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Success factors for second brands in wine brand portfolios.

Mark S. Glynn
Auckland University of Technology, New Zealand
mark.glynn@aut.ac.nz

Abstract

Purpose: To examine the success factors for second brands within wine brand portfolios and to propose a conceptual framework which includes relevant success antecedents.

Approach: A review of the literature on second brands including line extensions, downscale vertical extensions and their potential impact on brand portfolios.

Findings: Presentation of a conceptual framework that integrates the brand management issues for second brand introductions which includes company considerations, market considerations and channel support applicable to wine brand portfolios.

Practical implications: By viewing the brand as a resource, the identification of second brand success factors allows wine producers to better optimise their wine brand portfolios.

Key words: second brands, brand portfolio, channel support, pricing.

1. INTRODUCTION

Wine producers routinely address the question of which lines to add or delete from their brand portfolios. Sometimes these new brand additions incorporate a low price strategy to clear excess production or to address competitive activity. However using such lower pricing strategies can affect the overall brand portfolio performance by reducing return on investment and cash flow for further brand reinvestment. To counter any potential negative effects, wine producers have a number of strategic choices that mitigate these risks. One such brand portfolio option is the line extension. For wine producers this strategy often involves adding bottle sizes, varieties and different packaging types. Another option is to introduce a second brand, a lower priced product branded separately from the flagship product. This paper explores the second brand and develops a conceptual framework of second brand success. First, the literature section considers the brand as a market-based asset within the brand portfolio. Next line extension strategies are examined as well as the implications for second brands as downscale vertical extensions. The management of different brands in separate price tiers as well as the competition effects is considered next. Last, a conceptual framework that addresses the market, company and channel antecedents that contribute to second brand success is presented.

2. LITERATURE

2.1. Brand Portfolios

Adding a new brand can affect the performance, image and reputation of the wine producer. These decisions involve consideration of the brand portfolio architecture (how the brand names are organised and presented to customers). The initial brand architecture decision includes whether or not to adopt either a branded house strategy or a house of brands strategy. An example of a branded house strategy is Penfolds wines where each line is listed under a dominant corporate brand. A house of brands strategy is evident in a portfolio that consists of several brand dominant wines e.g. Constellation Brands. Such a collection of brands can be either linked to a single producer or furtively linked (LaForet and Saunders 1994). Between these two extremes there are mixed brand configurations consisting of a parent brand and sub-brands. Within these configurations there are different levels of prominence of the sub-brand compared to the parent brand exist. For example, a second brand could be an endorsed brand having a different brand name but uses some brand elements in common with the flagship product or parent brand. Alternatively, some second brands have few brand elements in common such as private labels or generically labelled brands such as ‘Cleanskins’. A second or fighting brand is defined as one designed to combat low price competitors while protecting an organisation’s premium-priced offerings (Ritson 2009).

2.2. Line extensions

The brand literature emphasises brand extensions (extending the brand into a different category) as a way for firms to leverage value of their brands. Brand extensions have the benefit of not encroaching on sales within the parent brand category. However, line extensions (a new product from the same brand but within the existing product category) are a more frequently utilised new product strategy as far as wine producers are concerned. Line extensions can be beneficial as they address the consumer's need for variety, have minimal risk for the company, allow a brand to be offered at several price points and often solve excess raw material supply problems. Many line extensions differ only marginally from the flagship product and are known as horizontal extensions.

However, because of the similarity of the line extension to other brands in the portfolio launching a horizontal extension may cannibalise existing sales. Keller and Aaker (1992) found that unsuccessful extensions did not affect the parent brand but that cannibalisation of the parent brand sales exists. Reddy et al. (1994) showed that line extensions of strong brands are more successful than weak brands and that the incremental sales of a line extension compensates for any parent brand cannibalisation. Mason and Milne (1994) consider although range cannibalisation is a problem, there are competitive benefits as line extensions can pre-empt the competition and protect the portfolio overall.

Large cannibalisation rates within the brand portfolio indicate that the portfolio may be appealing to the same group of customers. On the other hand, a brand portfolio with low cannibalisation rates may have a range that appeals to a more diverse group of customers. Thus careful market segmentation by the wine producer can reduce the amount of cannibalisation within the portfolio. In addition to this cannibalisation risk, because of this closeness or “fit” to the parent brand, inconsistent line extensions such as an inferior quality product not only could undermine its own success, but could also potentially damage or dilute the parent brand.

2.3. Vertical extensions

When introducing a second brand not only is competitive (inter-brand) differentiation important to consider but wine producers also need to take account of (intra-brand) differentiation within the portfolio. The introduction of second brand is an example of a vertical extension. Aaker (1991) identifies two types of vertical extension: an upscale extension or a downscale or step- down strategy. For wine brands an example of an upscale extension from Pernod Ricard in New Zealand is “TOM” an ultra premium-priced wine. This firm is more well known as a producer of the lower priced Brancott Estate and Montana wine brands. A downscale extension example includes the low priced Wild Rock range launched by premium New Zealand producer Craggy Range. Thus a wine producer’s portfolio often consists of a range of upscale and downscale brands.

