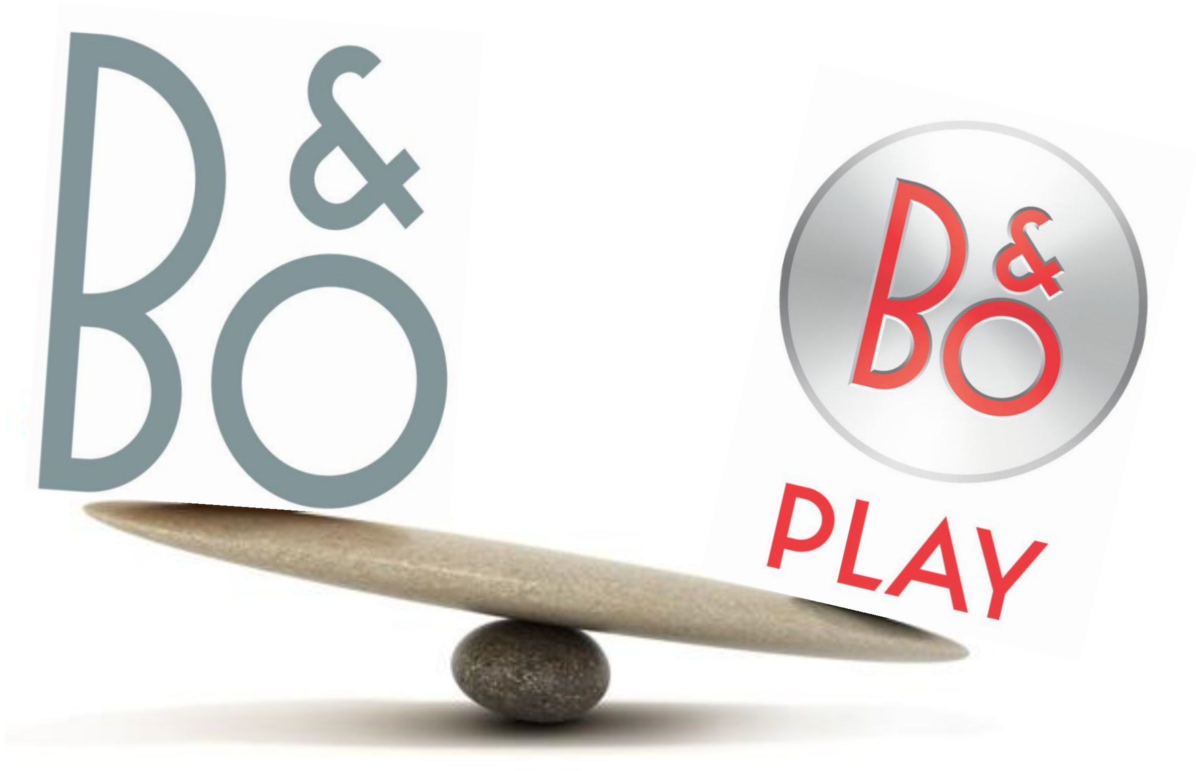
A critical assessment of

B&O PLAY's influence on B&O



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Abstract

Brand extension can be used to renew interest in an existing brand and hence, the best scenario is that the extension does not only create equity for itself, but also for the parent brand. However, knowing *when*, *where* and *how* to extend a brand are essential as extension comes with a risk. If a brand chooses to introduce a downward extension within the brands already existing product category, there is a risk that the extension will have a negative influence on the existing brand/parent brand, as it might lose the status consumers associate it with. With luxury brands it is especially risky to extend the brand, as the exclusivity that is associated with the parent brand might be jeopardised. Hence, a company can choose between various strategies when it wants to extend its brand according to whether or not it wants the extension to have a close, or no connection at all to the parent brand. Each strategy has it benefits and downsides, which makes it vital for the company to carefully contemplate which strategy to utilise.

The thesis will focus on the Danish company, Bang & Olufsen (B&O) that produces high-end audio/visual products. In January 2012 B&O introduced a new sub-brand, B&O PLAY that aimed at a different segment than the parent brand's AV products, namely a younger segment. To target this market, prices were reduced and a separate identity was created for the sub-brand in order to make it more appealing to this specific segment. However, how will a less expensive brand influence the exclusivity that B&O is associated with, and is the sub-brand able to renew interest in the parent brand? Hence, the aim with the thesis is to answer the following problem statement:

How will B&O's new sub-brand, B&O PLAY influence B&O's existing brand?

To answer the problem statement the following methodological choices were applied in regard to our empirical data. Both primary and secondary data have been used, as we have employed both publicly available sources such as B&O's annual reports, an interview with B&O's CEO, Tue Mantoni, B&O's website and various news articles. Furthermore, we have conducted an interview with lecturer in Marketing at CBS, Jesper Clement, regarding his views on B&O's choice to introduce a sub-brand. We have chosen to develop a theoretical foundation before deducing testable hypotheses and analysing our case and so we apply the hypothetico-deductive method. This means that we aim to test a given theory in reality. As part of our theoretical foundation we have chosen to include an analysis of four brand extension cases where other luxury companies have extended their brand downward. This will be conducted in order to

combine our selected concepts of theory with examples from reality, as this will give us an indication of how other companies have managed to extent their brand.

Our theoretical foundation consists of concepts of branding theory such as brand equity, brand identity and brand image. Furthermore, brand extension and brand architecture will be applied, as the brand extension theory is the main focus of the thesis. Our theory is mainly based on theories developed by David A. Aaker, Kevin Lane Keller and Philip Kotler, as they are the most dominant within the field of branding and marketing and are often cited by others.

The analysis shows that B&O and B&O PLAY are closely connected in terms of shared values, but B&O PLAY has a separate identity. However, B&O is still the brand that drives the purchase decision and user experience, as it provides B&O PLAY with a strong endorsement. Hence, it makes it possible to sell B&O PLAY products at a premium price. The close connection between the two brands is also evident regarding the products. However, this may create confusion for consumers, as they may be unaware of what the difference is between the two brands' products aside from the price. Hence, even though it has not yet occurred, as 75 percent of B&O PLAY customers have never bought a B&O product before (Kielstrup 2013), it is uncertain whether or not the sub-brand will cannibalise sales of the parent brand. Furthermore, the analysis shows that B&O has not been clear enough regarding the future path of the company. B&O's image has experienced a drop in this year's image lists, but it is uncertain as to whether it is due to the introduction B&O PLAY, as PLAY has experienced a 107 percent growth in revenue, whereas the parent brand has declined. Thus, B&O PLAY has not been able to renew interest in the parent brand and mend the negative associations that B&O has been and still is subject to. It is believed that with B&O PLAY, B&O will lose some of its exclusivity, but not to an extent where it will create brand equity wear-out.

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1 Introduction

The following section will encompass the problem background as well as our motivation behind our choice of subject. The motivation will lead to our problem statement, which will be followed by a short introduction to the chosen theory and applied methodology. Following this we will describe our delimitations, and a reading guide will be provided along with a visual depiction of the structure of the thesis. Lastly, an introduction of B&O as well as the history of the company will be presented.

1.1 Problem Background and Motivation

The financial crisis has taken its torn on the global market and many companies have been forced to re-evaluate their strategies in order to stay profitable. Especially luxury brands have been afflicted as it has become harder to remain profitable when only selling high-end luxury products. Thus, several companies have extended their luxury brands by offering less expensive products that more people are able to afford (Wang 2012 et al., 71). In this way companies hope to target a new market segment that will not only generate equity for the extension, but also for the parent brand (Keller 2003, 581). However, in this connection a fit between the parent brand and the extension is important in order to make the extension as successful as possible (Wang 2012 et al., 69).

When dealing with luxury brands, it is especially hard to maintain the luxury image as the brand loses some of its exclusivity when more people are able to afford the products (Wang 2012 et al., 71). Moreover, if the extension offers the same products as the parent brand, but at more accessible prices, there is a risk that customers of the parent brand will switch to the less expensive brand, and thereby cannibalise sales of the parent brand (Keller 2003, 594). Hence, extending a luxury brand comes with a high risk and it is truly a delicate balance.

9 January 2013, B&O announced that it once again had to revise down it sales and furthermore the company also pronounced that it will close 125 B1 shops (shops that sell the brand exclusively) in Europe. The announcement was received negatively by investors and B&O's stock decreased by 13 percent the following day. Analysts stated that B&O had failed in every way, as it was unable to both meet its own and analysts expectations. Hence, the negative publicity which followed B&O's announcement was what caught our attention and initiated our interest (Carlsen 2013).

Bang & Olufsen (referred to as B&O) was founded in 1925 and has always been associated with perfection for design and attention to detail (Superbrands). However, since the financial crisis struck in 2008, the company has experienced a decline in revenues and the B&O image has suffered greatly. B&O has attempted to regain its pre-crisis position by introducing several strategies, but none of these have been able to turn things around for the company. Furthermore, there have been several changes in the management, all contributing to an increasing uncertainty about B&O's future (Jurhagen 2013). In 2011, B&O launched a *"turn-around"* plan which was initiated in order to *"release the company's full potential"* and B&O's aim was to exceed pre-crisis levels (B&O: Annual report 2010/11, 17). The strategy plan consisted of six *"must win battles"* where one of the initiatives was the launch of a new sub-brand, B&O PLAY (B&O: Annual Report 2011/12, 10).

The intention with B&O PLAY was that the sub-band should target a different segment, known as the *"digital generation"*, than B&O's AV products and hence "*generate new customer leads to the existing Bang & Olufsen distribution* (B&O: Annual report 2010/11, 24). The sub-brand along with five other initiatives is supposed to turn B&O's economic downturn, which the company has experienced for several years, around. However, how will the less expensive sub-brand be received, and hence influence the parent brand in a time where the parent brand is experiencing a declining image and falling profits? (Jurhagen 2013).

This is where our interest in the field was initiated and hence, we found it interesting to look into why B&O chose to introduce a sub-brand in a time where B&O is experiencing an economic downturn. Our wonder stems from what kind of influence a less expensive sub-brand will have on an exclusive, luxury brand such as B&O, and if the connection between the two brands is mutual beneficial. In this connection it could be interesting to study how other luxury brands have applied a brand extension strategy and whether or not it has been a success, in order to compare them with the case of B&O and B&O PLAY.

