Should You Take Your Brand to Where the Action Is?

by David A. Aaker

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Vertical extensions are sometimes a strategic imperative, but they can be dangerous. Tread carefully.

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When markets turn hostile, it's no surprise that managers are tempted to extend their brands vertically – that is, to take brands into a seemingly attractive market above or below their current positions. And for companies chasing growth, the urge to move into booming premium or value segments also can be hard to resist. The draw is indeed strong; and in some instances, a vertical move is not merely justified but is actually essential to survival – even for top brands, which have the advantages of economies of scale, brand equity, and retail clout. But leveraging a brand to access upscale or downscale markets is more dangerous than it first appears. In fact, the battlefield is littered with dead and wounded brands that should serve as a warning to managers who are thinking about such extensions.

Before making a move, then, managers should ascertain whether the rewards will be worth the risks. How great is the opportunity? Should the

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brand retain its current position in a new market, or would it be better to reposition the brand entirely? What are the possible repercussions of such actions? Is a vertical extension the only choice? Would launching a new brand be a better alternative? The experiences of past winners and losers in the game can help managers answer those questions.

In general, I would recommend that managers avoid vertical extensions whenever possible. There is an inherent contradiction in the very concept because brand equity is built in large part on image and perceived worth, and a vertical move can easily distort those qualities. But *never* is a strong word. Managers may find themselves facing a situation that presents both an emerging opportunity and a strategic threat, and alternatives to vertical extensions may have even higher risks and costs. Furthermore, a number of brands have extended vertically with complete success. If after assessing the risks and rewards you conclude that a vertical extension is on the horizon, proceed with caution. And keep in mind that your challenge will be to leverage and protect the value of the original brand while taking advantage of the new opportunity.

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Accessing Downscale Markets

Let's first consider taking a brand into value territory. Sometimes an opportunity emerges within a brand's current distribution channel – a boom in the value segment of any given product category sold through a supermarket, for example. More often, the opportunity is created or accompanied by its own low-cost distribution channel, and companies must prepare to sell their products through that channel. Specialty superstores such as Home Depot and Circuit City, for example, have created category-dominant outlets with price-sensitive customers and significant economies of scale. Warehouse clubs such as Price Club and discount stores such as Wal-Mart also are prime examples. And direct marketing, which has changed the cost structure in the computer industry and elsewhere, provides access to a value-oriented segment as well.

Who wouldn't be tempted to shift or at least to branch into a sizable and growing value market? This type of vertical extension promises increased volume and economies of scale. In addition, it promises protection from private-label and price-brand competitors, and from lower-quality, offshore entries. What's more, brands shift downward easily – sometimes inadvertently. The danger in a move down market is that once a brand has associated its name with a downscale offering – even if the move represents only a slight change in price or performance – it runs the risk of losing its stature as a higher-priced (and by inference, higher-quality) brand.

Consider the results of a research study conducted by Carol Motley, a professor at the University of Illinois at Champaign-Urbana, and Srinivas Reddy, a professor at the University of Georgia. When Motley and Reddy presented consumers with repositioning statements for Kmart, a discount department store, and for Saks Fifth Avenue, a high-end department store, they found that people's attitudes toward Kmart did not change even when the store was described as being upscale. In contrast, people reported that they thought less of Saks when the store was described as being downscale or even mainstream. Indeed, the damage that the Cadillac Cimarron, the Cadillac version of a Chevrolet compact car, caused the Cadillac brand in the 1980s attests to the potential dangers of a downscale move.

One way to avoid any negative repercussions of accessing a downscale market is to launch a new brand. In 1993, the clothing retailer Gap found that competitors were targeting its value-conscious customers by offering Gap-like fashions for 20% to 30% below the company's prices. So managers decided to test Gap Warehouse, a store with merchandise offering the Gap flair but at a cut below Gap quality and price. After a year, however, managers found that the Gap connection was confusing customers and cannibalizing the core brand's image. In response, they renamed the new stores Old Navy Clothing Company – a brand that has become enormously successful in its own right.