Kim et al. (2001) suggest that the introduction of a downscale strategy leads to a reduced evaluation of the flagship brand. To overcome any negative effect on the flagship product, the wine marketer should consider some distancing techniques between the second brand and the flagship brand. The further the perceived distance of the second brand is from the flagship brand the less impact there is on the established brand. The closer the second brand is to the flagship the more likely the parent brand would be affected. Kim et al.’s (2001) research shows a flagship brand with a prestige image is negatively affected when a down-scale extension is introduced alongside. In addition, the second brand is less favourably evaluated the greater the distance from the parent brand.

Wilcox et al. (2008) showed that brand awareness was more important to the long-term survival of wines brands than perceived quality. The choice of brand elements utilised for a second brand and their relationship to existing lines are important in creating customer brand recognition and recall. Often a brand portfolio consists of one or two well-known lines (sometimes known as flagship products) and many lesser-known variants. Research shows that the flagship brands are relatively immune from inconsistent line extensions (Glynn and Sandhaug 2009). However, these inconsistent line extensions can lead to negative consumer evaluations of lesser -known variants within the portfolio.

The other issue is how a second brand affects products outside the brand portfolio. There have been few studies which examine second brands in the wine context. Speed (1998) found that if the second brand was of a lower quality then cannibalisation occurs within the entire range. However Speed (1998) found that wine producers seek to minimise risk and capture the benefits from the parent brand. When quality was high, wine producers felt it more prudent to include quality similar to existing brands in their second brands. With lower quality line extensions there was a risk of common branding harming the existing brands in the portfolio. Wine producers can therefore use the branding elements to decrease or increase the association between the second brand and the existing portfolio. Research shows that a new brand entrant can affect how existing brands are perceived. If a second brand is positioned outside existing brands then existing brands are more likely to be seen as similar (range effect). However if new brand is too close to an existing brand then the existing brands are seen as less similar (categorisation effect) (Pan and Lehmann 1993).

As well as quality, pricing is important for second brands as consumers are interested in value. Research shows that high quality brands have a positioning advantage over lower priced brands on promotion. This advantage is manifest when second brands are in different price tiers. Moreover, it is easier to change prices in the short term rather than quality. Promotions involving second brands and the flagship product are asymmetric as the flagship product gains more from a price reduction than second brands. Competition within the portfolio is more intense when brands are closer in price. In terms of pricing management, higher priced brands are more immune from the effects of price increases than lower tier brands are (Sivakumar 2000) while price reductions hurt stronger brands less. Flagship products appear to benefit from deep price cuts, while second low tier brands benefit more from everyday low pricing. Furthermore, a quality increase of a lower tier brand will hurt higher tier brands. However Bronnenberg and Wathieu (1996) show that the lower priced brand can benefit from price promotions especially if it is underpriced (has a positioning advantage) and has a lower brand distance in terms of price/quality versus flagship products.

3. DEVELOPMENT OF CONCEPTUAL FRAMEWORK

3.1. Brands as Market-Based Assets

Previous research into brand portfolios focuses on financial value of strong brand equity. However, a broader context is emerging that takes into account the brand within the brand value chain (Keller 2008). This perspective shows the impact of the brand's marketing programme on customers, the marketplace and shareholder value. The quality of the marketing programme including the brand elements and communication can enhance the customer disposition towards the brand or brand equity. Furthermore external conditions such as competitive reactions, retail support and secondary brand associations such as wine competition results influence marketplace success. Thus, brands provide firms with a valuable resource in managing external relationships (Srivastava, Shervani and Fahey 1998) with end-customers and business-to-business customers and. These brand resources are known as market-based assets and enhance firm knowledge, manage marketing expenditure allowing complementary resources from other parties such as retailers to be better utilised.

3.2.Market and company related factors

Several conceptual frameworks explain the determinants of line extension success. Reddy, Holak and Bhat's (1994) conceptual model considers parent brand characteristics, marketing support for the extension and firm characteristics as being important. Nijssen (1999) also included competition, retail buying power, and the variety seeking behaviour of consumers. However, these frameworks do not address the brand portfolio effects of the second brand introduction nor the effects of external influences in the market such as channel support. For second brands, obtaining channel commitment is necessary.