Will the introduction of B&O PLAY be able to renew interest and faith in the parent brand and hence, be sufficient enough to make a turnaround for B&O, or will the novelty value of the sub-brand quickly run out, leaving a fragmented parent brand behind? These questions, along with several other questions are what have initiated our wonder in the field.

1.2 Problem Statement

In connection with the problem background presented above, this thesis will strive to answer the following problem statement:

How will B&O's new sub-brand, B&O PLAY influence B&O's existing brand?

To answer this question we will conduct a single case study of B&O along with its sub-brand, B&O PLAY. However, elements of comparative design or multiple-case study will also be applied, as we want to study four companies that have applied a similar brand extension strategy. Furthermore, a short section in the analysis will be centred on a description and a comparison of B&O and two of their competitors. This strategy is applied, as it is complicated to take out the context when analysing B&O, and by analysing other companies' strategies we might be able to gain new insight that may help us to analyse our case, B&O.

1.3 Delimitation

This project will only focus on B&O's B2C market, such as its AV segment and B&O PLAY. For this reason we will not look into B&O's B2B market, such as Automotive and ICEpower, as these are not perceived as relevant in connection with our thesis.

We have chosen not to look at B&O's recent expansion into the BRIC countries seeing that we will not be focusing on one specific market, but more on how B&O have handled its economic downturn and its current situation with the management of the two brands. Furthermore, even though B&O PLAY is part of B&O's new strategy plan: *"Leaner, Faster, Stronger"* where the company's aim is to realise B&O's full potential within the next five to six years, this thesis will only focus on B&O PLAY and not the company's other five *"must win battles"* (B&O: Annual Report 2011/12, 10).

Furthermore, we will only look at B&O's situation after the financial crisis struck in 2008. The recession has caused a change in consumer behaviour, as people are less willing to buy expensive luxury items, and as B&O only sells luxury goods the company has been struggling to regain the status it had before the financial crisis (Ritzau). Hence, we are of the opinion that the global recession is one of the reasons behind B&O's decrease.

1.4 Description of Theory and Methodology

This section will provide a short introduction of the theories that have been chosen to answer the problem statement, as well as a short description of which methodological choices have been applied to analyse our case, B&O.

The selected concepts of branding are: brand equity, brand identity, brand image, brand extension and brand architecture. These concepts have been seen as applicable in connection with the topic of this thesis since they are relevant in connection with identifying the parent brands' value and image before/after the extension, and compare it to the value and image which are connected to the brand extension. Hence, when having analysed the identity of the parent brand and the extension it is easier to measure if there exist a certain fit between the two, as this is perceived as being important in connection with the success of the extension.

Within branding theory three theorists, Kevin Lane Keller, Philip Kotler and David A. Aaker, are especially dominant as these are often cited by others. Furthermore, all three are regarded as some of the most notable in marketing and branding (Andrews 2009; Sheth 2008; Lewis 2013). These three theorists will form the basis of our theoretical foundation, but additional theorists will also be applied in order to add other dimensions to our chosen theories.

We have chosen hermeneutics as our theory of science, as we find this approach to be the most suitable in connection with our subject, seeing that we perceive that people always have a preceding perception about a given situation. Furthermore, conclusions are always based on subjective research, as they are based on people's own personal perception. Hence, with the B&O case we are aware of the fact that the way we have chosen to interpret our empirical data is not necessarily the way others would go about it. As the thesis focuses on a case study, namely B&O and its new sub-brand B&O PLAY, we have found that the *representative/typical* case is suitable as it is centred around an examination of the impacts that a new strategy may have on a company. The *representative/typical* case will be presented in section 2.3: Research Design.

1.5 Reading Guide

To make sure that the reader of this thesis understands how we use, as well as refer to our empirical data and the applied theoretical concepts, the following section will provide an overview of which methods that have been applied.

The attached appendix consists of empirical data such as an interview guide (Appendix 1), as well as an interview with lecturer in Marketing, Jesper Clement from CBS (Appendix 2). The interview was conducted with the help of a telephone recording and then transcribed in order to make the interview available for the reader. Whenever we use quotes from the interview in our analysis they will be followed by brackets telling where the reader can find the exact quote from the interview, both in terms of page and line numbers. Furthermore, in order to make a correct transcription of the interview quotation marks and italics will be applied whenever the interviewee conducts a reflective dialogue, where he tries to position himself in different characters. An example could be:

> '*Hvad snakker du om?'*
> *'Nå, B&O PLAY.'*

From the above quotes it is clear that the interviewee emphasises his message by using a direct dialogue.

Furthermore, the appendix encompasses a comparison between the German electronics company, Loewe's and B&O's key figures from their annual reports 2012 (Appendix 3).

Every time we refer to the concepts of branding theory applied in our theoretical foundation, the theoretical terms are set in italics followed by a bracket telling the section of the given theory. An example could be: "the extension can be characterised as a *downward*, *vertical extension* (Section 6.2.2)". This has been conducted in order to make it easier for the reader to recognise whenever we apply our theories, as well as to make it easier to go forth and back in the thesis during the reading.

When we refer to other sources, such as news articles, annual reports and websites, we use the name of the journalist or the name of the periodical/website if no journalist is mentioned, as well as which year it is posted. Hence, it will be presented like this: "(Guldager 2012)". As we use many sources from the same company/website, such as for example B&O and Marriott, the name of the source will be followed by a bracket telling where the source is to be found in the literature list. An example could be: "(B&O (e))". This layout is created in order to make it easier for the reader to find the applied sources in the literature list. However, whenever we refer to the companies' annual reports, the whole name of the report will be presented as it is relevant in connection with the content, and thus it will look the following way: "(Loewe: Annual Report 2011, 12)".

1.5.1 The Structure of the Thesis

Section 1 : Introduction	•Problem Background and Motivation •Problem Statement •Delimitation •Description of Theory and Methodology •Reading Guide •Hisotry of Bang & Olufsen A/S
Section 2: Methodology	•Theory of Science •Explanation of Methodological Choices •Research Design •Introduction of Empirical Data •Introduction of Theory •Conceptual Clarification
Section 3: Theoretical Foundation	•Definition of a Brand •Brand Equity •Brand Identity •Brand Image •Extending the Brand •Brand Architecture
Section 4: Empirical Data	•Four Brand Extension Examples: •Successes: Marriott and Ralph Lauren •Failures: Gucci and Cadillac •B&O's Brand Asset
Section 5: Hypotheses	•Four Hypotheses
Section 6: Analysis	•Timeline of B&O PLAY •Analysis of B&O PLAY •B&O PLAY and Target Market •Perceived Fit between B&O and B&O PLAY •Analysis of B&O's Competitors •Comparing B&O's Strategy to the Four Brand Extension Cases
Section 7: Conclusion	•Recapitulation, and falsification and verification of the hypotheses

Figure 1 - The structure of the thesis (Own production)

1.6 History of Bang & Olufsen A/S

In the following section we will provide a concise exposition of Bang & Olufsen in order to gain a better understanding of our case.

B&O develops, produces and markets design and quality products, such as music players, speakers, televisions and multimedia systems. B&O operates both within the business-to-consumer (B2C) and the business-to-business (B2B) markets. As shown below in figure 2, B&O defines its offers to consumers as AV and B&O PLAY products. B&O produces sound systems to high-end cars, such as Audi, Aston Martin, Mercedes and BMW. Moreover, B&O owns ICEpower which produces amplifiers. B&O's aim is to provide consumers with the latest within technology in an elegant design, and they aspire to *"provide consumers with enduring magical experiences"* (B&O: Annual Report 2011/12, 3). Figure 2 portrays B&O's various business areas.

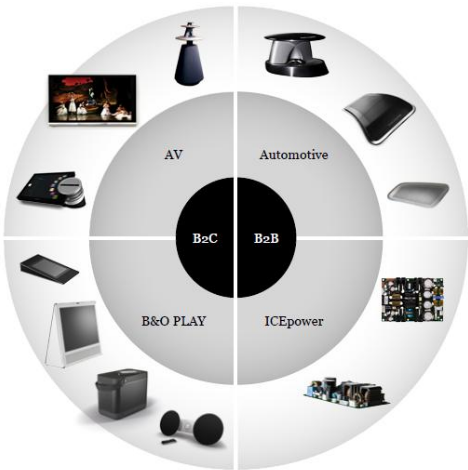

Figure 2 - B&O's business areas

From Small Factory to Symbol of Nationalism

The story of B&O sets off in 1925, when two young engineers, Peter Bang and Svend Olufsen, founded Bang & Olufsen in Struer, Jutland. In 1924 they had both graduated from the Electrotechnical School in Aarhus, where Peter Bang had decided to travel to the US to gain more knowledge about radios as the US, at the time, was far ahead in the development of radio technology. Meanwhile, Svend Olufsen developed a small radio factory in his childhood home which was located near Struer. Svend Olufsen was not as technical as Peter Bang and in 1925 Peter Bang joined the small company with new revolutionary ideas, which he had gained from the year abroad (DR2). Thus, their first invention, the Eliminator, was built to make it more convenient to listen to radios. At the time all radios had to be connected to a battery, but with the new invention B&O made it possible to deploy the radio between the mains and the battery and hence one could operate the radio from the mains. The idea was revolutionising in Denmark and became the beginning of the increasing success B&O would experience in many years to come (Krause-Jensen 2010, 88).

By 1927 the small company had grown and B&O was now occupying 30 employees who were all located at the Olufsen's family estate. As production grew B&O decided to build and move their small company to a new factory located outside Struer. Peter Bang and Svend Olufsen both came from wealthy families and both their fathers provided the project with capital, which meant that the two young engineers could concentrate on the manufacturing and marketing (Krause-Jensen 2010, 89).

The success of the Eliminator was followed by the Five Lamper in 1929, a radio which could be attached directly to the mains. The Five Lamper was not only a technical sensation, but due to a walnut cabinet it had a certain elegance which was rare at the time (Encyclopedia). With the success of the Five Lamper, B&O had established their name on the Danish market and sales kept on rising during the 1930s and 1940s, as products such as gramophones and radios were introduced (Christensen 2012). This all lead to B&O naming itself *"The Danish Hallmark of Quality"* (Encyclopedia).

