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Brand Equity Dilution

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RESEARCH BRIEF

Brand Equity Dilution

Brands may be less vulnerable to the vagaries of extension than is commonly feared. **Kevin Lane Keller and Sanjay Sood**

As more and more firms realize that the brand names associated with their products or services are among their most valuable assets, creating, maintaining and enhancing the strength of those brands has become a management imperative. One of the key advantages of a strong brand is that it facilitates the acceptance of brand extensions — new products launched using that brand name. Because brand extensions reduce consumer risk and significantly lower the cost of introductory marketing programs, they have become, over the past two decades, the predominant new product strategy. Brand extensions, however, can be a double-edged sword. When managed well, they not only provide a new source of revenue, but also reinforce brand meaning, thereby helping to build brand equity. But what happens when brand extensions are not successful? After all, most new products fail, and brand extensions are no exception. Will a failed brand extension damage the parent brand, squandering the millions of dollars and countless man-hours invested in building its equity? If so, brand extensions could pose the considerable risk of brand equity dilution, and managers would have to develop much more cautious brand extension strategies.

Initial Research

Because of its fundamental importance to product marketing, a great deal of academic research has been directed at understanding brand equity dilution. The good news emerging from this research is that, by and large, parent brands have been shown to *not* be particularly vulnerable to failed brand extensions. Initial research on examining failed extensions that varied in similarity or "fit" to the parent brand revealed that parent brand equity remained surprisingly robust. For example, Kevin Keller and David Aaker, as well as Jean Romeo, hypothesized that brand dilution could result after the introduction of dissimilar extensions because the customers may perceive that the company was attempting to take undue advantage of its brand name. Both studies, however, failed to find any evidence of brand dilution with dissimilar extensions. Similarly, Deborah Roedder John and Barbara Loken found that, although perceptions of quality for a parent brand in the health and beauty aids area decreased with the hypothetical introduction of a lower quality extension in a similar product category (like shampoo), quality perceptions of the parent brand were unaffected when the proposed extension was in a dissimilar product category (like facial tissue). Finally, Roedder John, Loken and Christopher Joiner found that dilution effects were less likely to be present with "flagship" products and occurred with line extensions but were not always evident for more dissimilar category extensions.

The clear conclusion drawn from these initial studies was that parent brands are more resistant to changes in evaluations than previously thought. Years of brand-building activities evidently help consumers develop well-learned brand knowledge that can withstand the negative impact of a failed extension. Consumers use their knowledge about the parent brand to determine whether or not the negative experience with the extension is relevant enough to warrant a change in attitude. The rule of thumb that emerged from early academic research and industry experience was that an unsuccessful brand extension potentially could damage the parent brand image only when there was a high degree of similarity or "fit" involved. Consumer confidence in the parent brand was more likely to be weakened in these cases because similar extensions represent to the consumer an area in which the company is supposed to have considerable expertise.

Subsequent Research

Later research efforts have examined moderating factors or "boundary conditions" that provide some important qualifications to these basic findings, and have identified other circumstances when brand dilution could potentially occur.

Experience and branding strategies. Examining the effects of direct consumer experience with extensions, Kevin Keller and Sanjay Sood found that, among beverages, dilution effects resulted when consumers directly experienced a poorly performing, similar brand extension. (Consumers did not downgrade parent brands after a negative experience with dissimilar beverage extensions.) No dilution effects were found when consumers were only provided with negative product ratings of similar extensions or if they evaluated these extensions without direct experience. The authors suggested that direct experience led to dilution because consumers considered it to be more diagnostic than other forms of learning about the extension.

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Referenced Research

Ahluwalia, R., and Z. Gurhan-Canli, "The Effects of Extensions on the Family Brand Name: An Accessibility-Diagnosticity Perspective," *Journal of Consumer Research* 27 (December 2000): 371-381.
The authors use the widely known accessibility/diagnositicity framework to examine extension feedback effects. Accessibility refers to the "top of mind" component of information, whereas diagnosticity refers to the relevance of information.

Balachander, S., and S. Ghose, "Reciprocal Spillover Effects: A Strategic Benefit of Brand Extensions," *Journal of Marketing* 67 (January 2003): 4-13.
The authors find evidence for increased choice of the parent brand as a result of advertising brand extensions, beyond what is possible with advertising directly for the parent brand. The results are based on analysis of scanner panel data.

Gurhan-Canli, Z., and D. Maheswaran, "The Effects of Extensions on Brand Name Dilution and Enhancement," *Journal of Marketing Research* 35 (November 1998): 464-473.
Both positive and negative feedback effects to the parent brand are found, depending upon the level of consumer involvement. Greater feedback effects occur when consumers are more highly involved in evaluating brand extensions.

Janiszewski, C., and S.M.J. van Osselaer, "A Connectionist Model of Brand-Quality Associations," *Journal of Marketing Research* 37 (August 2000): 331-350.
In contrast to most academic articles that rely on spreading-activation models of memory, the authors investigate brand learning using connectionist models of memory. Consistent with these connectionist models, consumers are found to use extension names as predictive cues of performance that can lead to brand dilution.

