



What Is Brand Extension?

Brand Extension 17 minutes reading

Illustration: Midjourney

" TLDR: Explore new markets and drive your sales with a winning brand extension strategy. With our guide, you'll learn exactly what brand extension is, how it works, and how to get the best results.

Brand extension explained

Let's take a deep dive into brand extension and how it can help grow your business

If you're looking to grow your brand or business in 2024, brand extension could be the winning strategy you haven't explored yet. But before you decide to jump in with both feet, you'll need to get to grips with the different terms, the different types of brand extension – of which there are a fair few – and learn from the brands that have tried and succeeded spectacularly, as well as those who've tried and failed in a similar fashion.

From brand licensing to brand extension

Brand licensing is a business arrangement where a company (the licensor) grants permission to another company (the licensee) to use its intellectual property. The property could be a name, likeness, logo, graphic, saying, signature or character.



It's one of the best ways of creating an experience for customers to engage with the brands they know and love in day-to-day life. And while it's reasonable to think that the licensing industry begins and ends with toys and games, it's actually much broader than that. Its scope and reach extends across a wide range of product categories such as clothes, footwear, homeware or FMCG items like food and drinks as well as services and entire media partnerships in games, movies and TV.

And while both brand licensing and brand extension involve leveraging a brand's established image, they differ in the entity that's responsible for developing and selling products under the brand name.

What is brand extension?

Brand extension is when a brand ventures into a new, previously unexplored category than its original business. It's a way of using an already established household name or image to introduce a new product or product category to an already existing customer base.

Often brand extension means creating a product that's in some way related to its 'parent' product. But sometimes brand extension could refer to when a brand has gained just enough traction within its original market so that it now has enough cache to move into new, uncharted territory. This can sometimes be due to having already saturated its original market and it's time to try something new and break into a brand new market altogether to provide a whole new revenue stream.

Whether or not the new product is marketed alongside the 'old' product wholly depends on what the two products are.

From line extension to franchising – what are the brand extension types?

There are lots of ways you can employ brand extension to grow your brand. And not all attempts at brand extension are created equal. No, no. They all come with their own unique list of pros and pitfalls, so by understanding the nuances of brand extension, you can better work out which type would be best for your brand. Here we've broken them down for you:

Line extension – there are two different types of line extension:

Product extension – this can be as simple as introducing different variations of your core product within the same category, like new flavours, sizes, or features (e.g. Coca-Cola with different flavours).

Category extension – offering products that complement your core brand so that these two products can be used together (e.g. Colgate expanding from toothpaste to toothbrushes).

Derivative extension – entering a completely new category related to the core brand's image or target audience (e.g. Nike venturing into fitness trackers).

Co-branding – partnering with another brand to create a joint product (e.g. Starbucks and Spotify teaming up for coffee shop playlists).

Licensing – allowing another company to use your brand name on their product (e.g. Disney characters on clothing).

Franchising – where a company grants the right and licence to another individual or entity (the franchisee) to operate a business under the franchisor's brand name and system.

Brand extension for brands and marketing – what is it good for?



By exploring new categories but with a recognisable image, brands are able to tap into new customer segments and expand their market share. Remember when Nike moved into creating fitness apps and manufacturing headphones having started out selling trainers and t-shirts? That was them extending their brand from clothing and footwear to a more tech-savvy audience, diversifying their portfolio and customer base in the process.

They were able to do that because a strong big-name brand like Nike has a built-in, solid reputation that gives them the upper hand. Brand extension allows them to capitalise on these positive associations to launch new products with an inherent advantage over unknown brands – an unknown tech brand would have less credit in a marketplace that they might specialise in than Nike would.

Another way the likes of Nike can get ahead of the pack is because launching a new brand requires significant marketing investment. Brand extension benefits from existing brand awareness, reducing promotional spending needed to establish the new product, which reduces the risk for a big name like Nike.

Not only that, but successful extensions could mean those newly adopted customers becoming loyal to the overall brand as a result, purchasing the 'parent' product as well as the product that was born of the brand extension. For example, Apple's success in marketing and selling the iPhone, with its sleek design and user-friendly interface, created a positive "halo effect" that extended to other Apple products, including MacBooks and AirPods.

Consumers who were happy with their iPhones were more likely to trust and be interested in other Apple products building a loyal ecosystem of users. Why? Because it was assumed that similar products would have the same level of quality and experience. And they were right.

Now of course the iPhone's success wasn't the sole reason for growth in sales of the MacBook and AirPods – other factors like innovative product features, effective marketing campaigns, and competitive pricing also played a significant role. But the success of the iPhone undoubtedly served as a springboard by using brand loyalty to drive sales of other Apple products.

