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Brand Extensions –They're Not Just For Breakfast Cereal Anymore

Fragmentations, Extensions, Subs and Spin-Offs – Brand Yoga Can Save Your Business

A Company's brand is one of its largest, most important assets, one that takes years to develop, one that must be nurtured, massaged, cultured and maintained. For broad-based product and service companies, sometimes putting your brand through some yoga-like exercises can lead to tighter targeting, enhanced revenue and improved profitability. The creation of brand extensions, brand fragments, sub-brands and divisional spin-offs can allow your business to more closely identify potential customers, better serve existing customers, and create more value for the parent company over time.

In general marketing practice, it is clear that being everything to everybody is not the most efficient way to market your company and its products. The one-size-fits-all approach leaves much to be desired, as it is wasteful and inefficient in reaching the right customers at the right time without falling on deaf ears 99% of the time. Yet, knowing this, many businesses still hold themselves out as offering "whatever you need, we can do," in an effort to effectively attract and serve clients. Top-flight business executives have realized that building into their core business, "sticking to their knitting," is a strong, effective strategy for solidity and growth.

With the realization that the core business should be the only business, many companies divest themselves entirely of their non-core enterprises, effectively sacrificing the revenue from these businesses, regardless of their health. There are other solutions that are less grueling, primarily revolving effective use of brand.

Service businesses, especially those who offer a wide range of related services to a variety of industries, are often over-extended – so much so that their brand effectiveness tends to suffer or is made so diffuse as to be irrelevant. One of the powerful elements of a well-defined brand is the ability of the company to create a set of narrowly realized characteristics that are easily recognizable and transferrable to all services offered. Without that central running theme, the brand becomes less effective and loses its power.

One solution to this challenge is to create sub-brands or extensions, each with slightly differing characteristics, to attach to the most closely related baskets of services. Market and customer research will often highlight clear break points among the services, allowing management to group them effectively, based on how customers use and perceive those services.

Sub-brands are presented differently than extensions – typically, the new brand is launched along with a tag line identifying the parent brand, i.e. "Orange-Glo, an S.E. Johnson Company" – using the cache of the parent company brand, S.E. Johnson, to “buff” the new product, Orange-Glo and transfer those positive characteristics to the new product.

An Extension tends to carry more of the parent brand’s appearance and nomenclature with it, and is most effective with closely related products. An example can easily be found in the processed food industry: Cheerios and Honey-Nut Cheerios. An extension is essentially a new flavor version of the original product. The new product carries all the same positive characteristics as the original, but is held out as an improvement or lateral shift to serve a new market. General Mills owns many brands, and several of them are cereals, but the Cheerios brand has been extended without using the parent company’s name.

Fragmentation is when the main brand is broken down into separate entities all owned by the same parent company. Coldwell Banker successfully created fragments to contain some of their acquisitions and essentially gave their internal divisions an external brand. These included one for residential and one for commercial real estate, one for financial services, one for thrift services, and one for loan servicing, all of which carried the Coldwell Banker moniker along with them. Fragments can more easily be separated into and potentially sold as self-supporting, freestanding entities if they are profitable, allowing flexibility for the core business to remain consistent. These would be Spin-off companies, which from a brand standpoint take a few of the main characteristics as the original but roam the furthest of the bunch from the core business.

Each of these brand adjustment strategies has a specific set of circumstances that trigger their implementation, based on the service model, customer profile, goals and objectives of the company and its management. Broad-spectrum service businesses are often well served by adopting a fragmentation strategy, allowing for baskets of services to be bundled and marketed more effectively to a tighter customer profile. More disparate conglomerate companies often benefit from a combination integration and spin-off strategy, which allows them to gain some specific resources under the main brand, polish them and standardize them, and then put them into action and launch the freestanding company without diverting significant operating resources to do it.

Extension is often used to broaden the service or product mix incrementally to slowly penetrate new market niches and widen the target market for greater revenue. Sub brands are often used to integrate acquisitions and absorb the newly purchased company under the larger umbrella brand. This can only be taken so far, especially if the parent company has never shown evidence of a connection to or possessed the expertise in the new company’s core business. Best evidence of this in history is when AMF bought Harley Davidson motorcycles.

AMF was known as a manufacturer of sporting goods, from bass boats to basketballs and bowling balls. On paper, seeing motorcycles as another piece of sports gear, AMF management applied the same manufacturing techniques and tolerances and marketing strategies to motorcycles, with disastrous results. AMF’s brand wasn’t strong enough to overcome the inherent business and production problems that followed.

Quality, previously held at a premium, plummeted, tanking sales and nearly destroying the brand. A company once known for building bullet-proof cycles for a very specific segment of the riding population, now offered troublesome, leaky, unreliable bikes that spent more time in the shop than on the road, and that had to be positioned at the rear of public parades to protect those behind from the parts flying off. H-D's management eventually bought the company back from AMF, and implemented highly effective, rigid production standards and started rebuilding the brand. They eventually turned a near failure into one of the most rousing successes in product brand history, creating an iconic American brand in the process. HD's brand is now one of the strongest in the country, and now lends its own cache to hundreds of carefully screened and scrutinized licensed products, driving huge revenue streams and building the brand further, and spawning its own sub brands including Buell (an acquisition), Screaming Eagle (a partnership), and HD Street (an extension).

Clearly, all these brand gymnastics are not to be taken lightly, but undertaken after significant introspection and consideration by senior management. If their expertise in-house doesn't include brand experience above the product level, often a qualified consultant is enlisted to help guide them through the murky waters of touchy-feely brand differentiation, in conjunction with a qualified business transition team. However it's done, a plan is needed to map out the strategy for the forward five years, to allow the team to assess the potential impact of these moves and to take steps to mitigate any negative fallout from the changes.

Whatever route a company takes, the change in brand status will allow them to more tightly group and accurately target prospective customers, serve them better, and maintain higher customer retention rates, boosting lifetime value. It can build more robust revenue streams over time, and in some cases, these types of changes can allow marginal businesses to weather economic strife, grow more powerful and build cache sufficient to allow greater success in the future.

About the Author: David Poulos, Chief Consultant at Granite Partners, has been providing marketing guidance and expertise to clients firms large and small for over 25 years. Specialties include non-profit membership marketing, tradeshow marketing, direct mail, and full-scale strategic marketing campaigns. He can be reached via the web at www.granite-part.com, or by phone at 410-472-4570. Granite Partners is based in Sparks, Maryland and services clients nationwide.