nomen, which deals with the creation of brands names and companies' names. He has been interviewed as well because he has lot of knowledge about brand in general and about brand's strategies.

III.3. Validity and reliability

The information obtained, have to be valid and reliable. Indeed, in this paper, there are two interviews which have been then analysed. The interpretation will depend upon our backgrounds and one's knows that each one has a different one.

For a measure, **validity** means that what we want to measure is really measured, neither more nor less. Precisely the question we have to ask ourselves is “are we measuring what we think we are measuring?” according to Kinnear and Taylor (1996, p331). It is crucial not to move further away from the topic of this dissertation which is brand extension.

Thietart, Raymond-Alain (2007) consider that **reliability** means that the “measuring instrument must allow different observers to measure the same subject with the same instrument and arrive at the same results, or permit an observer to use the same instrument to arrive at similar measures of the same subject at different time” . Thus, it will be important to be careful when getting the answers and especially when analysing them and the fact that one of the interviews has been recorded will enable to lose less information about the respondent's answers.

Finally, in order to deal with the topic of this paper more deductive than inductive approach has been used because it was possible to find quite a lot of literature about brand extension. Thus, these previous researches were a guide for a great part of this paper work.

IV. Empirical data

IV.1. Interview of Marcel BOTTON, CEO of Nomen France, 07-04-10

Nomen is one of the world leaders companies in naming. It is situated in many countries – Germany, France, China etc- and the company's mission is to look both for names for a new company and brand for a new product. Nomen has created well-known names such as *Vivendi*, *Miracle* (a Lancôme woman perfume), *Clio* (Renault's brand cars) etc.

Marcel Botton who is the CEO of Nomen France agreed to give us an interview. And, the answers obtained will be analysed in this paper.

He had to answer to the following questions:

1. Brand extension is considered as more advantageous than new brand creation.

What do you think about this statement?

According to M. Bottom, it is true and the main point is that brand extension is obviously cheaper than brand creation. Indeed, he said that brand creation "is very expensive whereas with an extension the company can use the image of one existing brand" and as a consequence make some economics on advertising, marketing etc. In our theoretical part, David Taylor subscribed to this point of view when he said that companies considered brand extension as "a cheaper and less risky way of launching innovation than creating new brands". Further, Taylor adds that because of the "associations which have already been establish" with the strong brand, "the main task is communicating the specific benefits of the new innovation". On the contrary, "a new brand starts from scratch: it has to spend heavily just to get itself known" Taylor David (2004, p1). M. Bottom underlined that the second advantage of brand extension was the fact that it was "easier to negotiate with retailers to put in their shops departments a brand which already exists compared to a new brand". Indeed, the retailers already know if a brand sales figure are good and in this case they don't worry about adding a new product of this brand if they think it will make people willing to buy this product because it is not a new unknown brand.

This statement seems to be quite logical. Indeed, nowadays, the competition is very tough and in shops departments, there are so many brands that the retailers have to use the more

efficiently as possible the space available. It means that even if a retailer would like to give a chance to some new brands to show to what extent they can attract customers, he will nevertheless give the priority to an extension from a well-known brand which already proved its ability to get good sales figures.

2. What are the advantages and disadvantages of brand extension strategy?

M. Bottom said that when a company decides to do a brand extension strategy, it enhances the existing brand fame but at the same time it can lead to the weakening of the brand. Thus he took the example of Danone. He said that “Danone is known for its good quality and healthy products. However, if it decides to extend to some desserts like jam, it will enhance the power of the extended product –increase of awareness for Danone and, the new product will benefit from the image of the existing Danone’s products- but they will be a dilution of the brand image”. This means that the customers will be confused about the characteristics they were associating to Danone because jam is not the same as yogurt and is not “so healthy” compared to yogurt.

And he added that “an extension is more profitable in the short-run and more disadvantageous in the long-run”. Thus, he said that in the short-term, a brand extension enables to save money compared to the launch of a new brand but in the long-run companies have to be very careful not to make too many extensions and not to extend its brand to some areas too far from its main and first line of business.

