TOWARD A BETTER UNDERSTANDING OF BRAND AND PRODUCT LINE EXTENSION STRATEGIES

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dx.doi.org/10.18374/IJSM-23-1.5

ABSTRACT

Two popular strategies utilized by firms in introducing new products are brand and product line extension strategies. These two strategies expand market demand by leveraging the brand equity already inherent in the existing or original brand. While resource-rich firms can choose to use both strategies, many firms must choose one or the other. This study identifies the factors contributing to the success of either strategy aside from "fit" and "perceived image (including quality level)". Seven hypotheses were developed. These will be tested in a future strategy.

Keywords: *New product introduction strategies, branding, line extensions, brand equity*

1. INTRODUCTION

Introducing new products is a common way to increase revenue, profitability, and market share (Axarloglu 2007). In many cases, it contributes to an increase in brand equity, economies of scale and scope, and to the consumer perception of the company and the brand. These strategies lead to profitability as it lowers the new product introduction costs as buyers have evaluated the risks of acquiring the original (parent) brands and assume that the extension products have a similar risk profile.

Many firms introduce a new product successfully by riding on the popularity of an original product that has acquired a measure of brand equity through a positive brand image. This image is perceived to create a halo effect for additional products. Two ways to do this are through product line extension and brand extension strategies. A product line extension strategy entails introducing products that share a perceptible common characteristic valued by buyers with the original product that has achieved brand equity.

The other way is through brand extension strategy. A firm employing a brand extension strategy uses the brand to imbue new, unrelated products with the attributes the original brand already has even if they have nothing in common to the original brand beyond its brand name. Buyers assume that any risk associated with the new product will be at par with the original brand.

While firms with substantial resources can employ both strategies, a firm may opt to do each strategy in succession based on the ease of employing each strategy. This requires the identification of success factors of each option. This research explores this issue. A future empirical study will test the hypotheses derived from this study.

2. LITERATURE REVIEW

Both brand extension and product line strategies regard "fit", (e.g., Albrecht, et al., 2013) and congruence of the "image" of the extension product to the original (parent) brand as perceived by the market (i.e., brand equity) (e.g., Volkner and Sattler 2006; Aaker and Keller 1990) were critical to achieving brand extension success.