As German troops invaded Denmark in 1940, B&O had already anticipated that war was inevitable and hence the company had increased their stock of raw material several years in advance. As many companies found it difficult to survive during the war, B&O managed to maintain its strong position. However, everything changed in 1945 as the Nazis' bombed the factory in Struer as a response to B&O's refusal to collaborate with the Nazis, and because several employees at B&O were active members of the resistance movement. The factory was completely rebuild a year after and production was restarted (Encyclopedia). Due to B&O's resistance the company became a symbol of Danish nationalism which as a result increased the company's popularity. Svend Olufsen died in 1949 (Krause-Jensen 2010, 90).

From Domestic to International Breakthrough

During the 1950s and early 1960s, the television had gained access to the Danish market and a fierce competition between Danish audio companies began (Krause-Jensen 2010, 91). Peter

Bang passed away in 1957, but B&O continued its success through the 1950s and 1960s and was acknowledged as *"The Danish Quality Brand"* (B&O: Annual Report 2008/09, 8).

In 1960 Denmark was admitted to EFTA, the European Free Trade Association, which meant that tariffs were relaxed between the European member countries (Krause-Jensen 2010, 91). B&O was now forced to compete against leading German companies that were more powerful than the small company from Struer. In order to survive the European competition, B&O changed its strategy, now focusing on providing quality to a niche market in Europe. As all companies provided nearly the same within radio and television technology, B&O wanted to differentiate itself by focusing on sensational, Danish design (DR2). Thus, B&O created a new slogan: *"Bang & Olufsen – for those who discuss taste and quality before price"*, a slogan which would come to define the company (Krause-Jensen 2010, 91).

B&O's strategy proved to be prolific, and the development in exports rose from 4,5% in 1960 to 20% in 1962 (Christensen). With the introduction of the Beomaster 900, a transistor radio, and the Beolab 5000, a speaker with an amplifier, B&O had established itself in the European market (Encyclopedia). The name *"Beo"* was a prefix that was used for many of B&O's products (Nielsen 2011). Through the 1960s and the 1970s, B&O positioned itself as a luxury manufacturer in both the Danish and the international market, and in 1978 some of the company's products were permanently exhibited at the Museum of Modern Art in New York (Encyclopedia). Due to its increasing success B&O established several subsidiaries in Scandinavia, and during the 1970s, it also established subsidiaries in Western Europe and the US (Christensen 2012). With the introduction of new products, B&O found a way to connect the various devices in such a way that customers only had to operate one remote, even though they owned several B&O products (Nielsen 2011).

From Decentralisation to Centralisation

The 1980s became a difficult decade for B&O as Asia proved to be a hard competitor, and B&O had not been proactive enough to foresee the changes which occurred in the market. Furthermore, the subsidiaries were an expensive investment which had resulted in overspending. Decentralisation had taken its toll on the company. Consequently, B&O entered the 1990s with the biggest deficit the company had ever experienced. Anders Knutsen was appointed CEO and he initiated a new strategy which would be known as *"Break Point"*. Thus, in the early 1990s B&O introduced the *"Break Point"* strategy that intended to centralise the company once again and focus on the demands of customers. Additionally, B&O adopted a new distribution strategy as its products were to be primarily sold in B1 stores that were to sell the brand exclusively. This meant that B&O would gain more control of the way its products were displayed in the stores and in that way regain some of the control which the company had lost due to decentralisation (Encyclopedia). With the new strategy B&O wanted to show a brand identity that was based upon design, quality, user-friendliness and innovation. B&O's products should portray exclusiveness and luxury by only being sold in selected stores, namely the B1 stores (Christensen 2012).

The strategy worked, and B&O experienced a surplus in 1993. The following years B&O installed sound systems for many upscale hotels and in 2005 B&O created its first car stereo that would be installed in high-end Audi models (Encyclopedia).

From Economic Progress to Economic Crisis

B&O's surplus increased until 2007 where the economic crisis struck. The product life cycle was increasingly shortened, competition grew and the demand for luxury products dropped. B&O now found itself in a completely new situation (Christensen 2012). The company experienced a regression in the second half of 2007 and in an effort to prevent a further decrease B&O launched a new strategy, known as "*Pole Position Strategy 2008*", issued under the new CEO, Karl Kristian Hvidt. With the new strategy B&O wanted to focus on product development, strengthen its sales and adjust its cost level (B&O: Annual Report 2008/09, 9). To adjust its cost level by cutting down costs by DKK 160 million, B&O among other steps chose to cut down 300 jobs and started producing more products. However, B&O still managed to stay popular in the minds of consumers as it was positioned as number 4 on the UK list of the top 20 cool brands in 2008 (B&O (a)).

The *"Pole Position"* strategy worked as sales rised within the audio and video segments due to new offerings. One of B&O's goals with the "*Pole Position"* strategy was to make a faster product development in order to keep up with its competitors and thus several new products were developed during the years 2008-2010. The results of the new strategy were evident in the second half of the financial year 2009/10 where B&O managed to turn a loss into a profit. However, the company was still struggling to stay above water (B&O: Annual Report 2009/10, 5).

In March 2011, Tue Mantoni became B&O's new CEO, and already in August 2011 he initiated the *"Leaner, Faster, Stronger"* strategy, which is to bring B&O back to the position it had before the financial crisis. The *"Leaner, Faster, Stronger"* strategy is a five-six year strategy which will focus on *"re-establishing a leading position within Bang & Olufsen's main core areas, and on building a more efficient, globalised and customer-oriented organization"* (B&O: Annual Report 2011/12, 7).

With the strategy B&O launched a sub-brand, B&O PLAY, which unlike B&O's AV segment offers stand-alone products. B&O PLAY is to focus on a new and younger segment, known as the "*digital generation"*, and products are designed to combine convenience with high-quality. According to B&O, the products sold under the B&O PLAY brand have a lightness which makes them playful and fashionable (B&O (b)). The more unrestrained identity of B&O PLAY is expressed on PLAY's website where it is stated that *"Life must be lived like PLAY"* (B&O PLAY).

With B&O PLAY, B&O hopes to increase its sales and attract new customers to the existing brand. Like the existing brand, B&O PLAY is sold in B1 stores, but also online and in "*shop-in-shops"*, where a store provides a specific section for the B&O PLAY products (B&O: Annual Report 2011/12, 58). B&O PLAY is collaborating with Apple as its products are sold in Apple stores and uses Apple's AirPlay-technology, which makes it possible to play music wireless (B&O (c)). Even though B&O PLAY is less expensive than its parent brand, B&O claims that it does not compromise when it comes to quality. Thus B&O PLAY announces on its website: *"Marrying the values of PLAY with the substance, quality and luxury of Bang & Olufsen characterizes what we stand for: Bang & Olufsen + PLAY = B&O PLAY."* (B&O PLAY).

2 Methodology

The following chapter will account for which theory of science we have seen as applicable in connection with the study of B&O. Furthermore, our methodological choices will be explained and lastly, our choice of empirical data as well as our theoretical choices will be elaborated on.

2.1 Theory of Science

The scientific method describes the research process. It is described in order to create an understanding of how the research was conducted and thereby the value of the results. The scientific method chosen for this thesis is the hermeneutics line of thought.

Hermeneutics is about interpreting and understanding a text or phenomenon before any explanation can be considered possible (Fuglsang and Olsen 2004, 309). Hence, we never approach a text or phenomenon without having any assumption about it. We always have a preceding knowledge or a prejudice, which denote that we have already evaluated and judged a given situation before trying to interpret and understand it (Fuglsang and Olsen 2004, 322). Within hermeneutics a known methodology is to deduce and test hypotheses in order to decide whether the premises can be verified or falsified (Fuglsang and Olsen 2004, 340). As we have chosen to use the hermeneutics line of thought we have deduced various hypotheses, which we will try to examine according to whether they hold true or not.

A known principle in connection with hermeneutics is the hermeneutic circle, which is the process of understanding a given text through preliminary understanding and interpretation of individual parts in order to attain an understanding of the text as a whole. Hence, the relation between the parts and the text as a whole makes understanding and interpretation possible. This circular process of understanding is known as the hermeneutic circle (Fuglsang and Olsen 2004, 312). However, researchers often refer to the hermeneutic circle as a spiral, as the interpreters do not have the possibility to observe the text from its beginning nor its ending (Fuglsang and Olsen 2004, 320-321). Interpreters observe and interpret the text from their own point of view and preliminary understanding, and thus conclusions can never be objective, but will always reflect subjectivity. Hence, critics claim that hermeneutics is an uncertain method to apply as it is based on interpretations and emotions and thereby cannot present an objective conclusion (Fuglsang and Olsen 2004, 331).

In hermeneutics, history is not something which is only perceived as being prior, but to a great extent something which is contemporary and futuristic (Fuglsang and Olsen 2004, 326). Thus, we have chosen to include the history of B&O in order to contribute to an understanding of why the company has chosen to implement a specific strategy by introducing a sub-brand. Furthermore, we will analyse and interpret four brand extension cases in order to make predictions about how B&O PLAY might evolve in the future.

By understanding and interpreting our theoretical foundation and analysing the four brand extension cases we wish to obtain an understanding of whether or not it can be said that B&O has chosen a successful strategy with its sub-brand, B&O PLAY. We will try to make predictions about the future for B&O PLAY and the parent brand, B&O, but according to hermeneutics it is difficult to make any conception about the future, as we interpret the situation according to how we perceive it, and thereby we do not account for any changes, which might interfere with our conclusion. Thus, we acknowledge that our conclusion is based upon our own interpretation and analysis and that others may have reached a different result.

2.2 Explanation of Methodological Choices

The aim of the thesis is to analyse B&O's brand extension, B&O PLAY, and try to predict the future of the parent brand B&O and its sub-brand. The analysis will be conducted by establishing an applicable theoretical foundation that will be used in combination with a study of four other companies that have applied a brand extension strategy.

The structure of the thesis will be as follow: The thesis will start off by introducing which **methodological choices** were selected in order to create a comprehensive study of the B&O case (Section 2).

The **theoretical foundation** (Section 3) will consists of various concepts of branding, such as brand equity, brand identity, brand image, brand architecture and brand extension. In connection with brand extension it is interesting to know the companies'/brands' equity, identity and image both before, but also after the extension as this will provide us with an insight into why a specific strategy has been applied. The theoretical foundation will present a common thread throughout the thesis and will be applied in connection with the four brand extension cases to analyse B&O and B&O PLAY.

Brand Leadership by Aaker and Joachimsthaler (2002), Keller's *Strategic Brand Management: Building, Measuring, and Managing Brand Equity* (2003) and Aaker's *Building Strong Brands* (2002) were applied as cornerstones of the thesis, as these books provide a thorough exposition of the applied concepts of branding theory. In order to find these books a literature review was conducted where applicable keywords, such as *"extending a brand"*, *"brand value"*, *"brand image"* and so forth were applied both in search engines and library website.