3.3. Channel support

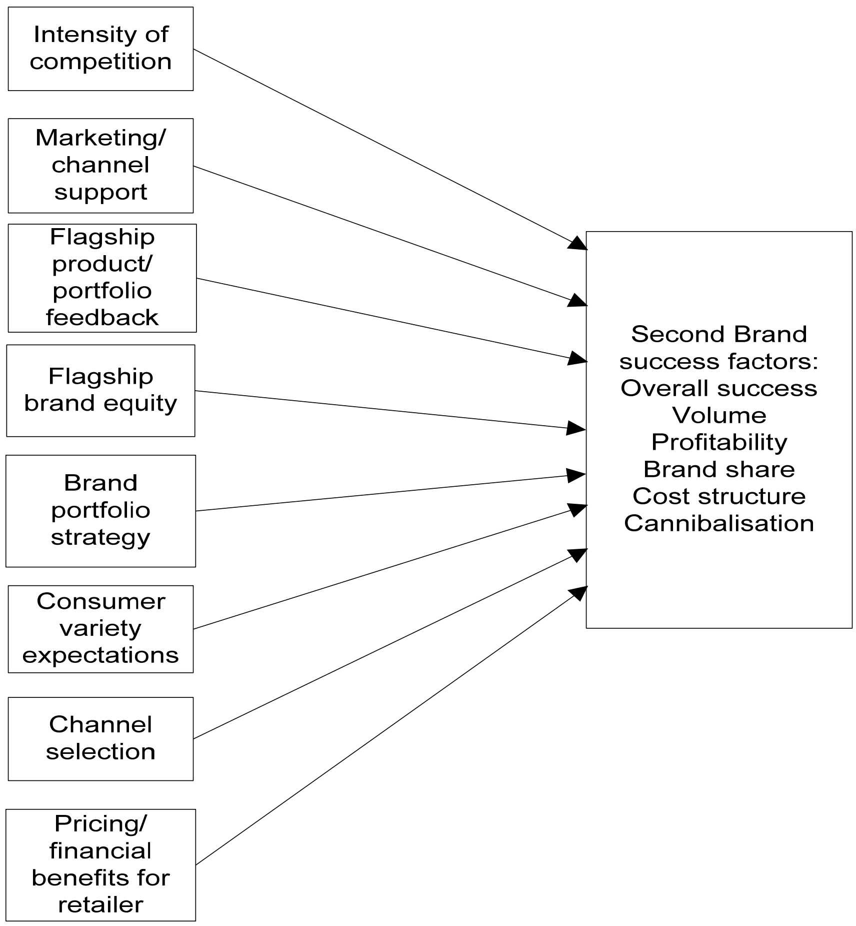
To optimise channel support for a second brand, wine producers need to be aware of the governance mechanisms within channel relationships. Ghosh and John (1999) identified the impact of governance types and firm resources, including brand equity, on the outcomes of a business relationship. They showed that resources such as brands have a different impact on firm performance, depending on the governance strategy that is used. Firms with brands that have strong brand equity with the end-customer can better use market demand as a governance mechanism. However, it may be more advantageous for firms with second brands to use relational governance and form strategic partnerships within wine channels, as second brands have less brand equity. Thus introducing a second lower priced brand may require a different strategy with key retailers as the wine producer is not able to rely on brand equity to pull the product through the channel.

Moreover, retailers consider the financial benefits of brands to be important (Glynn, Motion and Brodie 2007). This research, which included wine retailers found that second brands needed to provide a good margin. The financial benefit of a potential brand was also assessed in relation to a success measure, sales volume, within the category. Another consideration for retailers is the marketing support for the brand. This support not only includes consumer advertising but also support of the wine retailer's own (coop) advertising, merchandising support such as on-premise tastings, and the importance of the brand with the wine category as well as the provision of marketing information such as market trends. Other considerations were brand equity and likely customer expectations that retailer would have the brand in-store. Channel support is vital as research demonstrates that retailers can modify consumer evaluations of flagship and second brands through in-store display and features (Lemon and Nowlis 2002). By regarding second wine brands as a resource within the portfolio, the antecedents of success must take into account the company perspective, the channel as well as the market place.

3.4 Conceptual framework

In figure 1 the conceptual framework shows the antecedents of second brand success including competitive, marketing support, brand portfolio considerations, channel considerations including retailer financial benefits and channel type as well as consumer expectations (adapted from Nijssen 1999; Glynn, Motion and Brodie 2007). The success factors of a second brand can be measured through overall success, sales volume, profitability, market share cost structure and levels of sales cannibalisation within the portfolio. Figure 1:

<u>Figure 1 Antecedents of Second Brand Success</u>



4. CONCLUSION

Second brands allow wine producers to counter low-priced competition, protect the value of other brands in the portfolio and address supply issues. As a market-based asset, brands not only have financial value for the firm, but also allow firms to better manage relationships with channel customers. The second brand is a down-scale vertical extension and carries potential cannibalisation risks as well as negative feedback on existing lines within the portfolio. Thus careful management of brand elements within the brand architecture, quality and pricing is vital in managing these risks. Empirical research also shows that second brands are not necessarily at a disadvantage as retailers are focused on financial benefits of brands within their assortment. The antecedent in the above framework not only includes market and company considerations, but also channel support which affects customer expectations of second brands.

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