Keller, K.L., and D.A. Aaker, "The Effects of Sequential Introduction of Brand Extensions," *Journal of Marketing Research* 29 (February 1992): 35-50.
As one of the first academic investigations of brand extensions, this paper provides the conceptual foundation for research on extension evaluations and feedback effects.

Keller, K.L., and S. Sood, "The Effects of Product Experience and Branding Strategies on Brand Evaluations," Tuck School of Business working paper (2003).
This paper is one of the first to investigate how brand evaluations change when consumers have direct experience with an extension as opposed to merely learning about the extension. In addition, the authors contrast family branding with subbranding and individual (new) branding with and without experience.

Kirmani, A., S. Sood and S. Bridges, "The Ownership Effect in Consumer Responses to Brand Line Stretches," *Journal of Marketing* 63 (January 1999): 88-101.
Ownership is found to lead to different reactions to brand line stretches — vertical extensions — depending upon the parent brand image and the direction of the stretch. A field study with owners of BMW and Acura automobiles confirmed the results of two laboratory experiments.

Lane, V.R. and R. Jacobson, "The Reciprocal Impact of Brand Leveraging: Feedback Effects From Brand Extension Evaluations to Brand Evaluation," *Marketing Letters* 8 (July 1997): 261-271.
The authors find that the magnitude of feedback effects depends upon how much effort consumers allocate to evaluating the extension. Consumers who had a high "need for cognition" process extension information more elaborately, leading to increased dilution.

Loken, B. and D. Roedder John, "Diluting Brand Beliefs — When Do Brand Extensions Have a Negative Impact?" *Journal of Marketing* 57 (July 1993): 71-84.
The authors investigate brand dilution in terms of overall quality and specific attribute beliefs. Brands are conceptualized as categories in memory, and categorization models from psychology are used to interpret the results.

Milberg, S.J., C.W. Park and M. McCarthy, "Managing Negative Feedback Effects Associated With Brand Extensions: The Impact of Alternative Branding Strategies," *Journal of Consumer Psychology* 6, no. 2 (1997): 119-140.
The authors find that family branding strategies and subbranding strategies lead to different levels of brand dilution.

Morrin, M., "The Impact of Brand Extensions on Parent Brand Memory Structures and Retrieval Processes," *Journal of Marketing Research* 36 (November 1999): 517-525.
Using response latency — speed of answer — as one of the dependent measures, the author finds that the presence of brand extensions can reinforce the brand knowledge structure in memory.

Romeo, J.B., "The Effect of Negative Information on the Evaluations of Brand Extensions and the Family Brand," *Advances in Consumer Research* 18 (1991): 399-406.
An early paper investigating brand extension feedback effects, using a case study as part of the methodology. No dilution occurred for dissimilar extensions; however, dilution effects were marginally significant for similar extensions.

Roedder John, D., B. Loken and C. Joiner, "The Negative Impact of Extensions: Can Flagship Products Be Diluted?" *Journal of Marketing* 62 (January 1998): 19-32.
Different degrees of dilution as a result of a failed extension were found to occur for flagship brands and parent brands. Specifically, flagship brands were found to be less vulnerable to dilution than parent brands.

Swaminathan, V., R.J. Fox and S.K. Reddy, "The Impact of Brand Extension Introduction on Choice," *Journal of Marketing* 65 (October 2001): 1-15.
Using scanner panel data, the authors find that feedback effects can depend upon consumer trial and repeat of brand extensions and prior usage of the parent brand.

Sullivan, M.W., "Measuring Image Spillovers in Umbrella-Branded Products," *Journal of Business* 63 (July 1990): 309-329.
The author investigates how positive and negative publicity related to a specific car model leads to positive and negative feedback effects to the parent brand. Jaguar and Audi are used as examples for positive and negative feedback effects, respectively.

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The authors also found that dilution effects associated with an extension that is family-branded (Pepsi, for example) disappeared when they assigned the extension a hypothetical subbrand ("All Sport Body Quencher" from PepsiCo Inc.) This occurred even though consumers sampled the exact same drink. The authors proposed that direct experience with a close extension provides consumers with vivid, compelling experience that creates the potential for a change in parent brand attitudes. Subbranding, however, credibly sends a signal to consumers to expect differences in the extension and distances the extension from the parent brand.

Subbranding strategies can thus alter consumer attributions regarding whether or not the parent brand should be held directly responsible for failed extensions. Corroborating evidence is found by Chris Janiszewski and Stijn van Osselaer, using a connectionist model of memory. Connectionist models differ from traditional memory models in that a brand name is used only to the extent that consumers view that it predicts performance — hence subbrand names do seem to convey different information to consumers. Sandra Milberg, C. Whan Park and Michael McCarthy find similar evidence supporting subbranding as a shield from dilution in an experimental study. Marketplace evidence also supports these findings. For example, Mary Sullivan found that the "sudden acceleration" problems associated with the Audi 5000 automobile had greater spillover to the Audi 4000 model than to the Audi Quattro model, which she interpreted as a result of the fact that the latter was branded and marketed differently. Thus, subbranding is one managerially controllable factor that permits firms to engage in a more active extension strategy, allowing the brand to "make mistakes" and extend farther than otherwise would be the case.