David A. Aaker's definition of brand equity will be applied along with his four perspectives of brand identity, as he provides a practicable approach to measuring and analysing a brand's value. Brand image will only be touched upon briefly as the thesis does not aspire to scrutinise how consumers perceive the extension.

In connection with brand extension, Ansoff's Growth Matrix will be applied in order to show the various options a company can choose between when it seeks out growth opportunities. In order to analyse what kind of brand extension the companies have chosen to apply a definition of the different kinds of brand extensions will be presented. Keller's list (2003) of advantages and disadvantages of brand extension will be applied in order to show what are the best and the worst outcomes of brand extensions.

A short introduction of brand architecture will be presented alongside the Brand Relationship Spectrum by Aaker and Joachimsthaler (2002), as the Brand Relationship Spectrum offers an insight into how brands can be connected and differentiated in order to make either the extension or the parent brand the main driver. As this thesis is centred on B&O's new sub-brand, various definitions of a sub-brand will be put forward in order to make it possible to choose the definition we find to be the most suitable in connection with B&O PLAY and its connection to B&O. Lastly, the theoretical foundation will consist of a section describing the importance of a perceived fit and relation between the extension and the parent brand, as this is probably the most central aspect when a company chooses to introduce a new brand that has a close connection to the company's existing brand.

In our **empirical data** (Section 4) four brand extension examples will be analysed in order to provide us with new aspects of brand extension, which we can utilise in connection with our theoretical foundation in the analysis. Lastly, a company profile of B&O will be presented which will encompass B&O's brand assets, such as brand equity, brand identity and brand image, to provide the reader with an insight into the company's past and present situation. In order to search for relevant data, we have applied various search engines and selected keywords to find applicable sources such as news articles, interviews etc.

Before the analysis the thesis' **hypotheses** (Section 5) will be presented. According to our theory of science we have chosen to utilise the hypothetico-deductive method which is the reason why our hypotheses are presented after our theoretical foundation.

The **analysis** (Section 6) will be divided into three parts:

> **First**, an analysis of B&O PLAY that will include a timeline of the brand (Sections 6.1 and 6.2).
>
> **Second**, an analysis of B&O PLAY's connection to its parent brand, B&O, in terms of target market and a perceived fit between the parent brand and the sub-brand (Sections 6.3 and 6.4).
>
> **Third**, an analysis of other companies, which will encompass two of B&O's competitors, Loewe and Samsung that will be used as a way to study how other companies have managed the time since the financial crisis began (Section 6.5). The second part will include the four brand extension cases and will be focused on

a comparison between B&O and the four cases in order to determine if it would have been advisable for B&O to have applied a different strategy (Section 6.6).

As mentioned, the analysis will start with a timeline of B&O PLAY, alongside an analysis of B&O PLAY in terms of what kind of brand extension B&O PLAY is, as this will provide us with a foundation as to why B&O has chosen this specific strategy. Then an analysis of PLAY's equity, identity and image will be presented in order to define in which ways PLAY is compatible and differentiated from the parent brand. As B&O PLAY is directed at a new target segment, a part of the analysis will focus on how this will influence B&O's existing brand. This will be followed by an analysis of whether there is a perceived fit between B&O and PLAY. Two of B&O' s competitors, Samsung and Loewe, will be briefly introduced in order to compare the two companies to B&O, and thus provide a more holistic approach to B&O and the situation the company is in overall. Lastly, the analysis will compare B&O's strategy to the four brand extension cases.

We believe that this construction of the analysis will provide us with a comprehensive assessment of what kind of influence B&O PLAY might have on B&O's existing brand.

2.3 Research Design

According to Bryman (2004) *"A research design provides a framework for the collection and analysis of data"* (Bryman 2004, 27). Thus a research design encompasses the combination of approaches, which are used to collect data in order to answer the problem statement (Andersen 2008, 107). The research design chosen for this thesis is the single case design, because our problem area concerns a specific case, namely B&O.

According to Yin (2003) there exist five different rationales for conducting single case studies. These five rationales will be briefly presented in this section, alongside a closer study of which kind of case study we have chosen to apply.

With the ***critical case*** the researcher deduces hypotheses, which will either be verified or falsified. Hence, the objective is to test whether a given theory is accurate or not and thereby, the case is always chosen because it offers a possibility to test whether the hypotheses will or will not hold true (Yin 2003, 40).

The ***extreme or unique case*** represents cases which in some way stand out, and thus differ from the norm. This case study is often applied in clinical psychology where a particular disorder may be so extraordinary that it is important to analyse and document it (Yin 2003, 40-41).

The ***revelatory case*** can be applied when a previously inaccessible incident suddenly becomes accessible and the researcher has an opportunity to observe and analyse the incident for the first time (Yin 2003, 42).

The ***longitudinal case*** is when a case should be investigated at two or more junctures in order to describe how various events change over time (Yin 2003, 42). However, as most cases are chosen because they can be studied over time the longitudinal case is the one which is the least applied of the five case designs (Bryman 2008, 56).

The ***representative/typical case*** is often applied because it represents a typical situation in time. Furthermore, the representative/typical case makes it possible to examine social processes in time. As an example, a researcher might want to examine an organisation because it has adopted a new technology and thus the researcher wants to know what impact the adoption of the new technology has had on that specific organisation (Yin 2003, 41-42). In this thesis we have chosen to work with the representative/typical case, as we want to examine which impact(s) the implementation of the sub-brand, B&O PLAY, has had on the parent brand, B&O and what effects it might have in the future.

We are aware of the fact that a known weakness when working with case studies is that each case is unique which makes it difficult to generalise. However, case studies make it possible to show consequences of specific actions and thus, we can conclude that similar consequences might be present under similar circumstances (Bryman 2008, 57).

In the thesis we will analyse four companies, which have also applied a brand extension strategy, in order to study whether or not their brand extensions were a success, as well as what kind of strategies were applied. Hence, it can be said that we apply elements of comparative design (Bryman 2004, 53) or the multiple-case study (Bryman 2004, 55), as we use the knowledge that we have gained from the study of the four cases and compare their strategies to our B&O case in order to find similarities or differences. According to Bryman (2004) social phenomena are easier to understand when they are compared to other similar or contrasting cases (Bryman 2004, 53). However, as the aim of this thesis is only centred on an analysis of B&O and B&O PLAY, the study of the four brand extension cases is only applied to combine the theoretical knowledge, which we have gained from our theoretical foundation, with actual cases where brand extensions have been applied in order to use both theoretical and practical knowledge to analyse our case.

2.3.1 Connection between theory and research

To connect our theory with the research process, we have chosen the ***hypothetico-deductive method***, as we have chosen to develop a theoretical foundation before deducing testable hypotheses and analysing our case (SAGE Publications, Inc. 2007). Figure 3, provides an overview of how we have chosen to conduct our research. As mentioned previously, the selected concepts of branding theory, along with the four brand extension cases, will constitute our theoretical basis from which we will deduce hypotheses that will be either verified or falsified after having analysed our case. According to Bryman (2004) with the deductive approach *"Theory and the hypothesis deduced from it come first and drive the process of gathering data."* (Bryman 2004, 8). By choosing to use the deductive approach we seek to test a given theory on reality (Bryman 2008, 10-11).

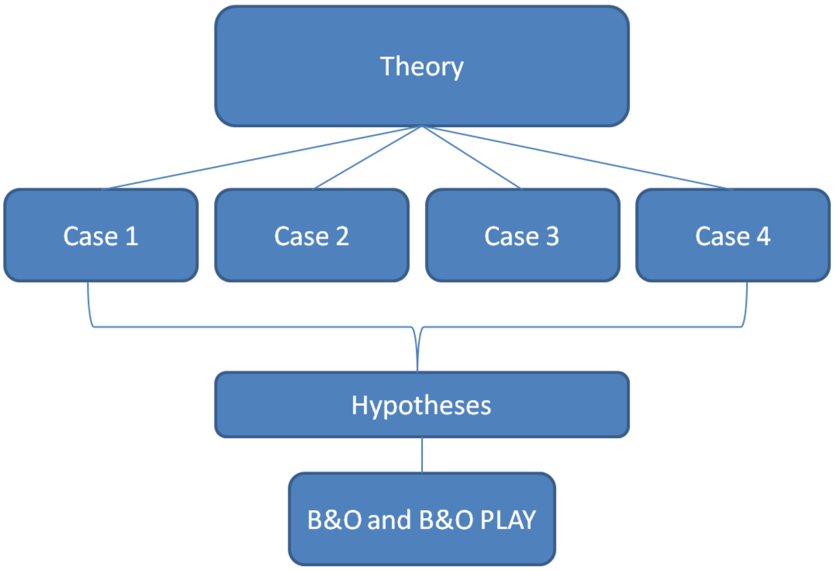

Figure 3 - The deductive approach (Own production)

2.4 Introduction of Empirical Data

This section will account for which empirical data we have chosen to apply. In the thesis we have applied information, which was already available such as B&O's annual reports, information from the company's websites, news articles, an interview with B&O's CEO, Tue Mantoni as well as websites, which were deemed as reliable and applicable. These public data have been combined with an interview we have conducted ourselves with Jesper Clement, who is a lecturer at the Department of Marketing at Copenhagen Business School. The Interview is qualitative as our aim is not quantification where data can be calculated or measured, but instead it is centred on the opinion of the interviewee. Jesper Clement is especially relevant in connection with our thesis, as he has a very critical stance towards B&O's decision to introduce a sub-brand and hence, provides us with a different approach as to how B&O PLAY might influence B&O (Kvale 2010, 11-12). The design of the interview will be elaborated on in section 2.4.2.

2.4.1 Primary and secondary data

In connection with our empirical data explained above, the data which has been selected for this thesis is both primary and secondary.

According to Andersen (2008), it is important to include both secondary and primary data as they supplement each other (Andersen 2008, 165). Thus, with the secondary data we have access to a lot of information, which has already been processed, whereas with the primary data we are able to ask questions and hence, try to broaden our empirical data in such a way that it will befit our problem statement and hypotheses. There are two ways in which to collect primary data, namely observation or questioning/recording. As for observation the researcher wishes to observe a given person or phenomena, whereas with questioning/recording the aim is to ask relevant questions and record the responses. Hence, in this thesis we will only make use of the latter, as we do not have the resources to conduct a first-hand observation on how B&O PLAY will influence the existing brand. Instead we will, as already mentioned, conduct an interview with Jesper Clement (Hair et al. 2008, 171).