New brands, however, are not easy to introduce. First, creating a new brand – building awareness, establishing perceptions of identity and quality, and developing a customer base – is expensive, often prohibitively so. Even IBM, with its considerable resources, failed in its effort to establish the Ambra, a relatively inexpensive personal computer that was sourced in Asia and marketed between 1992 and 1994 by mail order in Europe and the United States. Competing on price with Dell, Gateway, and other IBM models, the Ambra could not maintain a price that was low enough to compensate for its lack of brand equity. Second, new brands face distribution barriers. Retailers need to be convinced that a not-yet-established value brand can survive and add value to the retailer's line. They may refuse to carry a new product that does not offer the equity of an established brand.

Repositioning the Entire Brand. If launching a new brand is not an option, managers need to consider ways to leverage the power of their existing brand. There are several possibilities. One is to reposition the entire brand in a new market. The most direct way to do so is by dropping the brand's price – a move that can be called the *Marlboro option* in memory of that brand's stock-market-shaking 40-cent price cut on April 2, 1993. Indeed, Taco Bell, Post Cereals, AT&T, Procter & Gamble's Pampers, Amazon Books, and many other brands have pursued the Marlboro option in an attempt to make themselves more competitive in the face of price-oriented rivals and powerful retailers.

That approach, however, can be quite risky. First, price cuts have enormous financial implications. A 20% price reduction, for example, exceeds the total profitability of most brands and will put significant pressure even on those brands that have enjoyed excessive prices and margins. In addition, competitors – especially weaker ones – will have little choice but to match or exceed any permanent price decrease. Price wars are a very real threat.

Second, the Marlboro option can do substantial damage to a brand's image. A price reduction will likely make price the basis for competition and reinforce consumers' perceptions about a brand's lack of differentiation – particularly when it comes to quality. Taco Bell, in an aggressive attempt to improve volume and to capitalize on its cost advantage over other fast-food restaurants, introduced a "value" menu in 1990 that successfully boosted sales at the expense of other fast-food chains. In 1995, facing a downturn in sales, the company tried to take that strategy one step further by introducing an "extreme value" menu. That move has proved unsuccessful, so the company has decided to try to reverse its image and upgrade its menu with better-quality products at higher price tags. Customers, however, are resisting the move. Clearly, it will not be easy to turn what has become a solid value image into something more.

One way to reduce the risk of a tarnished brand image is to provide a rationale for the price move in a way that implies that quality has not been sacrificed. In 1992, Procter & Gamble launched an everyday-low-price program as part of its strategy to create more efficient product-delivery systems to retailers and consumers. For retailers, the program reduced incentives to engage in costly practices such as forward buying and diverting. For consumers, it made shopping much less complicated. Both retailers and consumers interpreted the move as being part of a larger coherent strategy.

Companies also can mitigate the risk of a damaged image by providing additional support for the brand while lowering its price. Marlboro engaged in aggressive advertising and launched the Marlboro Adventure Team promotion (investing $200 million in rewarding its loyal customers with outdoor adventure offerings) both before and after its price cut. Investing in a brand at a time when its profit margin is going to drop, as Marlboro did, is at first glance an unpalatable course. Understandably, most managers want to preserve as much of their brand's margin as possible. Without increased investment, however, the brand risks being recognized and sold on price alone.

Of course, if a brand has become so weak that revitalization is not feasible, there may be no brand equity to risk. Schlitz beer, attempting to cut costs in the mid-1970s, began to use cheaper ingredients and processes that resulted in a beer that tasted as good as the original but turned cloudy and lost fizz when left on the shelf for too long. The company recalled 10 million bottles and cans in 1976 and went back to its old methods of making beer. But its image – and its sales – never recovered. Schlitz became

Managers can reposition an entire brand in a new downscale market by dropping its price, but beware the risks of that move.

a price brand after its sales fell from greater than 17 million barrels in 1977 to fewer than 1 million barrels in the late 1980s. It had nothing to lose and no other feasible alternatives.

It is important to recognize that managing a brand on price is different than managing a brand on an image of quality or style. Managers of price brands should reduce brand support and create a cost advantage (or at least avoid a cost disadvantage) with respect to logistics, production, price, and service. It is fatal to try to compete as a price brand with a cost disadvantage.

The ultimate way for a brand to compete in a downscale market is to create value and differentiation so that the brand no longer seems overpriced. Procter & Gamble has adopted this strategy successfully time and again. Tide's managers, for example, have made dozens of innovative improvements in the product and its packaging over the years to inhibit the tendency of the brand to drift toward commodity status.