But enough about Apple! In the following blog you'll learn the ifs ands and buts of brand extension: the pros, the cons and the who knows what's. So let's explore the rules for success, the brands that have followed them and won, and those who haven't.

Advantages of brand extension – building brand equity

When a brand decides to utilise brand extension to grow their business, they're borrowing the trust and recognition from the established parent brand to launch a new product or service. A corporate 'leg up' if you like. Piggybacking on the success of their older, wiser parent. I suppose it's nepotism for brands, really and the licensing industry is the Nepoverse.

It helps reduce the massive risks associated with launching a brand new product in a sector or category that the brand or company is new to. It also leads to an immediate feeling of trust and faster adoption from consumers.

These positive emotions consumers feel, and the values associated with the core/parent brand, can often be transferred to the new product: if your brand is known for producing high quality products where quality control is paramount, it could be assumed that the new product would subscribe to the same values of high quality.

Successful extensions can strengthen the overall brand image by showcasing its versatility and ability to innovate, adding another dimension to what the brand can do. This can attract new customers and talent, further solidifying the brand's position in the market.

Successful brand extension example: George Lucas and his Star Wars empire



The influence of Star Wars transcends the boundaries of the film industry. It's a cultural phenomenon. One of the highest-grossing franchises of all time, Star Wars and its many spin-offs has grossed over \$10 billion globally.

But back in 1977 nobody knew how successful a sci-fi film from a relatively unknown filmmaker would be. Except maybe director George Lucas, because he secured a groundbreaking deal with 20th Century Fox to grant him perpetual merchandising rights for it.

This meant he would receive royalties on every single piece of Star Wars merchandise sold from then until the end of time, a decision that proved incredibly lucrative in the long run.

Driven by a desire for greater creative control following his debut film THX 1138, he founded Lucasfilm in 1971 as a way to maintain control over his future projects. Unlike many creators who relinquish control over their work, Lucas maintained tight control over the Star Wars brand and licensing to ensure the quality of licensed products and the integrity of the franchise were protected.

Licensing hasn't just been limited to just toys. Lucasfilm ensured consistent revenue streams from various merchandise categories. Star Wars imagery and characters appear on clothing, video games, theme park rides, and countless other products. This diversification further expanded revenue streams and solidified Star Wars' cultural footprint, becoming deeply embedded in popular culture.

And this all because Lucas had the foresight to think long term. He understood the potential of Star Wars and his initial licensing deals, while seemingly low at the time, secured ongoing income for decades.

Disney acquired Lucasfilm in 2012 for an eye-watering \$4.05 billion. This deal not only gave them the rights to Star Wars but also Indiana Jones and other Lucasfilm properties. It was a major turning point for both Disney and Star Wars. Disney gained a hugely popular and lucrative franchise, while Star Wars was given a refresh, with the potential for new films, TV shows, and everything else. Star Wars now generates between \$2-3 billion in total retail sales for Disney every year.

How to spread your brand extension wings and fly with Red Bull

Now Red Bull's an interesting one. Obviously they're best known for their energy drink, but they've got their fingers in all sorts of pies these days.

But they're a company that hasn't really done the whole brand extension thing in the traditional sense at all. Instead, they've opted for a unique approach: building a lifestyle brand around the core values and image associated with their brand. And they've done it exceptionally well.

The easy route would have been for them to branch into different flavoured drinks or move into alcohol, but they haven't done that. Instead they ran with their 'gives you wings' ethos by sponsoring extreme sports and other less extreme sporting ventures, places where you can see real world examples of their drinkable energy working wonders.

Football being a good example of this. Red Bull's move into football ownership – starting in 2005 with SV Austria Salzburg – was a bold brand extension strategy. They now own five clubs – Red Bull Salzburg and FC Liefering in Austria, RB Leipzig in Germany, New York Red Bulls in the United States and Red Bull Bragantino in Brazil – renaming them to carry some form for the Red Bull name in the process (with feeder club FC Liefering the exception).

The company's approach to each club varies, with some having deeper integration with the Red Bull brand than others, but football's massive popularity allows Red Bull to build brand awareness and loyalty in diverse markets. Red Bull Salzburg is a dominant force in Austria, and RB Leipzig has achieved success in Germany.

But it's not just about filling trophy cabinets because owning clubs offers unique marketing opportunities. From stadium branding to player sponsorships and content creation, Red Bull also nurtures emerging talent through its academies, further boosting brand exposure.



Overall, Red Bull's football club ownership has been a successful brand extension strategy, building global brand awareness and association with excitement and performance.