Compared to primary data, secondary data is time-saving as data has already been collected and analysed. Secondary data is distinguished as either being **register**, **scientific** or **process data** (Andersen 2008, 159). **Register data** is often available in information bases such as Statistics Denmark, where it is possible to illustrate a general tendency in society. **Scientific data** is data, which is collected by scientists and encompasses everything that has to do with scientific research. **Process data** is something which is produced in connection with current activities in organisations or society (Andersen 2008, 159).

The secondary data chosen for this thesis is **process data.** Process data can both be quantitative and qualitative. Quantitative process data comprises data such as a company's economic achievements, productivity and annual reports. The qualitative process data comprise data such as interviews, news articles, letters, films and much more (Andersen 2008, 159-161). As already mentioned, we will make use of both quantitative and qualitative process data, as our empirical data consists of data such as annual reports, a published interview with B&O's CEO, press releases, news articles and an interview we have conducted ourselves with a lecturer at CBS, Jesper Clement. The applied data will consist of both English and Danish sources, as more information about B&O is available in Danish, given that B&O is a Danish company and furthermore, some important information might be overlooked if we were only centred on sources in English.

2.4.2 Qualitative Interview

We have chosen to combine Ib Andersen's *Den Skinbarlige Virkelighed* (2008) and Steinar Kvale's *Doing interviews* (2010), as we perceive that these books provide a helpful approach on how to design a thorough interview.

According to Andersen (2008), there exist five different kinds of personal interviews, namely **the informant**, **the open**, **the focus group**, **the standardised** and **the semi-structured** interview. The different kinds of interviews will be explained below, as well as which kind of interview we have chosen to apply (Andersen 2008, 168-170). Lastly, there will be a short introduction of the interviewee, as well as our motives for choosing this specific candidate.

The **informant interview** is characterised by unstructured and open questions where the researcher tries to find information about a given phenomenon, which he or she is unable to observe and thus needs an informant. The interview is often applied in the first part of the research process where the researcher is still unsure about which questions to ask.

The **open interview** has many similarities with the informant interview, as questions are open and there is often only an overall theme. As the questions are open the interviewer has to listen, interpret and ask further questions, which can be quite comprehensive.

With a **focus group interview** there are often 8-12 participants, who are provided with a specific topic with additional questions that they have to discuss among each other. The benefit with this kind of interview is that the interaction stimulates more varied responses, and hence, may provide new approaches to a given subject.

The **standardised interview** is the most structured of the different interviews and is more quantitative as questions are structured in a chronological order and is often combined with closed questions that make it easier to gather and compare data (Andersen 2008, 168-170).

For this thesis, we have chosen **the semi-structured interview** as we have chosen to conduct the interview after the assessment of our theories and the empirical data, as we wish to gain more knowledge about the subject in order to ask more profound questions.

The semi-structured interview, imply that the interviewer often has a preceding theoretical knowledge about the subject and is therefore able to structure the questions. However, as the interview is semi-structured, it is always possible to change the order of the questions (Andersen 2008, 169). Furthermore, this kind of interview is not a closed questionnaire, which makes it possible to respond to the answers given by the interviewee, and so the interview might take a new and unexpected direction that may add new aspects that might not have been thought of previously (Kvale 2010, 11-12). With a semi-structured interview it is often a good idea to create an interview guide that highlights the various topics that the interviewer wants to cover to make sure that all questions will be answered (Andersen 2008, 169). In addition, this kind of interview has been chosen as it allows us to ask additional questions, which might be evoked by the conversation with the interviewee.

With a semi-structured interview it is important to set the stage before the interview starts. Thus, it is prudent to start with a briefing where the interviewer introduces him or herself, as well as explains the purpose of the interview. The intention with the short introduction is to make sure that the interviewee feels confident, and futhermore *"the interviewees will want to have a grasp of the interviewer before they allow themselves to talk freely and expose their experiences and feelings to a stranger"* (Kvale 2010, 55). The interview should be followed by a debriefing where the interviewer asks the interviewee if he or she has anything more to add or any questions, which should be clarified. The debriefing is a way to round off the interview in a good and constructive way (Kvale 2010, 56).

2.4.2.1 Presentation of the Interviewee

It has not been possible to acquire an interview with an employee at B&O, as they have not answered our emails. Instead, it has been possible to arrange an interview with Jesper Clement, a lecturer at the Department of Marketing at Copenhagen Business School, about his view on B&O's decision to launch a sub-brand (CBS, Jesper Clement). We have chosen to include an interview with Jesper Clement, as he has appeared in an article in *Jyllands-Posten*, 13 March 2013, regarding how luxury brands are diluting their own brands by introducing less expensive products. In the article, B&O was one of the companies that were discussed. In this connection Jesper Clement explained that consumers lose their confidence in luxury brands when companies choose to reduce their prices, and he emphasised that cheaper products will ruin the luxury brands (Grünbaum).

We believe that Jesper Clement will be a good asset to our thesis, as he challenges the view held by B&O about the benefits of introducing B&O PLAY. Furthermore, we perceive it to be important to include the opinion of a specialist with many years of experience in marketing as he consequently is perhaps able to offer other aspects to our analysis.

2.4.2.2 Conducting Phone Interviews

As Jesper Clement has asked for a phone interview there are certain criterions, which make the interview both easier, but at the same time more difficult to conduct. A telephone interview is less costly as we are not forced to travel to, in this case Copenhagen to carry out the interview, and with new technology such as IP telephony network it is possible to record the conversation. However, not being able to see the interviewee makes it difficult to know if he understands the questions, as we are unable to see his facial expression and use visual resources to clarify complex questions. Thus, it is pertinent that the questions are phrased clearly and that they are not too long or too complex (Andersen 2008, 172-174).

In connection with our theory of science, hermeneutics, the interview can be said to be in accordance with the hermeneutic circle. We, the interviewers, have a preliminary assumption about what the interviewer will say as we have read the interview in *Jylland-Posten*. Through the interview new approaches and information will be added, which we will interpret and thus receive a new understanding (Brejnrod 2009, 209).

As the interview will be recorded, we will conduct a transcription in order to make it approachable for the reader. However, we are aware of the fact that a known weakness with transcriptions is that they involve abstraction, as intonation and pauses are lost, and hence, it can be said that transcriptions are decontextualised versions of an interview (Kvale 2010, 93). In order to make the transcription as truthful as possible, we have included interjections such as for example *"Hmm"*, in order to show that the interviewee reflects about the question.

The interview guide, as well as the actual interview is to be found in the enclosed appendix (Appendix 1 and 2).

2.5 Introduction of Theory

The purpose with this section is to give a short introduction to our theoretical foundation, as well as how it is applicable in connection with answering the hypotheses (Section 5) and the problem statement. The following concepts of branding theory will form our theoretical foundation: brand equity, brand identity, brand image, brand extension and brand architecture. We have considered it necessary to start with a definition of a brand, as this thesis is centred on several aspects, which are connected to the establishment of a strong brand.

Brand equity is the value of the brand, and it is included for the purpose of examining the value of the B&O brand, as well as which associations consumers have about the brand. Furthermore, it will be used as a tool to examine whether or not B&O PLAY has had an impact on B&O's existing brand's equity.

Brand identity is included to understand and describe how B&O wants consumers to perceive both the existing brand and the sub-brand. It is considered relevant and unavoidable to touch upon this area of branding, seeing that brand identity is important for creating a strong brand.

Brand image will be used to examine how consumers, analysts, investors and so forth perceive B&O. It will be used to assess if B&O extending its parent brand has had an effect on the company's brand image in a positive or negative way.

Brand extension is applied as it provides us with an understanding of what kind of strategy B&O has applied by extending its current brand, and creating a sub-brand. As this theory is the most dominant of our chosen concepts of theory, the exposition will be more profound.

Brand architecture is included as it describes in which way a company's various brands are connected to each other, and thus how they should be managed. Brand architecture will be briefly touched upon along with brand portfolio in order to describe the connection between the parent brand and the extension.

2.6 Conceptual Clarification

Most literature is centred on brand extension, which is an overall term used when companies either wants to extend their product line under an existing brand or extend their brand by creating a new brand or sub-brand. Hence, we have chosen to focus on brand extension and only briefly touch upon sub-branding, which is a brand that derives from another brand, as much more literature is available about brand extensions. As brand extension and sub-branding are closely related it has been perceived as being adequate to use the brand extension theory as an umbrella term.

Within the theory of brand extension two terms are used to describe the brand that the brand extension/sub-brand originates from. Hence, the original brand is described using the following terms: existing brand and parent brand, as the brand, which “gives birth” to a new product or brand is both the existing brand and it becomes the parent of the extension.

3 Theoretical Foundation

In the following section we will account for which concepts of theory we have applied in the thesis.

3.1 Definition of a Brand

As this thesis concentrates on aspects of branding it is relevant to include the definition of a brand. There are several definitions of what a brand is, but the definition used in this thesis is the one executed by Philip Kotler. According to Kotler, a brand should be defined in this way: *”a brand is a name, term, sign, symbol, design, or a combination of these elements that is intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors”* (Kotler et al. 2006, 274).

3.1.1 Branding

The following paragraphs will describe aspects of branding that are relevant for our thesis. We will elaborate on brand equity, brand identity and brand image, which were all briefly introduced in section 2.5. These three aspects of branding are connected to each other and unavoidable when working with branding. Seeing that the focus of our thesis is on B&O and its new sub-brand, B&O PLAY, we have chosen to include these three brand theories, as they are important factors when a company is considering introducing a brand extension. The company needs to adopt a clear communication strategy to make sure that the company as well as the consumers know what the brand stands for. Furthermore, the company has to think hard about its image and identity in order to be certain and clarified about how it wants the brand to be perceived, and to ensure that the consumers actually perceive the brand in that way. If the company succeeds in implementing a positive brand image it will provide consumers with positive associations about the brand. Positive brand equity will help a company reach its goals when launching a new product or, like B&O, introducing a brand extension in the form of a sub-brand.