Using Sub-brands. If the bulk of a brand's customers are willing to pay a price premium, there is no benefit to moving the entire brand down market in order to attract new customers. Companies will merely be trading one set of customers for another. In that case, managers should instead consider a *sub-brand:* a brand with its own name that uses the name of its parent brand in some capacity to bolster equity, such as Courtyard by Marriott or Gillette Good News razors. In the case of downscale offerings, the role of sub-brands is to help managers differentiate new offerings from parent brands while using the parent's equity to influence consumers. The idea is both to maintain the parent's credibility and prestige regardless of how the sub-brand performs and to protect the original brand from cannibalization. (In most cases, the question is not whether the parent brand will be adversely affected by the downscale sub-brand but how to keep that negative impact to a minimum.)

There are three types of relationships between parent brands and sub-brands. First, the parent brand can act as an *endorser* of the sub-brand. In this case, the sub-brand is the more dominant of the two and drives consumers' decisions to buy a product or service as well as their perceptions of the experience using the product or service. Second, the parent and sub-brand can be *co-drivers* with roughly equal influence on consumers. Third, the parent can retain its primary influence as a *driver,* and the sub-brand can act as a *descriptor* – a word or phrase that tells consumers that the company is offering a slight variation on the same product or service they have come to know. Keep in mind that there are grades of each type of relationship. An endorser can range from a tiny logo in the corner of a product's package to a more prominent endorsement that falls short of co-driver status. Some co-driver sub-brands have more modest driver roles than others. And some descriptor brands play limited driver roles.

Put simply, sub-brands vary in the extent to which they influence consumers' purchase decisions and their experience using the product or service. Do consumers buy and use a Ford, a Taurus, or a combination of the two? When they purchase a Ford Taurus, are they expecting a certain style and level of performance from Ford or from Taurus? What do they expect when they decide to buy a Ford? What do they expect when they decide to buy a Taurus?

Let's examine in greater depth the three ways a parent brand can relate to its sub-brand.

> When consumers buy a car such as the Ford Taurus, are they purchasing a Ford, a Taurus, or a combination of the two?

Endorsers. John Deere's foray into value lawn tractors provides a good illustration of an endorser relationship. John Deere was well known for making a lawn tractor that sold for approximately $2,000 through full-service specialty dealers. Although the manufacturer was still able to command that price in the specialty market, volume retailers such as Sears and Home Depot had begun to serve a growing portion (around 30%) of that market, selling products at half John Deere's prices. So the company introduced an endorsed sub-brand for the value retailers: a low-cost tractor, Sabre from John Deere, that featured an inexpensive design and a different color and feel than John Deere's other products.

Similarly, when Marriott International wanted to enter the business-traveler and economy-family markets, it introduced Courtyard by Marriott and Fairfield Inn by Marriott – two chains that were clearly very different in location, ambiance, and service both from each other and from the parent brand. The Marriott endorsement gives consumers the assurance that these value entries will deliver on their promises to customers just as Marriott does.

Consider also the Hobart Company, which makes an industrial-grade mixer for use in bakeries and restaurants. Managers decided to create an inexpensive mixer for use in commercial and industrial kitchens to compete with offshore entries without damaging its flagship "gold standard" Hobart mixer line. In 1996, the company introduced Medalist from the Hobart Company. Medalist mixers were lighter than Hobart mixers. In addition, they were made with less costly materials and construction processes; and they had a color and logo distinct from those of the flagship Hobart.

When a company offers an endorsed sub-brand, there are three brands at work. The parent brand itself is split into two: a product brand and an organizational brand. The product brand remains as it was, a premium brand delivering a certain image and associated benefits. By contrast, the Hobart Company has become an organizational brand that endorses the sub-brand, Medalist. Medalist itself is a new product brand. Thus the parent brand, Hobart, is separated from the sub-brand, Medalist, by the organizational brand, the Hobart Company.

The endorser strategy provides an excellent chance to minimize damage and reduce the threat of cannibalization to the parent brand. Keep in mind that all three brands need to be managed actively. Managers of the Hobart Company brand name, for example, would concentrate their efforts on intangible attributes, such as being innovative or having a customer-oriented culture. Managers of the Hobart product brand would continue to manage that brand as they had. Managers of the Medalist sub-brand would focus on promoting specific qualities such as the brand's functional benefits or its distinct personality.

