When Brand Power Threatens Brand Extension

There are two brands that I deter my MBA students from referring to in class. The first is Coca-Cola. Quite simply, Coke is the alpha of branding. And any reference to Coke usually ends up ridden with cliché's and strategically void. If anyone ever begins a presentation on brands by talking about Coke you are in for a dull ride.

The second unmentionable brand is Virgin. Inevitably the Virgin name comes up as soon as the topic of brand extensions and portfolios is mentioned, primarily because Virgin has been involved in more brand extensions than any other major brand in the past 20 years. The resulting portfolio of more than 200 different corporate entities breaks every established strategic guideline for extension and my students love nothing more than asking: "But how do you explain Virgin's success?"

The simple answer is that I do not have to, because although Virgin does indeed extend its brand a lot, it rarely does so successfully. Fortunately for Virgin, Sir Richard is a consummate showman. Most business journalists confuse prevalence and proliferation with performance and power. Superficially at least, a brand portfolio that includes radio, beverages, cosmetics and airlines is a testament to the power of the Virgin brand.

The launch of Virgin Mobile USA as a joint venture with Sprint PCS merely extended this remarkable track record while further obscuring the sad truth at the core of the Virgin brand.

The purpose of brand extensions is not to exist but to generate value for the customer, the organisation and its stakeholders. Virgin rarely clears the latter hurdle. For every Virgin Atlantic or Virgin Music Group there have been numerous failures such as Virgin Cola or Virgin Mobile Singapore. Unfortunately the successes in music or flights are sold off to support the failed ventures. The foray into the US telecoms market is being funded, for example, by a loan against the remaining 51% of Virgin Atlantic that Branson still owns.

There are two questions any brand must pose when considering an extension.

The first is whether its brand equity is appropriate and therefore extendable to a different sector of the market. According to Dan Schulman, chief executive of Virgin Mobile USA, "While the Virgin brand is fun and irreverent, it's also about making sure customers get the very best experience possible. With associations like these almost any market is appropriate for a Virgin entry. But the second crucial question that needs to be addressed is: can we make money there? Just because a brand can be extended, does not mean that it will also automatically succeed against forces such as competitors, scale economies and supplier relationships.

The problem for Virgin is that its brand is so extendable that a positive answer to the first question obscures the fact that it can rarely realistically answer the second. Virgin Cola is perhaps the most stunning example of an inability to see both sides of the brand extension issue. Only time will tell whether Virgin's cash cows can continue to supply the nourishment for its stable of failures.

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COMMENTS

Mark,

I found your short comments on how Virgin extends its brand to be rare and thoughtful. The Virgin group of companies only has only 2 real success stories (Virgin Atlantic and Virgin Mobile UK), and the rest is smoke and mirrors. Kudos to Sir Richard, a true marketeer and self promoter. But as you state, the road is littered (especially in North America) with failed Virgin companies and burned finance partners. TPG lost their shirts on Virgin Entertainment (Virgin Megastores in the US) and has vowed never again to work with Branson. Virgin drinks shut down after a couple of years. As you note, Virgin Singapore never got off the ground and most of the non-airline companies, though still operating, are not leaders in their respective markets. Virgin Mobile USA (a company I know well) is on the verge of being delisted from the NYSE.

The standard model for Virgin is to bring trade to the brand for capital when launching a new line. In the case of Virgin Mobile, Singtel put in $50 million before pulling the plug. In the US, Sprint PCS, Best Buy, and holders of $600 million in debt, will be left holding the bag after the MVNO closes its doors.

A truly thoughtful discussion in your class would be one that asks the question, "How does Branson continue to convince other entities to risk their capital, when there are so few examples of success?"

Regards,

Robert

Posted by: Robert Hatta | December 10, 2008 at 12:17 PM

Brand extensions tend to serve the company and not the customer. It's sad how the pressure from stock markets to always be growing causes good business to over extend and fail. Google, for example, is stretching its limits too hard by moving into the mobile business. The brand is associated with content not stuff. It may be all right in the short term, but it'll cause brand dillution in the long run...

It takes a lot of time to fix an idea inside the prospects mind. Why should we play with it?

Focus is still the magic concept because we do business with whom we trust and admire. In this case, trustness means specialization.

Great brands stand for a word in the mind rather than 4 or 5.

Cheers