In this part of the theoretical foundation we have chosen to apply David A. Aaker and Kevin Lane Keller as the main theorists. We have chosen to use the work of Keller, as he has an interesting perspective on branding, and especially branding in terms of brand extension, which is the main focus of the thesis. Aaker is the author of several books on branding which makes him a well-known theorist in the field. Aaker views and describes the aspects of branding that we have chosen to include (brand equity, brand identity, and brand image) in a very understandable and interesting way that we believe is relevant for this thesis.

There are similarities in the way that Keller and Aaker view branding. Both theorists are of the opinion that associations are an important part of whether or not a brand will achieve success. Furthermore, their branding theories are very consumer oriented, as they believe that a company should focus on how consumers perceive the company's brand and which associations they have about it.

3.2 Brand Equity

In his book, *Building Strong Brands*, David A. Aaker defines brand equity as*"a set of assets (and liabilities) linked to a brand's name and symbol that adds to (or subtracts from) the value provided by a product or service to a firm and/or that firm's customers"* (Aaker 2002, 7-8). Brand equity is connected to the customers' view and associations about the brand. If a brand continues to offer its customers the same quality they will be loyal to the brand. This means that customers will maintain their positive associations about the brand, and the company will uphold its level of brand equity.
According to Aaker, brand equity consists of four assets:

- Brand loyalty
- Brand name awareness
- Perceived quality
- Brand associations

Figure 4 - How brand equity generates value (Simplified model on the basis of Aaker 2002, 9)

Figure 4 is a model on how brand equity generates value and furthermore, the model provides an overview of the four brand equity assets. The following paragraphs will concentrate on giving a more elaborated explanation of the four brand equity assets.

3.2.1 Brand Loyalty

"A brand's value to a firm is largely created by the customer loyalty it commands" (Aaker 2002, 21). If a company does not have a high level of brand loyalty it will become vulnerable. Brand loyalty is important, as it affects the company financially due to profit and sales. To maintain brand loyalty, the company's main focus should always be on its existing customers and not on how to attract new ones (Aaker 2002, 21).

3.2.2 Brand Name Awareness

Brand name awareness focuses on the connection between the brand and the consumer. Does the consumer remember the brand? And if so, how does the consumer remember it? Aaker describes brand awareness in this way: *"Awareness refers to the strength of a brand's presence in the consumer's mind"* (Aaker 2002, 10). In connection with brand awareness, Aaker also writes about brand recall. He states that for a brand to succeed in brand recall consumers have to think about the specific brand when that exact product class is mentioned. Aaker believes that brand recall is a deciding factor regarding consumers and their shopping lists and habits. If the consumer remembers the brand it will win a place in the shopping cart (Aaker 2002, 10).

3.2.3 Perceived Quality

Perceived quality is an important part of brand equity, as it affects the brand's assets. Aaker states that, compared to the other brand equity assets: brand loyalty, brand awareness and brand associations, perceived quality has shown to be the one which has the most positive impact on the brand's financial performance. Furthermore, this asset is an important factor for a company's brand, as it is often one of its core values and something it can use to create a strong brand, and market itself with. If a company wants consumers to associate its brand with quality, the company needs to be aware of what quality is and means to the consumer, in order for it to create a positive "perceived quality" (Aaker 2002, 17-20).

3.2.4 Brand Associations

Brand equity is influenced by brand associations in the sense that the brand is dependent on the associations consumers hold about it. Aaker writes that it can be associations like celebrity spokespersons, symbols or product attributes. Brand associations are closely connected to brand identity, as it concerns what the company wants consumers to associate the brand with (Aaker 2002, 25).

There are certain factors that a company needs to be aware of for the brand to grow regarding brand equity. To ensure that the above mentioned four assets increase, it is necessary for the company to make investments in order to create brand value. The company needs to be aware of how a brand generates value if it wants to manage brand equity in an effective way (Aaker 2002, 8).

3.2.5 Other Aspects of Brand Equity

Kevin Lane Keller describes brand equity with these words: *"Brand equity relates to the fact that different outcomes result from the marketing of a product ..."* (Keller 2003, 42).

One aspect of branding that is evident is consumers, as they play a big role in how and whether or not a company achieves a strong and powerful brand. Kevin Lane Keller (2003) calls this aspect of brand equity *Customer-Based Brand Equity*, also known as the CBBE model. Keller describes the model like this: *"The basic premise of the CBBE model is that the power of a brand lies in what customers have learned, felt, seen, and heard about the brand as a result of their experiences over time"* (Keller 2003, 59).

When a company chooses to extend its brand, having good customer-based brand equity is favourable as it might make it easier for customers to accept the extension and meet it with an open mind. Keller states that brand equity is made up by the different opinions that consumers hold about the brand. He believes that it is important that consumers hold different opinions about a specific brand instead of everyone seeing it in the same way, otherwise the brand could end up being perceived as just another product on the market. Hence, the different opinions make it possible for a brand to stand out. By different opinions it is thought that a certain product might not have the same significance for every consumer and thereby, there can be different reasons as to why two different customers buy the product (Keller 2003, 60).

Keller states that for a brand extension to be successful and create brand equity, it is necessary for the company to focus on creating and achieving strong and positive associations for the new brand, as a brand extension should not only create equity for itself, but also for the parent brand. For the extension to contribute to the parent brand's already existing equity it has to strengthen and create more positive associations, while being careful not to negatively affect the associations the parent brand already has. It is a delicate balance (Keller 2003, 600).

As described in the above paragraphs, brand extension can have a very positive effect on a company's brand equity. However, brand extension can also have a negative impact on a company's brand equity. As mentioned earlier, a brand extension can strengthen the existing brand and ensure growth, but there is also a possibility that consumers might change the positive perception they have of the parent brand and hence, the parent brand might experience a decline. A company's parent brand or core products are especially subject to negative impact if a brand extension does not succeed. Scholars Loken and Roedder John (1993) (Quoted in Pitta and Katsanis 1995, 57), calls this *brand equity dilution*. In this regard, it should be mentioned that if a company implements brand extensions more than once there is a possibility that it will have a negative effect on the parent brand's equity. This aspect is termed *equity wear-out* (Pitta and Katsanis 1995, 57). It is also possible for a company to completely destroy its own brand equity if the company or brand is exposed to too many unsuccessful and even successful brand extensions, as the company could end up wearing out the brand (Gibson 1990. Quoted in Pitta and Katsanis 1995, 57).

3.3 Brand Identity

Basically, brand identity is about how a company wants its brand to be perceived. David A. Aaker states that the most important thing regarding brand equity and brand identity is associations, as *"it is the heart and soul of the brand"* (Aaker 2002, 68). Aaker believes that, like brand equity is a set of different assets (brand loyalty, brand awareness, perceived quality and brand associations), brand identity is a set of associations. It is important that a company works on these associations in order to create or maintain them, as the associations represent what the brand stands for and what it wants to promise its customers. Aaker also states that if brand identity is executed in the right way it will help create a relationship between the company and the customers. This can be done by associating the brand with values that have a self-expressive, functional or emotional benefit (Aaker 2002, 68).

3.3.1 Four perspectives of Brand Identity

Brand identity consists of four perspectives where the brand is viewed in different ways:

- Brand-as-product
- Brand-as-organisation
- Brand-as-person
- Brand-as-symbol

The goal of these four perspectives is to help companies when creating an identity. The perspectives help a company enrich, clarify and differentiate the identity of the brand (Aaker 2002, 78). Below, figure 5 portrays Aaker's Brand Identity Planning Model that provides an overview of the brand identity's four perspectives.

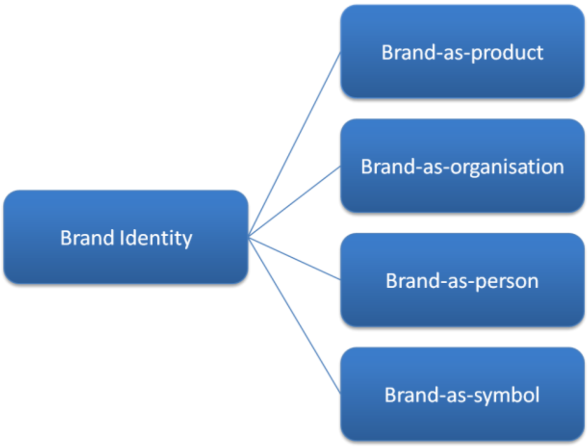

Figure 5 – Brand Identity Planning Model (Simplified model on the basis of Aaker 2002, 79)

It is not necessary for a company to use all of the four brand identity perspectives, as it can choose to use only one or several of them, if applicable. However, Aaker states that the company should keep all four perspectives in mind and then choose the one or ones that are most applicable for communicating the associations the company wants the consumer to have about its brand (Aaker 2002, 78). In the following paragraphs the four brand identity perspectives will be described and elaborated on.

3.3.1.1 Brand-as-product

Product trust is an important factor regarding brand identity as it influences the associations. The brand-as-product perspective has similarities with brand recall, which was mentioned in section 3.2.2. But, the difference is that with brand-as-product it is more desirable to have consumers mention the specific brand name when a person is in need of that product class. Whereas brand recall is more about what consumers think about or what product they think about when they hear the brand's name. Aaker describes it like this: *"The goal of linking a brand with a product class is not to gain recall of a product class when the brand is mentioned"* (Aaker 2002, 80).

3.3.1.2 Brand-as-organisation

If a company chooses to employ brand-as-organisation the focus will be on organisational attributes like innovation and quality. Organisational attributes are stronger regarding competition from other brands than product related attributes, as it is harder to copy a company and its programs, values and people than it is to copy a product. Organisational attributes can consist of several categories, which make it hard for a company with only one attribute to compete against other companies. It is hard for a company to convince consumers that it has better organisational attributes and that it does a better job executing them than its competitor. Aaker describes it in this way: *"it is relatively easy to show that one's printer is faster than that of a competitor; it is hard to show that one's organization is more innovative"* (Aaker 2002, 83). Organisational attributes can have a positive effect on the company and its values, and how these values are received by consumers: *"Associations such as a customer focus, environmental concern, technological commitment, or a local orientation can involve emotional self-expressive benefits based on admiration, respect, or simple liking"* (Aaker 2002, 83).

3.3.1.3 Brand-as-person

"Like a person, a brand can be perceived as being upscale, competent, impressive, trustworthy, fun, active, humorous, casual, formal, youthful, or intellectual" (Aaker 2002, 83).