Co-drivers. Gillette Good News illustrates a successful co-driver relationship. Gillette Good News disposable razors are a definite cut below "the best a man can get" that is the Gillette legacy in shaving. But disposable razors are qualitatively different from the upscale razors such as Sensor and Atra with which Gillette has long held a technological edge. Gillette could provide a rationale for a disposable brand by being the best in the disposable category. But the Good News user's personality – younger and more carefree than the traditionally masculine and sophisticated Gillette persona – plays a key role in distinguishing the disposable brand from the rest of the line. Both brand names – Gillette and Good News – influence the customer's decision to buy the product.

> Sub-brands vary in the extent to which they influence consumers' purchase decisions and their experience using the offering.

United Airlines' United Express brand is another good example. The United Airlines brand provides United Express, a commuter line, with the convenience of connections to United flights and a reputation for safety. There is no cannibalization because the flights do not compete. United Express is differentiated from its parent brand by its lower level of on-board service, its use of smaller planes, and its less formal (even funky) personality.

Co-driver relationships are not always so successful. Consider Kodak Funtime film. Kodak introduced Funtime in 1994 to combat price brands and private-label film. But less than two years after its launch, managers took Funtime off the market. The reason? It is likely that many Funtime customers already were Kodak customers and were attracted to Funtime because it was a Kodak film at a lower price. Because that price was still significantly higher than that of the value brands on the market, Kodak Funtime was not that attractive to price-oriented customers. The reality was that the value brands were always going to maintain a price gap unless Kodak engaged in a real price war. It also seemed likely that Funtime was creating confusion among Kodak's loyal customers and was hurting the core brand's image.

Drivers. Of the three types of relationships, a driver parent brand with a descriptor sub-brand is the most risky. The parent brand is vulnerable to cannibalization because very little distinguishes one brand from the other. The risk of cannibalization is greatest when a descriptor (such as ValuePoint or Thrifty) signifies merely a lower-quality offering.

The risk is minimized when the descriptor signals a different application (such as Masterlock's Lockers and Bikes line of lighter locks, which are designed for a completely different use than Masterlock's Sheds and Gates line of locks) or a slightly different target market (such as Fender Starter, an electric guitar designed for youngsters just beginning to learn the instrument, which is offered by a company whose other brands are marketed toward professional, experienced musicians).

Mercedes provides a good illustration of a driver brand that has successfully accessed a downscale market with a descriptor sub-brand. In the early 1980s, Mercedes introduced what is now its C Class, a small car to compete with the BMW 3 series, as well as with Acura and Lexus. Now priced around $30,000, the line sells nearly 30,000 cars annually in the United States (around one-third of all Mercedes sales in the United States). How could a brand that has historically been identified with prestige and that offers a car selling for more than $100,000 pull off this kind of downscale move? First, Mercedes delivered a quality product. Second, the C Class introduction was accompanied by an intensive effort to reposition the core brand's message from prestige to performance. Third, marketing for the C Class aggressively targeted young buyers. The C Class name creates a distinction that allows the sub-brand to attract a slightly different consumer, but it does not drive that consumer's decision to buy the car. The Mercedes brand name retains that power.

Consider, too, Filene's Basement. Since 1908, Filene's department store has sold off-price goods (that is, goods that need to be marked down and sold) in its basement. Displays were rather crude, and many shoppers enjoyed the pushing and shoving and absence of changing rooms that were a part of the scene. Filene's Basement, very different from the upscale main floors, actually became a strong

Strategies for Sub-brands: Minimizing Risk

When Moving Down Market…

▪ **Try to create a qualitatively different offering aimed at a distinct segment.** Position the entry as the best of a distinct new product or service offering. For instance, Medalist by the Hobart Company, Courtyard by Marriott, and Sabre from John Deere sharply differ in look and feel from their respective parent brands. And Gillette Good News, Courtyard by Marriott, and the Mercedes C Class are physically different from Gillette Sensor, Marriott Marquis, and the Mercedes S Class. Furthermore, these value offerings target distinct segments and aspire to be the best in their respective segments. Differentiating a value offering from its parent brand works best when physical differences are clearly apparent. It is more difficult to create a distinct image with such products as film or fertilizer.

