

Build an extension **outside home turf**

The rumours began in 2007, and ran rife throughout the annual Basel-world Watch Fair in April. This month we have official confirmation: Tag Heuer is about to launch a mobile phone.

The Tag Heuer Meridiist will be assembled from 430 components and constructed from the same corrosion-resistant steel and unscratchable sapphire crystal used in the brand's luxury watches. The first glimpses of the phone online reveal a sleek, masculine design, very much in line with the style of Tag's watches. The time display on the top of the phone adds an innovative twist that tips its hat to the brand's origins. The Meridiist will go on sale in the UK in September through select watch and jewellery retailers, priced at about £3000.

This is a textbook brand extension. Tag Heuer is a very successful watchmaker, but, like most brands, it is not averse to exploring additional sources of revenue by launching products into other categories. A successful extension can also re-inforce a brand's position due to the increased publicity and consumer excitement that it generates. In Tag Heuer's case, the Meridiist will also cement its position as a leading brand among watch retailers, which will vie to stock the phone.

But what about the downsides? Will the Meridiist dilute Tag's brand equity in its original category of watches? If it turns out to be a disappointment, will it damage Tag's exemplary image? The short answer is no. Too many marketers continue to labour under the misconception that a bad brand extension represents a hazard to the parent brand's equity. However, a mountain of

research has now been compiled in Europe and the US indicating that it is extremely difficult for an extension to damage a brand's reputation in its original category.

Let us assume for a moment that the Meridiist turns out to be a terrible phone. Will this change the perception that Tag Heuer makes fantastic watches? No. Consumers aren't morons. They realise



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that the skills necessary to make a great watch are not the same as those used in manufacturing a mobile phone. When a company such as Tag makes a leap into a new category, it takes its brand equity with it, but closes the door on any potential negative spill-over into its original business.

So why don't companies like Tag Heuer launch thousands of extensions? For a start, the successful ones take up

enormous amounts of organisational time, money and strategic resources. A careless job can force the company's focus away from its core business, leaving it vulnerable to competition and changes in consumer taste.

Line extensions, where a company launches a product within its existing category, are less internally demanding. Nevertheless, they can be riskier in brand equity terms. If, for example, Tag Heuer were to produce a new line of watches that kept bad time or were too cheap, the damage to brand equity could be severe and immediate.

Ferrari is a good brand to illustrate this. The worst thing the Italian car manufacturer could do would be to launch a more accessibly priced, lower-performance line extension in the form of a cheaper sports car. However, it faces an obstacle to growth if it does not do this, because only so many consumers can afford cars that cost upward of £200,000.

The solution is to license the brand for a series of lucrative products such as cameras, sportswear and computer peripherals. Because the products are made by licensees, no internal resources are wasted, and by restricting the launches to categories far removed from the brand's core category, external damage to the brand can also be avoided.

Mark Ritson is an associate professor of marketing and consultant to some of the world's leading brands



30 seconds on... brand extension research

- In a 2003 article in *Sloan Management Review*, marketing professors **Kevin Keller** and **Sanjay Sood** concluded that, by and large, parent brands are **not particularly vulnerable** to failed brand extensions.
- This was reiterated by British brand consultant **David Taylor**, who pointed out in his 2004 book **Brand Stretch**

that a **bigger risk** stems from the business risk of **diverting time, effort, and money** from the core business onto brand extensions that are small'.

- Each year, research firm TippingSprung releases an annual **Brand Extension Survey** to rank the worst ideas of the

year. Last year's 'winners' included **Precious Moments** (a figurine company) launching **coffins**, and the **Humane Society Dog Lovers Association** launching a **Wine Club**. So far neither organisation's reputation appears to have been damaged by their attempt to diversify.