If a company chooses to use the brand identity perspective, brand-as-person, it is possible for the company to create a stronger brand, than if it chose to focus on the product related perspective. Again, Aaker (2002) mentions two reasons that describe what brand-as-person can do for the company's brand. First, brand-as-person makes it possible for customers to express their personality through the brand. Second, it can create a relationship between the brand and the customer. The product serves a purpose for the customer, and thereby takes up a specific role in that person's life (Aaker 2002, 83-84).

3.3.1.4 Brand-as-symbol

"A strong symbol can provide cohesion and structure to an identity and make it much easier to gain recognition and recall" (Aaker 2002, 84).

It is important that a strong symbol is present in a company's brand. A symbol can be many things and everything that represents the brand. The three most important symbols are:

- Visual imagery
- Metaphors
- Brand heritage

Aaker states that *visual imagery* is powerful as it is memorable. It does not take much for a consumer to remember a specific brand when exposed to this kind of symbol, seeing that it usually will contain the brand's logo. Sometimes that is all it takes for a consumer to connect it to the brand, the name is rarely necessary. Often the logo alone will be enough for it to be recognised. If a company wants its brand to have more meaning it should use *metaphors* to market the brand. Aaker writes that for the company to achieve the best result possible, the metaphor should represent a self-expressive, functional or an emotional advantage. *Brand heritage* can help the company show what is behind the brand, in terms of its history. Furthermore, Aaker states that the company can use brand heritage to show what is the heart of the brand (Aaker 2002, 84-85).

3.3.2 Aspects of Brand Identity

"…having an identity means being your true self, driven by a personal goal that is both different from others' and resistant to change" (Kapferer 2004, 96).

In his book *The New Strategic Brand Management* Jean-Noël Kapferer emphasises the importance of communication in today's society, and the influence it has on branding. He believes that communication and products should share a common vision, so consumers understand that they belong to the same brand even though a company might have several products on the market at the same time. It is important that consumers feel that the company only has one brand and not several. The company should only send out one message (Kapferer 2004, 96).

Another aspect of brand identity is core and extended identity. For the core identity to be helpful and successful for a company, its values and strategy should be clear. If consumers receive and understand what the company wants to show with its core identity, the implementation has succeeded (Aaker and Joachimsthaler 2002, 43). Brand identity is most successful if a company is aware of choosing the right values and the right culture for the company. A company's values should be closely connected to its core identity (Aaker 2002, 86-87).

3.4 Brand Image

Brand image concentrates on how a brand is perceived. Keller defines brand image with these words: *"the perceptions about a brand as reflected by the brand associations held in consumer memory"* (Keller 1993. Quoted in Pitta & Katsanis 1995, 53). Brand image consists of three aspects regarding what consumers think about a certain product:

- Strength
- Favourability
- Uniqueness of brand associations

It is important for a company that it has a positive brand image in order for the brand and its product/s to achieve success. Keller states that for a company to create a positive image for the new extension, the company has to consider the abovementioned three aspects.

Strength is connected to the associations consumers have about the parent brand when they think about the brand extension, and how strong these associations are. Favourability is concerned with whether or not the associations have a connection with the product or service of the brand extension, and if they are positive or negative. Uniqueness focuses on whether or not the associations are different enough and better than other brands' associations (Keller 2003, 600).

3.5 Extending the Brand

The theory of brand extension is connected to the previous aspects of branding, as when choosing to extend a brand it is pertinent to look at what kind of identity the new brand should have and how consumers may perceive it in connection with the parent brand. The following section will account for the theory of brand extension and give a short description of related concepts, such as brand architecture and brand portfolio, in order to create a more coherent picture of brand extensions. The theory of brand extension provides an overall picture of how a company can extend its current business. As many of the strategies concerning brand extension can be applied whether a brand offers a new product or a new brand, we perceive it as applicable to use the theory of brand extension in connection with our problem statement. The exposition of the brand extension theory will mainly be based upon theorists such as David A. Aaker, Philip Kotler and Kevin Keller as these are well-known theorists within branding theory. Other theorists will also be applied in order to add additional information to the brand extension theory in order to create a more profound exposition.

3.5.1 Definition of Brand Extension

As various definitions of brand extension exist, it has been considered important to clarify the various definitions before the exposition of brand extension will be presented.

According to Middleton (2011), brand extension describes the process of a brand using its brand name to enter another arena, which is a process often applied when a brand is successful or is experiencing distress (Middleton 2011, 129).

Kotler and Keller (2006) define a brand extension as taking place when an established brand introduces a new product (Kotler and Keller 2006, 296). In the same vein Keller and Aaker (1992) define brand extensions as: *"the use of established brand names to enter new product categories or classes"* (Keller and Aaker 1992. Quoted in Doust and Esfahlan 2012). This definition encompasses both the fact that a brand extension can be in the same product category as the existing brand, but it also encompasses the fact that the brand extension might be an upward or downward extension, which will be elaborated on later in the brand extension theory. The above definition: *"the use of established brand names to enter new product categories or classes"* is applied by many scholars (Keller and Aaker 1992; Middleton 2011; He and Li, 2010; Pitta and Katsanis 1995) and hence seems to be the most acknowledged definition of a brand extension, and thus the definition which we have chosen to apply. With "*established brand names",* we believe that it is not only the name of the brand, but also the know-how of the established brand which can be utilised when a company devises a brand extension.

3.5.2 Ansoff's Growth Matrix

There are many ways to expand when companies seek out growth opportunities. A known marketing tool that is used by companies to consider how they can seek growth is Ansoff's Growth Matrix. The growth matrix is divided into four options that explain the different ways in which a company can choose to expand its current business (Partridge and Sinclair-Hunt 2005, 135). Figure 6 below, illustrates the four options:

- Market Penetration: Using current products in current markets
- Product Development: Using new products in current markets
- Market Development: Using current products in new markets
- Diversification: Using new products (either related or unrelated) in new markets

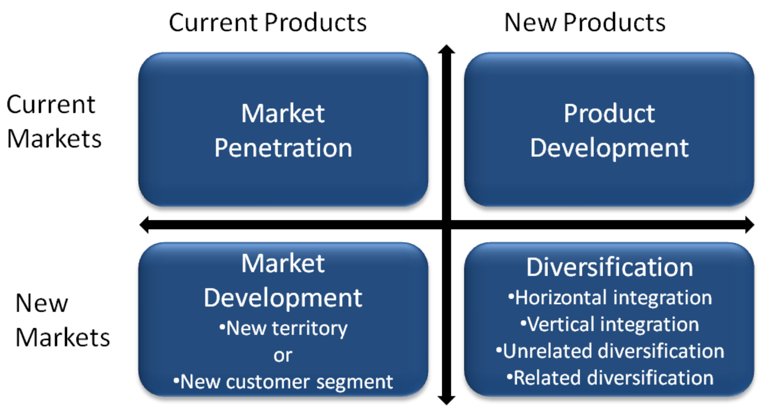

Figure 6 - Ansoff's Growth Matrix

(Own production from Kumar 2010, 175; Partridge and Sinclair-Hunt 2005, 135)

Partridge and Sinclair-Hunt (2005) have developed an extended explanation of the growth matrix as they provide several different choices within each of the four options. However, as not all the different choices are perceived as relevant in connection with the thesis we will only explain the extended choices within market development and diversification.

As the **market penetration** strategy is concerned with the company strengthening its current position it is not applicable in connection with this thesis, and hence it will not be further explained (Kumar 2010, 176). Furthermore, with the **product development** strategy the company introduces a new product in a current market (Partridge and Sinclair-Hunt 2005, 142), and as this thesis is concerned with new products introduced to a new segment, it will not be elaborated on any further.

Market Development

The market development strategy incorporates that a current product is used in a new market which is either a new customer segment or a new territory. If the company wishes to focus on a segment which has previously not been its target segment, its products should perhaps be adjusted or rebranded in order to suit the new segment. A potential risk when a company chooses to focus on a new segment is that it might risk the company's current target segments. However, seeking new markets may also prove to be remunerative if competition in the current market is too high or the market has become saturated (Partridge and Sinclair-Hunt 2005, 139-140).

Diversification

With the diversification strategy the company creates a new product for a new market (either segment or territory). This strategy involves a greater risk than the other options as the company is now faced with a completely new and unfamiliar situation (Kumar 2010, 176). There exist four kinds of diversification: *vertical* and *horizontal integration*, and *related* and *unrelated diversification* (Partridge and Sinclair-Hunt 2005, 145). Figure 7 shows the different diversification strategies. In the thesis we will only make use of the *unrelated* and *related diversification*, and hence the other two options will only be explained briefly.

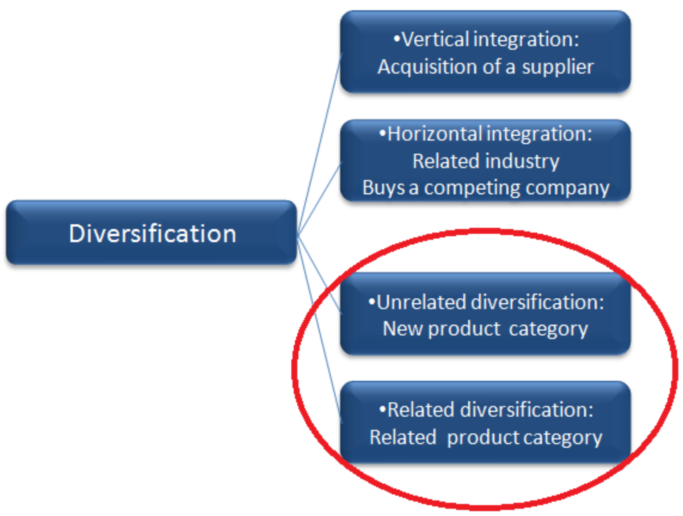

Figure 7 – The four diversification strategies (Own production)

Vertical integration occurs when the company grows through acquisition or establishment of new businesses in the supply chain. These acquisitions are conducted in order to obtain control of the supply chain. With horizontal integration the company starts to conduct business in areas which are related to the industry where the company is already conducting business and the company often buys a competing company (Partridge and Sinclair-Hunt 2005, 145). However, as these two aspects will not be used in this thesis, they will not be elaborated on further.