A PRODUCT FAILURE MAY NOT HARM THE PARENT BRAND IF THE EXTENSION CATEGORY IS FAR ENOUGH REMOVED FROM THAT OF THE PARENT.

Consumer involvement. It has also been shown that brand extension dilution depends upon the degree of a consumer's involvement with the experience. For example, Zeynep Gurhan-Canli and Durairaj Maheswaran found that when consumers are not highly involved (for example, when the extension decision is seen as fairly inconsequential), dilution effects are observed only with similar extensions. Consumers consider less similar extensions to be exceptions and thus their impact on the reputation of the parent brand is reduced. However, the authors found that when consumers actively process negative information about a brand extension, this can lead to parent brand dilution even with dissimilar extensions.

Similarly, Vicki Lane and Robert Jacobson found some evidence of greater brand dilution for consumers who had a high "need for cognition" (that is, those consumers given to analyzing and understanding a product or service) as compared to those with a low need for cognition. Presumably, the latter group processes information more deeply. Finally, Rohini Ahluwalia and Gurhan-Canli observed that timing is a factor in measuring brand equity dilution. When consumer attitudes were measured immediately after a negative extension-trial experience, dilution occurred for both similar and dissimilar extension. When there was a delay in measurement, only unsuccessful *similar* extensions led to dilution.

Collectively, these findings imply that unless consumers extensively consider the reasons behind a product failure, dilution effects are likely to manifest themselves only when the extension is seen as highly similar to (and therefore diagnostic of) the parent brand. A product failure may not harm the parent brand *if* the nature of the extension category is far enough removed from that of the parent. In that case, consumers can "compartmentalize" the brand's products and disregard the extension's performance because they see it as being in a product category unrelated to that of the parent.

Brand ownership. Customers' degree of familiarity with the parent brand also influences the likelihood of dilution by extensions. In that regard, brand ownership or usage are key factors. In an experimental study, Amna Kirmani, Sanjay Sood and Sheri Bridges observed different patterns of brand dilution, depending upon whether or not consumers owned the automobile brand being extended. Similarly, using national household scanner data, Vanitha Swaminathan, Richard Fox and Srinivas Reddy found evidence for potential negative effects of unsuccessful extensions among prior users of the parent brand but not among prior nonusers. These results imply that even successful extensions can lead to brand dilution because the basis of brand meaning may be different for loyal and nonloyal users. Loyal users have richer, more developed knowledge structures of the brand, and may have deeper convictions regarding what is central to brand meaning than nonusers. Extensions may therefore be successful in attracting new users and increasing sales, but at the same time these extensions may be perceived to be inconsistent by loyal users and result in brand dilution with this group of consumers. Therefore, to the extent that loyal users are more valuable to the firm, successful extensions could dilute total brand equity.

A Model of Brand Equity Dilution

The research reviewed above clearly suggests that brand dilution occurs only under specific circumstances. That is, it requires a strong experience with a brand extension — one deemed both diagnostic of and inconsistent with the parent brand experience — for a consumer to update his or her feelings and opinions about the parent brand. On that basis, then, we formally propose that parent brand dilution is a function of three factors:

Strength. Only an extension experience that is sufficiently strong has the potential to trigger brand dilution. A strong experience is salient (attention-getting) and unambiguous (objectively interpretable). A weak experience — whether it is less salient or more ambiguous — may be ignored or discounted.

Diagnosticity. An extension experience is diagnostic of the parent brand only to the degree that consumers believe the extension is relevant to the parent. That is, the experience will only affect the consumer's evaluation of the parent brand if he or she feels that the performance of the extension product or service is indicative, in some way, of the parent brand's quality.

Inconsistency. An extension experience consistent with the consumer's image of the parent brand is less likely to change that consumer's impression. However, an experience that is inconsistent with those expectations of the parent creates the potential for change — the direction and extent of change depending on the relative strength and favorability of the experience. Note that highly inconsistent extension experiences, however, may be discounted or ignored if not viewed as relevant.

Implications

These research findings underscore an important point: Although consumers "own" a brand in terms of the expectations, perceptions and attitudes they hold about it, marketers can — and should — actively manage consumers' brand knowledge structures. Creating a strong brand with a great deal of brand equity not only permits further growth opportunities but also helps to provide a defense against failed brand extensions.

Recent research also shows additional ways that brand extensions can actually improve sales and reinforce customer knowledge about the parent brand. For example, Maureen Morrin found that exposing consumers to brand extension information strengthened — rather than weakened — parent brand associations in memory, particularly for parent brands that were dominant in their original product category. Similarly, Subramanian Balachander and Sanjoy Ghose showed how advertising for an extension could provide spillover benefits for the parent.

It is interesting to note that there is a silver lining to unsuccessful "market failure" brand extensions, those that fail because they are inadequately distributed or do not achieve sufficient awareness among consumers. Because consumers might not have even heard of the extension product or service, the parent brand is more likely to survive relatively unscathed. On the other hand, a "product failure," when the extension is found to be inadequate in some way on the basis of performance, is more likely to engender negative opinions about the parent brand.

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