▪ **Think about elevating the parent brand when the value entry is launched.** It is easier to create the necessary distance between the parent brand and the sub-brand if the parent is moved slightly upscale. For example, if instead of merely introducing a value sub-brand of a line of tools you upgraded the original line and gave it a sub-brand name like ProChoice at the same time you introduced a value name like ThriftMaster, you would increase the separation between the brands and reduce the risk of cannibalization. In this manner, Gillette's innovative premium sub-brands such as Atra and Sensor enhanced the distinction between Gillette Good News and the Gillette brand.

▪ **Be cautious about price premiums.** When the core brand is well known, it is tempting to try to command higher prices – even in value markets. But people who shop for value are sensitive to price, regardless of brand name. Don't count on your brand's equity in the new arena. Mercedes's managers' understand that: the C Class cars are priced competitively, and that's one reason for their success. In contrast, Kodak's Funtime film suffered because Kodak managers launched it as a value brand yet priced it well above the target competition. Similarly, Armani Exchange – an attempt to offer the Armani name in a casual-clothing competitor of the Gap and the Limited – failed after some initial sales success in part because customers eventually balked at the price difference. (Armani Exchange T-shirts, for example, were two-and-a-half times more expensive than competitors' offerings.)

▪ **Consider a parent-child metaphor.** A parent-child metaphor suggests a distinction between personalities and can help provide cohesion and logic to a brand strategy that, because it spans several markets, involves some very basic inconsistencies. The value entry sub-brand can be a son or daughter of the parent brand. This son or daughter would have the same "genes" as the parent but may not yet have matured into a top-of-the-line product or service. In addition to being geared toward a younger and less affluent market, the son or daughter sub-brand can be expected to have a distinct personality. The nature of this personality will depend on the product setting, the user proenough brand to become a minichain, which performed well but ultimately became a casualty of an ill-advised leveraged buyout in the late 1980s.

Accessing Upscale Markets

The motivation for moving a brand from a mainstream market into an upscale arena is clear: high-end markets enjoy much higher margins than middle markets do. What's more, emerging high-end segments often seem to revitalize entire groups of tired products. Consider what microbreweries, designer coffees, luxury cars, and even upscale water have done for their respective categories. Newly popular, newly exciting markets – and their margins – beckon, but can a brand that is firmly established in a mainstream market alter its image enough to compete?

The issue is one of credibility. Most consumers will question whether a formerly inexpensive brand will have the knowledge, capability, and will to operate an upscale brand and deliver the expected functional and emotional benefits. Even brands that enjoy solid reputations are suspect. For example, the Holiday Inn brand name, which stood for comfortable, unpretentious family hotels, was a real handicap when it was used on Holiday Inn's Crowne Plaza hotels, which targeted an upscale market. Eventually, and not surprisingly, the parent company dropped the Holiday Inn connection and let Crowne Plaza compete on its own. The cases of downscale brands with lower-quality images evolving into higher-quality, more upscale brands are very rare. Toyota represents such a case, but changing its image took more than a decade, involved impressive product improvements, and cost billions of dollars in advertising.

As in downscale moves, one way to access a high-end market is to launch or acquire a new brand. For instance, because Honda managers believed that

file, and the parent brand. A son or daughter with youth and vigor might be appropriate for a motorcycle, bicycle, or health club. A serious son might reassure consumers of the reliability of a new line of lawn equipment or trucks. And a spontaneous and fun-loving daughter might be the right image for a line of women's clothes.

When Moving Up Market...

- **Make the vertical leap reasonable.** How far up market should a brand move? Sub-brands accessing premium markets often do better when they are positioned at the low end of the segment. The claim that a product is superior to a company's mainstream brand is less of a stretch than the claim that it is superior – or even equal – to established premium brands.
- **Differentiate the upscale entry.** Regardless of the distance between the mainstream and the upscale market, it is important to give the new offering distinct characteristics. Black & Decker's Quantum line of equipment, developed for the 20 million or more serious do-it-yourself consumers in the United States, is a good example of a sub-brand that is clearly distinct both from its core brand and from DeWalt, its line for construction professionals. The Quantum line offers several products that are distinct from other Black & Decker offerings, among them a "dustless" drill that uses a specially designed vacuum system. That product and others – as well as such Quantum-specific services as the *Shop Talk* newsletter and the PowerSource telephone advice program – give the new line credibility and help position it well above the core brand's line of tools. Upscale sub-brands also can benefit from distinctive looks. Quantum tools are silver with yellow print, in sharp contrast to the metallic green of the core Black & Decker line. All cues – advertising, packaging, name, look, and feel – contribute to the sub-brand's distinct personality and thus help it establish itself.
- **Redefine success by assigning the upscale sub-brand a "silver bullet" role.** In other words, use the sub-brand as a tool to revitalize the core brand. Gallo did just that with its Ernest and Julio Gallo Varietals, an upscale sub-brand of a solid value brand. Gallo's biggest sales came from its trademark jug wine, which had begun to face stiff competition from slightly more upscale brands such as Glen Ellen. To protect itself, the enormous Gallo enterprise needed to move up a small notch – a daunting task. So it introduced the Ernest and Julio Gallo Varietals: a new line of wines offered at prices more than double those of its jug wine, with labels, bottle types, and advertising to befit an upscale entry. The sub-brand's target market was not high-end consumers but rather the core Gallo consumer. The company knew that many current Gallo customers would never purchase an Ernest and Julio Gallo Varietal, but the high-end product gave Gallo the opportunity to influence them in a different way. The company used the sub-brand's associations of quality to elevate perceptions of the entire Gallo brand.

