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***How Do Franchise Extensions Differ From Other New Products?***

Differentiation of franchise extension from other new product forms is best understood by looking at opportunities from the standpoint of the parent firm (Exhibit I).

- " When a new entry employs a new brand name and the product or service is in a category new to the company, this is a traditional new product.
- " If the item employs a new brand but is introduced into a category where the firm already has a market position, it is called a flanker brand. Ralston Purina's entry of Butcher's Blend Dry Dog Food is a flanker to their Dog Chow line.
- " Line extensions represent new sizes, flavors and the like where the items use an existing brand name in a firm's present category. Ragu's Italian Cooking Sauce is an extension into their line of other bottled spaghetti sauces.
- " In contrast to these three, franchise extensions take a brand name familiar to the consumer and apply it to products that are in a category new to the parent firm. In effect, a franchise extension is one method for a company to enter a new business through the leverage of its most valuable asset—the consumer awareness, good will, and impressions conveyed by its brand name.

***How Can Franchise Extensions Provide a New Way of Looking at One's Business?***

The process of exploring franchise extensions represents a reasoned approach for selecting what new categories a company might enter. Inherent in this process is the *identification of alternative definitions of what business we are in*.

Levitt highlighted this basic strategic question in his now classic paper, "Marketing Myopia" written almost 30 years ago. He challenged management to think broadly about what was or could be their realm of domain pointing out the failure of the railroads to recognize they were in the transportation business. The result was missed opportunities and stiffer competition from other transportation carriers. What he did not do was to provide guidelines or research techniques to aid management in determining how to define their business and what product or service categories to include.

Levitt's example suggests that railroads should have defined their business in terms of all competition that would supply similar transportation service. This is only one way of redefinition. For example, Exhibit II reveals some alternative business definitions adopted by various firms that are active in franchise extensions. BIC has defined its business, not by competition to pens, but instead by a product attribute—disposability. Sunkist has limited its extensions to products that have an orange flavor association. Thus, there are many creative ways for any firm to define its territory. It is important to note that investigating franchise extensions will likely result in offering new ways of looking at one's business.

***What Are the Benefits of Franchise Extension?***

Extending a franchise offers a number of benefits versus traditional new product development.

- The major one is that it capitalizes on the company's most valuable assets—the brand names. Thus, the company moves into a new category from a position of strength—the immediate consumer awareness and impressions communicated by the brand.
- " A further benefit is that investment outlays, that are typically necessary to establish a new brand, are minimized. A significant expense with the clutter of brands and increased costs of mass media communications.
- " An important related payoff is that introduction of a franchise extension can increase sales for the parent brand. The advertising and heightened awareness of the new entry can have a synergistic rub-off on the original product. This corporate or umbrella effect can create important advertising efficiencies.
- " Finally, there may be reduced risk of failure of the new item when the brand name already strongly conveys benefits desired in the new category.

### ***When is Franchise Extension Inappropriate?***

Franchise extension is not without risk. In fact, its major strength¾ capitalizing on a previously established brand name¾ also reflects its number one risk:

There are a number of conditions that can contribute to franchise deterioration. What might appear to be “a natural” extension short term should be pursued with caution as most deleterious effects to a franchise occur gradually over time. Brands like General Electric, Betty Crocker, Quaker, and Gillette have been extended profusely. While they have not lost their awareness as household words, the strong associations they once had to specific products and related qualities (e.g., television, cake mix, oatmeal, and razors) may be diluted.

For these reasons we believe *franchise extension is always inappropriate*:

- ü When a brand name is used almost synonymously with a specific product (e.g., Kleenex = facial tissue; Scotch Tape = transparent tape; Band-Aid = adhesive bandages). The great lengths to which manufacturers go to protect their trademarks from being judged legally generic testifies to the market value such brands possess. The only thing worse than competitor’s breaking this brand-product link in the consumer’s mind is when a company does it to themselves. Tab is a sugar-free cola. Now the Coca-Cola Company offers Tab in six flavors.
  
- ü When the new item creates confusion for the parent brand.
  
- ü When the new item creates negative imagery for the parent brand.
  
- ü When the new item’s failure would seriously affect the parent brand. Some years ago, Carnation Company announced its intent to introduce a contraceptive dog food, Lady Friskie. If this medicated product generated any adverse publicity, even in an isolated test market, sales of the parent brand (Friskies) could be impaired. In recent announcements, the name has been referred to as Extra Care.

### ***How Is the Approach to Franchise Extension Different From Traditional New Product Work?***

There are at least four substantial differences between franchise extension work and traditional new product development.

- .Start with a given brand and consumer perception.
- .Need for determination of the brand’s leverage in alternative product categories.
- .Focus on positioning and competitive gaps; less on technological breakthrough.
- .Need for specialized research tools.

### ***How Are Franchise Extensions Identified?***

Identification of franchise extensions is analogous to generating alternative definitions of what business we are in. One may approach this with techniques that define the business by:

- What other items are purchases by current brand buyers?
- What are the meanings and associations of a brand from a consumer perspective?