Red Bull has also invested in other sports like Formula One, extreme sports, and esports, further solidifying its image as an adventurous and action-oriented brand. Felix Baumgartner's record-breaking jump from space, sponsored by Red Bull, perfectly exemplified pushing boundaries and achieving the impossible.

The mixed bag of Virgin brand extensions

The brand extension journey of Virgin is a bit of a mad one. The company started out as a record shop and is now taking people into space. And I think you've got to give them some extra points for just how completely nuts a sentence that is.

Virgin was founded by Sir Richard Branson in 1970 when he opened Virgin Records in London. Virgin Records was a successful business, and Branson used the profits from the store to start other businesses, including a record label and a mail-order record company.

Then in the 1980s he started to expand into other industries, namely air travel and financial services. He founded Virgin Atlantic in 1984 and Virgin Money in 1995. These businesses were successful, and the Virgin brand became known for its innovative approach to business and its commitment to customer satisfaction.

Yes, there was a huge risk of brand dilution here. And not all of Branson's ideas were a hit. Since the late 1990s, many of Virgin's brand extensions have fared rather poorly – such as Virgin Cola, Virgin Vodka, their utilities business, train services, computers, cosmetics, mobile phones and bridal shops.

No. Really. Virgin launched Virgin Brides in 1996, with Branson himself modelling one of the dresses. It clung on to its final store, in Manchester, until 2007.

"I think because there aren't many virgin brides, it never really took off," Branson remarked.

But today, the Virgin brand encompasses a wide range of businesses in industries such as travel, health and wellness, entertainment and technology. Virgin Galactic, a subsidiary of Virgin Group that was founded in 2004 with the goal of developing and operating commercial space flights.

Virgin's use of brand extension paints a complex picture. While they've achieved some notable successes, numerous failures and potential brand dilution raise concerns. It serves as a mixed case study, highlighting both the great potential and possible pitfalls of aggressive brand extension.

Ultimately, judging Virgin's success depends on your definition of success. If it's the sheer number of ventures launched, they'd win first prize. But if it's consistent financial success and maintaining a strong brand identity you want to focus on, the answer's slightly more ambiguous. So we'll leave that one for you to decide.

To summarise, by carefully weighing up the benefits and risks, and implementing a strategic approach unique to your brand and your customer's needs, brand extension can be a valuable tool for brands to reach new heights. But not every brand extension is a licence to print money and win new fans. Lets take a look at what happens when brand extensions don't work out as intended.

Something smells fishy - Harley Davidson provides a lesson in staying authentic

Harley-Davidson, known all over the globe for being a brand leader in the world of motorbikes, currently brings in an annual revenue of approximately \$790 million. However, that doesn't mean they do everything each and every single time.



The brand managed to misunderstand its core audience and their values in quite spectacular fashion when they released an eau de toilette called 'Hot Road' under the brand name 'Legendary Harley-Davidson'. No, seriously.

Launched in 1996, Hot Road paved the way to failures as the company attempted to challenge their brand loyalty by releasing a perfume that boasted the unmistakable scent of tobacco.

Now a perfume that honks of tobacco has an obvious drawback – and it's the smell of tobacco. But another backlash came from female bikers who were shocked at the stereo typicality of the perfume, as Harley-Davidson claimed the perfume to be a "masculine" product, proving to be utterly ironic, considering a wide percentage of bike-owners being female.

Quite rightly, the perfume was seen as inauthentic as it clashed with the rugged image of the brand and discontinued due to poor sales and negative feedback.

Mr.Beast fanned the flame grill of fandom - but ended up with burnt fingers

Bringing us right up to date, at the time of writing, we're seeing the emergence of creator led personality brands. Licensing is beginning to shift to a paradigm of fandom replacing a top down approach to brand extension to one driven directly by the needs of fans.

MrBeast is pretty much Mr Social Media. Real name Jimmy Donaldson, MrBeast ought to be a complete shoe-in for brand extension. With over 240 million subscribers, he's the most-subscribed person on YouTube and the second-most-subscribed channel overall (behind Indian record label T-Series with over 261 million subscribers as of March 2024).

One of his first moves was the launch of the MrBeast Burger chain, now reckoned to generate annual revenues of \$100m. But last year Donaldson took the company behind his fast food chain to court, suing them for making sub par food with his username slapped all over it, which he must feel damaged his brand

He first partnered with Virtual Dining Concepts in 2020 to launch MrBeast Burger out of 'ghost kitchens', which are kitchens that exclusively prepare orders for food delivery services like Deliveroo and UberEats.

But both parties have been left with a bitter taste in their mouth, with MrBeat claiming the company has "irreparably harmed" his reputation, and having asked a judge to give him the right to terminate the arrangement.

Consumer perception and acceptance

When it comes to brand extension, consumer perception and acceptance are absolutely crucial factors for success.