the Honda name would be a fatal barrier to the company's ability to succeed in an upscale market dominated by BMW and Mercedes, they developed the Acura brand. Toyota and Nissan followed suit with the Lexus and Infiniti brands. Similarly, Black & Decker used a new brand, DeWalt, when it created a line of tools for construction professionals in 1992. The company's research showed that construction professionals associated Black & Decker with the do-it-yourself market segment, dustbusters, and even popcorn poppers. The company realized that such associations did not bode well for a premium line of tools.

The fact that Toyota owns Lexus or that Black & Decker owns DeWalt need not be a secret. In fact, having a "shadow" endorsement can help reduce consumers' suspicions that the new brand will not have staying power. By not overtly associating its name with Toyota, Lexus says to consumers that it has an individual identity – and that statement is more important than whether consumers learn of the connection.

Again, however, creating a new brand can be extremely expensive – especially if competitors include well-established brands. Toyota, for instance, made a tremendous investment in Lexus to help it become a player. Sometimes it is possible to reduce the cost by licensing an upscale brand name from another product class – say, a clothing line using the Tiffany name or a line of furniture using Mercedes – but that approach forgoes the strategic power of owning the upscale brand.

Repositioning the Entire Brand. The story here is brief. Straightforward repositioning from a mainstream or value market into an upscale one is nearly impossible. A mainstream brand simply lacks the upscale associations – such as user image, brand personality, and perceived quality – that are necessary to convince customers that the product or service should command a premium price. What's more, an upscale move, even if successful, can risk sacrificing the parent brand's existing customer base – its major asset. Current customers may become uncomfortable with the brand as it transforms in order to attract a new market. Sears Roebuck & Company is one of the few companies that has had some success in this area. With exceptional advertising and an enormous investment in changing its stores' environments, Sears has moved a bit upscale, particularly in women's clothing. But in so doing, the company has walked a fine line: its loyal, value-oriented customers have specific expectations about what they are getting for their money, and they may be wondering if the new brand image will change that equation.

Managers contemplating a move up market might want to consider positioning a sub-brand at the low end of the upscale arena.

Using Sub-brands. Sub-brands play the same role in upscale moves as they do in downscale ventures: they help managers differentiate their new premium offerings from the original brands while using the equity of those parent brands to influence consumers' purchase decisions.

Sub-brands used in up-market moves also vary with respect to the distance they create between the new entry and the parent brand. When the parent is an endorser, as with Uncle Ben's Country Inn rice, the brands are relatively separate – with the sub-brand establishing its own identity and influencing consumers' purchase decisions. When the parent and sub-brand are co-drivers, as with MJB EuroRoast coffee or Black & Decker Quantum tools, the influence of each brand on purchase decisions is roughly equal. When the parent brand is a driver accompanied by a sub-brand descriptor, as with Trefethen Library Reserve wines or GE Profile appliances, the sub-brand does not develop a unique identity at all; rather, it indicates an upscale variant of the parent brand.