### ***Franchise Extension Search***

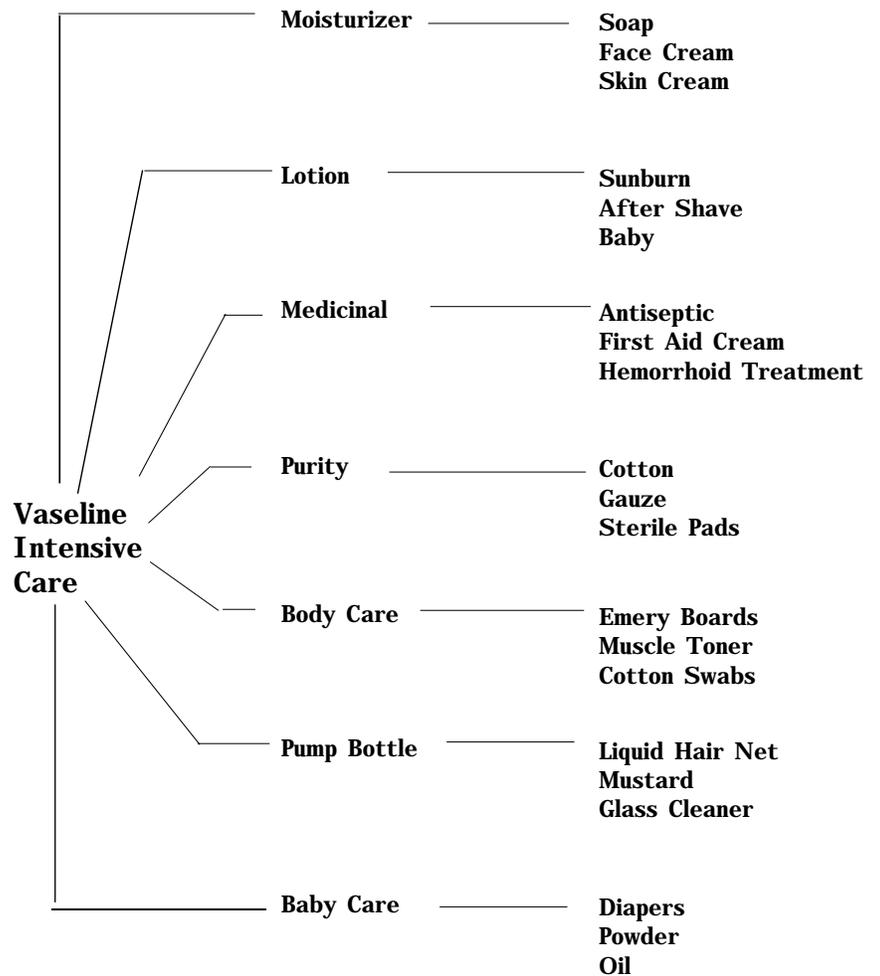
Implicit in Levitt’s concept of how to define one’s business is the notion that it should go beyond product description (railroads) to benefits, attributes, meanings and associations. Our Franchise Extension Search is based on this concept of “What’s in a Name?”

It begins with a two-stage qualitative group session employing bright, articulate consumers who have the ability to think abstractly. No attempt is made to locate the average or a “representative” group.

During the first half of the ideation session, consumers generate meanings and associations surrounding the brand name. The group leader probes with questions such as: What benefits, features, attributes, uses, occasions, physical characteristics, users and any other associations. Exhibit IV is a limited example of the types of associations generated during the first stage. Each association is a possible way of more broadly defining what business we are in.

In stage two, the consumers are asked to identify product or service categories that are related to each association. Probes to aid participants are questions such as? What categories, similar products, substitutes, companion products, products purchased at the same time, products bought to accomplish the same thing, and so on.

Exhibit II is a condensed version of the output from a franchise extension search for Vaseline Intensive Care. The brand leads to alternative definitions of the business (moisturizer, medicinal, body care, etc.) and each definition has a list of related product categories. Each chain represents a potential franchise extension. For example, one option is to define the business as offering lotions and extend with Vaseline Intensive Care Sunburn Cream or Vaseline Intensive Care Baby Lotion, etc. Whether any of these extensions is appropriate or which is the “best” idea is the subject of the next technique.



### ***How Are Franchise Extensions Evaluated?***

Earlier, we discussed our assumptions of when a franchise extension is appropriate. Three criteria were mentioned which relate to consumer perception:

- When the consumer would perceive new items to be consistent with the parent brand.
- When the parent brand provides leverage in the new category (versus existing competitors).
- When the benefit of the parent brand is the same one offered and desired from the new franchise extension.

The criteria comprise the basis for the techniques for evaluating alternative franchise extensions: perceptual fit, competitive leverage, and benefit transfer.

•**Perceptual Fit.** A quantitative study is conducted where respondents are asked how likely they would expect alternative franchise extension products such as Vaseline Intensive Care Baby Oil: **Very Likely, Possible, Unlikely.**

•**Competitive Leverage.** For each one likely, they are asked to list any brands they believe the new item would compete with. Then, they report in what ways, if any, the new product might be better than the competitors and in what ways it might not be as good.

•**Benefit Transfer.** A final step has each participant tell if they can think of any benefit or advantage the parent product has (Vaseline Intensive Care Lotion) that would also exist with each new item. For example:

#### **Vaseline Intensive Care Lotion**

Sunburn Cream  
Hemorrhoid Treatment  
Deodorant

#### **Perceived Similar Benefits**

strong to heal injured skin  
reduces irritation & swelling, petroleum jelly base  
for delicate skin

### ***New markets***

Franchise extensions, when done correctly, can open new markets for a company and its products. However, when done without consideration and the benefit of thorough research, they can tarnish the brand equity a company has fought so hard to create. Before rushing headlong into it, make sure your proposed extension makes good business sense.