Consumers assess how well the extension aligns with the core brand in terms of values, quality, and target audience. If you take your shot and miss, the results could be pretty devastating. A mismatch can lead to confusion amongst your consumer base and ultimately, rejection. And that's exactly what you don't want.

The overall reputation and image of the core brand heavily influence consumer expectations and willingness to try the extension. One way of maintaining this is with clear and consistent communications that convey the USP's of the new product while maintaining a clear enough link to the parent product and the characteristics the two products or brands have in common.

One way of making sure you've nailed the balance of the two is through thorough market testing. It's imperative that any new concept has been put through its paces before sent out into the world. Throwing the cat amongst the pigeons is not the way to go!



Your best bet is probably to start by finding out what brand extensions your audience actually wants from you. Some brand extensions are pretty obvious, like Colgate making toothbrushes after solidifying its place as one of the biggest manufacturers of toothpaste. The best way to talk to relevant consumers in your market and out what needs they have that aren't being catered for.

What does the future hold for brand extension?

Perhaps unsurprising from an agency that specialises in brand extension, we think that the future of brand extension looks promising.

As consumers continue to seek new and exciting experiences from the brands they know and love, these brands will need to go above and beyond simply plastering their logos onto any conceivable product they can think of. True innovation is the thing that gets brands noticed and disrupts the status quo. Virgin appealing to a young, affluent audience in the stuffy airline industry was fresh once-upon-a-time, however things have moved on, possibilities have opened up and how people consume has changed.

Take Sidemen, a collective of British YouTube creators made up of internet personalities KSI, Miniminter, Zerkaa, TBJZL, Behzinga, Vikkstar123, and W2S, who rose to fame among gaming fans who enjoyed watching them play computer games. It's a huge phenomena that has exploded over the past decade on platforms like Twitch.

Over time the Sidemen have diversified and the channel publishes highly produced longform videos about anything from eating and travel challenges to entertainment on a weekly basis, racking up around 10 million to 62 million views and making them rather bloody rich in the process. From apparel collaborations with Sponge Bob and Hot Wheels to fast food ventures, Sidemen have converted their likes and subscribers into lucrative deals and very real cash.

But let's not leave all the fun for the kids, brand extension has also exploded in more traditional sectors in recent years. Following the onset of the pandemic, the Museum & Heritage sector have seen visitor numbers consistently rise each year, currently standing at 24.4% higher than the corresponding period last year. From the perspective of licensing and consumer products, the museum and heritage sector has demonstrated a steady growth in prominence, influence, and backing, both from licensees and in retail circles by expanding their horizons. In 2016, the British Museum granted exclusive rights to sell licensed products to the Chinese firm Alfilo Brands, resulting in numerous partnerships with Chinese companies and contributing to the substantial growth of their merchandise programme increasing from £21.5m in 2018 to £37m in 2019.

According to a global licensing industry study by Licensing international, sales revenue generated by licensed merchandise and services grew to \$340.8 billion in 2022, an 8.02% increase over the \$315.5 billion generated in 2021. The entertainment and characters sector remains the largest property type at \$138.1 billion (a 40.5% share) however approaches to traditional brand extension are changing.

We see this accelerating as the audience grows and the tools to reach them continue to be democratised. Thinking of the future of Licensing and Brand Extension always brings us back to the fans. We are an industry based in fandom, what we do wouldn't exist without them. What was once the preserve of the likes of George Lucas and Richard Branson, top down brand extension is now available to many more sectors. With the rise of creator brands, AI media production, white label product development and social selling on platforms like TikTok Shops the future of brand extension looks like it will be in the hands of the individual fans.

Let's see what Skew can do for you

During our 20 years in the business we've witnessed and been part of creating some incredible brand extensions, it's our bread and butter so to speak. We're obsessed with effectiveness within creative and help brands expand using our tried and tested strategic approach. Get in touch today to drive sales, unlock new opportunities and take your brand to the next level.



If you're not ready to take the plunge today but want to try Skew on for size, sign-up for a bi-annual one-day masterclass here. During this bespoke workshop you'll be coached by our expert team to crack a particular brand challenge and receive expert insights from our team.

P.S.

A quick message from the marketing team at Skew. The illustration for this blog was created in Midjourney and inspired by the future of Brand Extension being based in Fandom. The prompt was, 'two teenagers playing video games, retro-futurism, 1970's'. We've used Midjourney in this instance to create an image because we didn't want to have yet another stock image of a person in beige office wear laughing at salad, we think the internet has enough of those. We appreciate the complex issues that come with 'creative' AI and want to use this new technology to enhance what we do, not replace it.



Written by

Sara Bignardi

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