When contemplating an upscale sub-brand, it is critical to consider the new offering's potential customers. Is the brand really going to attract people who habitually purchase the highest-end goods? Or is the sub-brand's greatest potential actually somewhere in between the highest offerings and the parent brand's position? Sometimes it's best to position a sub-brand at the low end of the upscale market. A "value" premium offering can be attractive to consumers who consider themselves independent thinkers with no need to buy image in order to impress people. Low-end premium brands also are attractive to people who would like to be part of an upscale niche but can't afford the higher-end offerings. When managers of one major coffee brand decided to enter the designer coffee market with a sub-brand, they conducted extensive research on what they thought to be their target market – yuppie consumers – and positioned the sub-brand accordingly. The product was successful, but subsequent research revealed that the yuppie market was not well represented among the sub-brand's customers; the market instead turned out to be mainstream consumers who were trading up.

Keep in mind that the bigger the vertical leap, the tougher it is to make. Take Rice-A-Roni. Because the parent brand is strongly associated with everyday meals, its upscale sub-brand, Rice-A-Roni Savory Classics, did not work. Uncle Ben's, however, is positioned as a basic product that has a certain simple elegance. Because the original brand is flexible, a sub-brand like Uncle Ben's Country Inn Rice Alfredo Homestyle pilaf works as an upscale entry. The Uncle Ben's name, though not upscale itself, is not incompatible with the new offering or context.

The safest bet for an upscale sub-brand is a driver-descriptor strategy because it positions the new offering against the parent brand rather than against its new upscale competitors. *Special edition, premium, professional, gold,* or *platinum* descriptors – especially when they are offered at a premium price – can be very effective. They send the message that the upscale entry is like the parent brand but tangibly better. Wineries use *private reserve, library reserve,* or *limited edition* to capture the higher end of a market. Similarly, airlines have *connoisseur class.* (See the insert "Strategies for Sub-brands: Minimizing Risk" for some general guidelines on using sub-brands in upscale and downscale moves.)

How Much Can One Brand Handle?

In rare cases, a single brand can stretch successfully from value to mainstream to premium markets. Sony is such a brand. For years, the Sony brand has freely spanned quality levels in several product classes. For example, the Sony Walkman ranges in price from $25 to more than $500 without confusing customers or damaging the brand. The wisdom of Sony's strategy is nevertheless debatable. It can certainly be argued that what Sony has gained in brand visibility and leverage compensates for any negative repercussions from its downscale offerings. But we can never know how much better off Sony might have been had it protected its brand name and created a separate value brand for the lower end of the markets. It is also worth noting that even Sony has not taken its name to all its brands across the board. When Sony purchased the Loews movie theater chain, it initially put its name on the theaters. Realizing that most of the Loews theaters were old and did not deliver a movie experience that was compatible with the Sony name, the company soon withdrew the association and placed the Loews name back on most of the theaters – with the exception of a few newer ones that featured IMAX sound and reinforced much of what the Sony brand represented.

Sony's experience is indeed uncommon. It may be possible to have two separate positions – a premium position for the mainstream market and a value position for the value market – if the two markets are very separate with respect to communication and distribution. The markets, however, are rarely that distinct.

Consider Levi Strauss and CitiBank. Both are high-end, prestigious brands in the Far East and Europe but are mainstream, functional brands in the United States. The brands' similar problems with conflicting images have been mitigated in part by the geographical distance among their markets; but even with such a buffer, the companies face difficulties. CitiBank sends mixed messages to its global customers who do business with the company in several countries – a growing market segment that is becoming increasingly important to please. And because the retail price for its products sold in the United States is often far below the wholesale price in Europe, Levi Strauss is plagued by so-called gray sales – that is, goods being sold through unauthorized but legal channels. For example, Tesco, a leading retail chain of stores in the United Kingdom, recently bought 45,000 men's 501 jeans on the gray market and sold them for far less than the prices charged in stores supplied directly by Levi Strauss. The result? Authorized retailers lose the motivation to recommend or carry the line, and customers lose the emotional benefits associated with buying authentic Levi's at full price.

Keep these cases in mind when you are considering a vertical extension. Evaluate and reevaluate the opportunities and the risks. Study your brand's position, its strengths, its weaknesses, its message. If you are contemplating an upscale or a downscale move, strongly consider launching a new brand. If you have the luxury of controlling a portfolio of brands, think about using them to rationalize the line as General Electric did in appliances by using RCA as a price brand and Hotpoint as a value brand, and by reserving GE, GE Profile, and GE Monogram for the upscale offerings. If you can purchase a new brand, do so. Reposition at your own risk, and use sub-brands only if you can take the same care with their launches as you do with your core brand.

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