This problem of brand image dilution was already underlined by (Viot, 2007). Indeed, she explained that an extension uses the brand name as an asset and represents the major advantage for the extension. However, she said that this main advantage can as well be a main disadvantage because it can dilute the image of the brand. Besides, Aaker quotes the dilution of existing brand associations as one risk of brand extension strategy. Actually, he considers that the associations following from the extension can decrease the credibility of the brand perceived by the customer. It can occur when a brand makes too many extensions.

3. What are your advices to obtain a successful brand extensions strategy?

According to Marcel Bottom, to be successful, there is a need of “image synergy” which he explained by the fact that the “own quality of the existing brand products has to fit with the extension’s one”. Indeed, he took the example of Danone to make us understand his argument. He said that if “Danone starts making chocolate desserts, the image of the new product will be build at the expense of Danone’s former products because they have the same position on the market”. He took the example of Yamaha as well. He said that this brand is positioned in the piano’s market and in the motorcycles one as well. These areas have no common link, each product has a territory. This way they cannot compete with each other because the customer can easily avoid mixing up the products characteristics. Thus, it can be considered that M. Botton is talking about the phenomenon of cannibalization. Taylor (2004, p25) states that it occurs when the range extensions are “lacking of differentiation versus the existing products”. As a consequence, the customer has difficulties to make a clear split in his mind between the existing product’s field of the brand and the extension’s one. Thus, the sales of the extension can increase at the expense of the brand existing products. Aaker is talking about this danger as well in his book which named *Brand portfolio Strategy*. Indeed he states that an extension being launched in a close market to the existing brand’s products can cannibalize the brand’s sales. It means that the extension’s sales are growing but those of the existing brand’s products can slow down and even decrease.

According to this interview, it can be stressed that the theory and the empirical data have similarities. Thus, brand extension seems to be a good alternative to brand creation. However, like every strategy, some precautions have to be taken by a company willing to use brand extension. We can quote the fact that marketers need to inquire to measure if with the extension the company will bring added values in the market compared to competitors –to avoid long term brand spoiling. The company has also to take care not making too many extensions to avoid weakening the brand capital. But the first step is to have a strong brand because the customer will easily be attracted by an extension if he already knows the brand and make good associations with it. Indeed, the brand is a guarantee for the customer and if he trusts its ability to deliver its promise, he will apply this judgement to the extension and then buy it.

IV.2. Interview of M. Sudre, Brand Manager of Actimel products, 07-05-08

Actimel product is a subdivision of Danone. An interview of M. Sudre who is working for Danone in Barcelona –Spain- has been made. To be more precise, he is the brand manager of Actimel. According to the presentation of Actimel in Danone’s website, it is a yogurt you drink and which helps to strengthen the body natural immunity system because of some leavens contained in yogurt and a special one selected by Actimel and patented.

As a brand manager, he seemed to be the right person who would be able to give some information about the topic of this dissertation which is brand extension.

He had to answer to the following questions:

1. People consider brand extension is more beneficial than the creation of a new brand. What do you think about it?

Brand extension is easier to do, because when creating a new brand you need to develop everything from the beginning again. You need to invest more in advertising to get your product/service known by the consumer while in brand stretching return on investment is quicker. These statements are underlying by Peter Doyle and Phil Stern (2001, p175) when they said that brand extensions are more and more used because of two main reasons “first, the high failure rate of new products has encouraged companies to look to extensions to reduce the odds failure. Attaching a successful brand name to a new product reduces the buyer’s perceived risk... the brand name may offer an implicit quality guarantee. Second, building a complete new brand is expensive”. It is possible to say that the same belief is shared by Taylor (2004, p1) when he says that “a new brand starts from a scratch: it has to spend heavily just to get itself known”, contrary to brand extension.

However, M. Sudre added that this statement is not always true and that each company being different may consider that it is better for them to create new brand each time instead of brand extension. This is actually the case of Danone because Tallefine is the only brand they use to make brand extensions –and actually these extensions were very successful. Indeed, generally, Danone prefers create new brands. It will be possible to have some clue –in the rest

of the interview- about the reason of this decision from the group Danone whereas as it has been said before that Taillefine extensions were very successful so it would be normal to think it would not be the only one.

2. How was the creation of Taillefine extensions in water after biscuits perceived by the consumer knowing that Taillefine was first launched in the 1960's in the dairy products?

They accepted it very well. Indeed, the group Danone saw the opportunity to use the fact that consumers accepted the introduction of Taillefine in the biscuits field –high sales rate- to extend Taillefine in the water field. Thus, in a letter to its shareholders dated from March 2005, Danone states that:

“their asset brands are performing each one several hundreds millions euros of sales in the world and experiencing growth with two figures. Mainly, we can find them in the dairy products.... With each time an important investment in R&D. Only with Actimel, Activia and Taillefine, increasing on an average of more than 25%, they are the source of half of the group's growth”.

To be more precise, in 2000 –three years after the launch of Taillefine in the biscuit field-

“the sales of Taillefine leapt from 40%, reaching 122 millions euros in France and 830 millions euros in the world under a different brand name Vitalinea...and better, by reinforcing itself, the brand Taillefine gained greater recognition and it increases its sales in its original markets! With the success of the biscuits, the sales figures of yogurts soared with an increase of both volumes and prices. Taillefine biscuits are sold on average, 20% more expensive than non light competitors”.

3. How many brand extension were created by Danone?

The only one we have in the group is Taillefine. We don't have any other cases.

4. Why Taillefine was the only brand extension in the group Danone whereas it was a success?

Indeed, it was a success especially because the notion of health was put forward and consumers saw that there was a connection between the well-balanced and 0% fat dairy products offered first by Taillefine and then the biscuits and the water which play on these promise. Indeed, even if Taillefine is present in three different fields, it still in the food field. M. Sudre added that it was not as if "Danone was doing healthy products and at the same time was selling beer for example". So it means that a company can not keep extending its brand because the consumer may not understand why the same brand can be found in wide and different fields. This is again the problem of brand dilution which appears and which is described by Aaker as the fact that the associations to one brand extension can weakened the credibility of the existing brand amongst customers.

He said that Danone policy was to create brands and not to extend them. He told us that each company has a different strategy. Thus, the group Danone chose the extension strategy with Taillefine because it considered it would give added values to the consumer to conduce them to buy more. With Taillefine, people believe that they can eat tasty products –with chocolate for example in the Taillefine biscuits- without being scared about the consequences on their weight.

When M. Sudre said that Danone prefers to create brands instead of doing brand extension, it may seem that there is a difference between the theory and the reality. Indeed, it can be read in Doyle and Stern (2001, p175) that "with too many brands, promotional resources can be fragmented and the brands can be outgunned by competitors able to concentrate support around one name". However, it has to be underlined that Danone decided to focus on three main sectors –dairy products, biscuits and cereal products- and that the group decided to put in the front-rank only three brand leaders which are Danone, Evian and Lu. This means that the group did not create so many brands as it may seem when listening to M. Sudre answers.

This is what actually Doyle & Stern (2001, p159) state:

“the trend today is clearly away from companies launching new free-standing brands in the way Unilever and Procter Gamble did in the past: the marketing costs are simply too great and the risks too high. Instead they are ... concentrating on a handful of strong ‘pillar’ brand names and using these as range brands or the core for line and brand extensions”.

In addition, when the managerial organization of Danone is considered, it appears that there is a flexible hierarchy. Most of decisions are made locally by each subsidiaries company, so each subsidiaries is close as possible to its market to make the decision which seem better to attract customers.

5. How did the competition react to your brand extension?

Danone is the leader in his field. So, Nestle which is our main competitor needs to be more and more competitive if it wants to follow us on the market. When the group develops a product, Nestlé develops it quite soon after. But since Danone was created it has always been the leader. So, this means that the fact that Danone is the leader in its fields gives it a competitive advantage compared to its competitors. The fact that Danone succeeded to be associated by customers to health - i.e. caring about making products of good quality which aim to reinforced our immunity defences, facilitating the digestion etc.- enables the company to get customer loyalty and as a consequence to keep being the leader.

6. Can you give us and example of a brand which failed?

Activia strawberry didn't work at all. We had to erase the brand from our portfolio a few time after it was launched.

However he said that he could not give us much more details about this failure because he is product manager of Actimel -based in Spain- and that the fallout of launching a brand is not

measured by the product manager but by the brand manager. In Danone case, they are seating in Paris.

According to this interview with M. Sudre, it appears that brand extension represents a way to make economics – mainly on advertising and marketing- and is beneficial for the company because the consumer already know the brand. When creating a new brand, the process is longer than brand extension because the company needs to do research on law, marketing to get the product known by the consumer, copyright, and of course customer satisfaction.

The advantage of brand extension is that the company can use the promises associated with its existing and well-known brand by the customer. Thus some customers will not chose the same drinks, depending on the fat it contains or on the consequences it will have on his body for example.

But brand extension can not be applied to every company; it depends on its strategy. As each company is different; Virgin prefers to adopt a product extension whereas Danone doesn't.

V. Analysis

After these previous interviews, it can be stressed that if Danone did not find it relevant to make much more brand extensions, it is because first -as underlined by M. Sudre- each company has a different strategy and second, the risk of brand image dilution can not be underestimate. This problem of brand image dilution is moreover underlined by M. Marcel Bottom. This latter explained us that it was not good for the image of a brand when too many extensions were done. In addition, a company has really to be careful to the fields to which it wants to extend its brand. As M. Bottom said, it would not appear credible if Danone started to do desserts like jam. In the instance of Taillefine, the brand regarded the fact that it was known for its promise of provided both healthy and tasty products when it made its extensions.

Finally, it can be emphasized that Taillefine is positioned in the health area with the most important aspect which is that its products contain 0% fat. Volvic, which is a brand of Danone commits to provide both tasty and good quality drinks while having few quantity of sugar inside –from 0% to 6%.

However, Taillefine and Volvic are not competing with each other because each product has its own delimited positioning in the market. As a consequence, Taillefine did not face the problem of cannibalization which can occur and which has been underlined by M. Marcel Bottom.

As a conclusion, it seems that one of the clues of Taillefine extensions success is their ability to avoid some mistakes which are source of failure –too many extensions leading to brand image dilution, extensions having the same market position.

VI. Conclusion

Brand extensions are a means for companies to make economics on advertising, marketing which account a lot when a company wants to create a new brand because it has to make this brand known by customers. Indeed, the customers perceive his purchase as risky and like buying well-known brands. That is the reason why C. Viot (2007, p64) says that “a successful brand extension can create favourable conditions to make the customer loyal. A customer satisfied by an extension will have a greater tendency to repurchase the same brand”. And as emphasize Doyle and Stern (2006, p175), customer loyalty is the means for a company to keep existing despite the tough competition in the market by insuring future revenues.

However, even if Taylor (2004, p1) states that brand extensions are favoured by companies instead of brand creation, the setting up of this strategy needs to be carefully done. Indeed, a company which decides to use it has to evaluate carefully this decision. It has to measure if its existing brand already benefit from a good fame amongst customers and which field it wants to target its extension. This is actually the case of Tallefine which was already well-known across customers when it was in the dairy product with 0% fat. And its fame increase with the extension of Tallefine in the biscuits field.

At the same time the company has to be aware that it has to position its extension in a way that it will not compete with its other brands by a lack of differentiation between the existing products labelled and the extension one. And a company does not have to forget that it has to avoid overusing brand extension. The company must be aware that the existing brand image is an asset for it –benchmark for the customer - and an extension can lower this image or destroy it. The extension must respect the features linked to the brand by customers. Tallefine respected all these precautions. First of all because it is associated with leanness and well-balanced food and it put forward these features with its extensions in both biscuits and water fields. So, the extensions did not lower the image of Tallefine but on the contrary it reinforced its image. Secondly, Tallefine has a clear and different positioning compared to the other brands of Danone, so the risk that they compete to each other is divert. And finally, Tallefine is the only example of brand extension within Danone. The company did not overuse the strategy of brand extension.

With the example of Danone strategy brand extension does not appear as better than brand creation for all companies. It is a strategy and then it is after a deep evaluation that a company will choose if it applies only one of these strategies or mix them, keeping in mind both advantages and disadvantages of each of them. Each company is different and a strategy

which is good for one of them will not apply to another as a consequence, the company has to decide alone which strategy will best fit to it.

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