A company can choose between an unrelated and related diversification. With unrelated diversification the company introduces a product which has no pronounced connection to the kinds of products which the company has been occupied with previously (Orcullo 2007, 76). Related diversification is a strategy where the company develops a new product which is somewhat related to the products which the company is already handling. A company can choose this strategy when it is experiencing slowly growth and perhaps the existing products are at a declining stage in the product life cycle. By adding a new related product the company might wish to renew interest in its existing products in order to increase their sales, and thus enhance growth of all of its products. Another reason for choosing this strategy might be that the related product can be sold at more competitive prices and thereby is able to attract new customers (Orcullo 2007, 77).

3.5.3 How to Extend a Brand

Kevin Keller (2003) states that there exists three different ways in which a company can introduce a new product. Figure 8 shows the three ways to extend a brand.

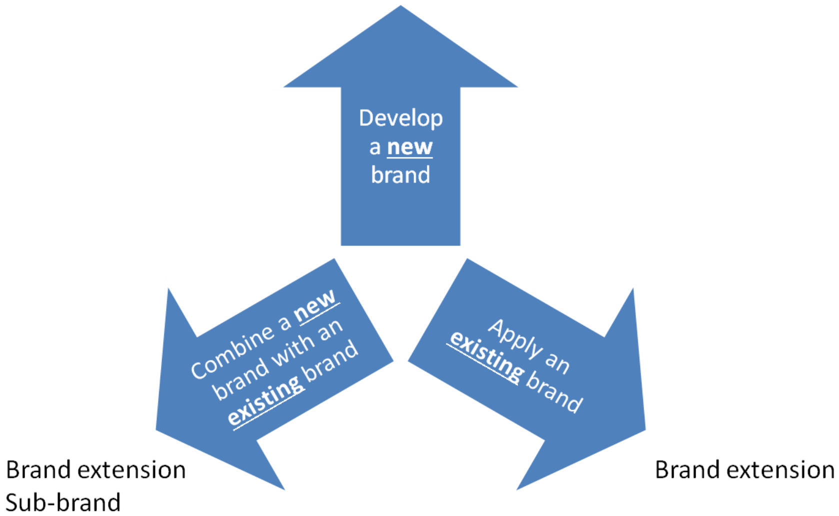

Figure 8 –Three ways to extend a brand (Own production)

- **First**, the company can develop a new brand, which is individually chosen for the new product.
- **Second**, the company can choose to apply an existing brand.
- **Third**, the company can choose to combine a new and an existing brand.

The second and third option is what Keller describes as a brand extension, where a company uses the name of an existing brand to launch a new product. This can also be added to Keller and Aaker's (1992) definition of a brand extension in section 3.5.1. The third option is also applied when the brand extension includes a sub-brand where an existing brand becomes the parent of the extension (Keller 2003, 577).

3.5.4 Different Kinds of Brand Extensions

Within brand literature scholars distinguish between four different kinds of brand extensions; line/category extension and vertical/horizontal extension (Aaker 1997; He and Li 2010; Keller 2003; Doust and Esfahlan 2012; Pitta and Katsanis 1995; Wang et al. 2012). In the following section the four types of brand extensions will be elaborated on.

According to Keller (2003), brand extension can be grouped as either being a **line extension** or a **category extension** (Keller 2003, 577).

A **line extension** occurs when an existing brand is used to market a new product within the existing brand's product category, but which is directed at another segment than the one which has previously been served by the brand. The objective is to use the name of the existing brand to expand the target market (Keller 2003, 577). An example could be offering new colours, flavours or packages (Kotler and Keller 2006, 296), such as Coca Cola's Diet Coke (Doust and Esfahlan 2012, 4236). According to Keller (2003), 80%-90% of new products are line extensions (Keller 2003, 581).

Keller describes a **category extension** as when an existing brand is used to launch a new product, which is in a different product category than the one, which have previously been served. An example could be a company, which sells clothes, but expands its product category by starting to sell perfumes (Keller 2003, 577).

Not all scholars apply line or category extension, but instead group extensions according to whether they are **vertical** or **horizontal extensions** (Aaker 1997; Aaker and Joachimsthaler 2002; Pitta and Katsanis 1995, Doust and Esfahlan 2012). Hence figure 9 is provided to create an overview of the four kinds of brand extensions.

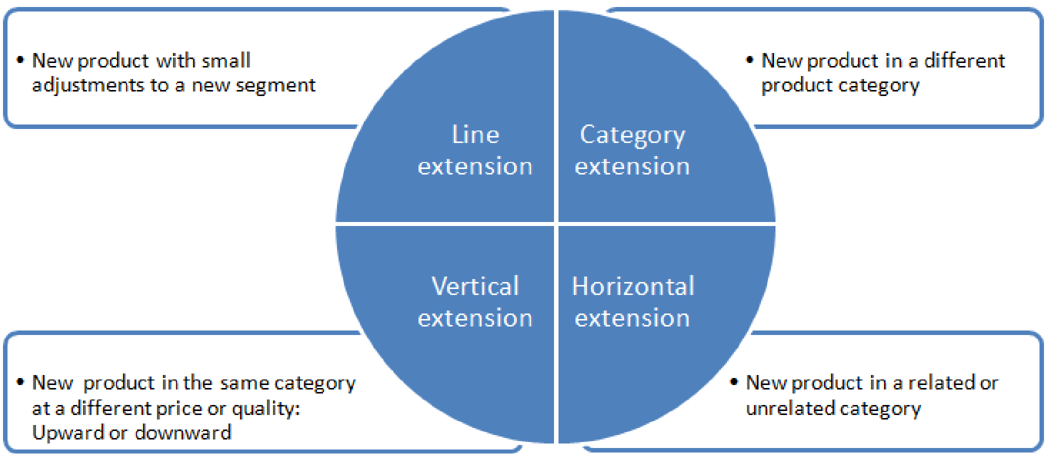

Figure 9 – The four types of brand extensions (Own production)

With a **horizontal extension** an existing brand name is used to launch a new product which is either in a related or entirely new product category than what the company has been occupied with previously. Thus, this definition is closely related to category extension (Doust and Esfahlan 2012, 4236; Pitta and Katsanis 1995, 60).

Aaker (1997) defines a **vertical extension** as taking *"... brands into a seemingly attractive market above or below their current positions."* (Aaker 1997, 135). He and Li (2009) broadly agree with this definition as they provide a more specific definition of a vertical extension as they include both price and quality: *"extending an existing brand to a product at a different price or quality level"* (He and Li 2009, 1368).

Before deciding to extend one's brand vertically, Aaker (1997) states that it is important to question whether or not an extension will add value to the existing brand, and even though some companies extend their brand vertically with success, Aaker recommends that companies avoid vertical extensions. With downward extension the existing brand might lose its image as a higher quality brand and once this image has been placed in the minds of consumers it is almost impossible to change (Aaker 1997, 136). Downward extension is especially risky when dealing with luxury brands and managers must work with even more caution as the luxury image is even harder to restore (Wang et al. 2012, 71-72).

To avoid any negative outcome with a downward extension Aaker (1997) and Keller (2002) propose creating a sub-brand at a lower price which could function as a *fighter brand*. Thus the fighter brand could prove to customers that there is a difference between the parent brand and the sub-brand, as well as protect the parent brand against competitors that try to cut prices in order to compete against the parent brand (Aaker 1997, 136; Keller 2002, 619). When creating a downward extension in the shape of a sub-brand the company risks that the parent brand's image might be damaged. In order to avoid this Aaker (1997) proposes that companies make a rationale for creating a sub-brand that is at a lower price and thereby prove to customers that quality has not been compromised (Aaker 1997, 137). By choosing to move the brand downscale and creating a sub-brand the company also runs the risk that the brand's existing customer base might choose the sub-brand (cannibalisation) as it offers less expensive products and thus the existing brand's reputation might change (Aaker and Joachimsthaler 2002, 155-156).

Keller asserts that a downward extension has the potential to become more successful than an upward extension, as it is difficult to change consumers' perception of a brand once it has been characterised as a cheaper brand (Keller 2002, 619-621). Altering the image of the brand with an upward extension is tricky as consumers might be sceptical towards the brand's ability to provide exceptional quality and deliver products which requires upscale associations from consumers. The difficulties introducing an upward extension may also be the reason why these kinds of extensions are rarely seen. Some companies have tried a different strategy by having a *shadow endorser*, which is the applied term when there is no explicit connection between two brands, and thus consumers may not be aware of the connection (Aaker 1997, 141-142).

3.5.5 Brand Extension Advantages and Disadvantages

According to Keller (2003), it is beneficial for almost all companies to extend their brand and he claims that the only questions are *when*, *where* and *how* the brand extension should take place. However, there is also a certain risk associated with brand extensions and Keller has developed a list of various advantages as well as disadvantages that needs to be considered before a company chooses to extend its brand (Keller 2003, 581 and 590).

3.5.5.1 Extension Advantages

Besides bringing revenue to the company, a brand extension has several positive outcomes. Keller (2003) has developed a list of various advantages of brand extension, which will be explained in the following section. However, as some of these advantages are closely linked, and only some of the advantages are seen as beneficial in connection with the problem statement, some of the advantages will be combined under new headings.

- **Improve Brand Image**

  A desired outcome of a brand extension is that the extension will improve the image of the parent brand by strengthening customers' associations of the parent brand or add new associations. Each time a brand extension takes place the values of the parent brand will be repeated and in that way improve the credibility of the parent brand. Thus with successful brand extension the parent brand's image is reinforced. A brand extension can also be applied to renew attention to an existing brand if consumers have started to lose interest (Keller 2003, 588-589). In this way a brand extension might revitalise the perception people hold of the existing brand. However, Keller further points out that when companies choose to launch a new brand under a different brand name, where consumers are unaware of the connection between the two brands (*a shadow endorser strategy)*, they lose the ability to improve the image of the existing brand (Keller 2003, 589).

- **Show Credibility**
  Consumers find it easier to trust a new product when the parent brand is already a well-know and well-reputed brand. Thus, consumers transfer the positive associations they have of the existing brand to the new product or brand in terms of quality and sustainability. In this way a brand extension might reduce the risk, which consumers may feel when they buy a new product (Keller 2003, 583).

- **Use the Image of the Parent Brand**
  Introducing a new product or brand under an already well-known brand will reduce the cost of the advertisement campaign, as the new offering is closely linked to the parent brand and thereby, does not have to start from scratch. As the existing brand is already well-known it is also easier to convince merchants to promote and sell the new product or brand (Keller 2003, 584).

- **Extend Brand Variants**
  Keeping the attention of customers is particularly important in order to make sure that they will keep buying a brand's products. Thus, with brand extensions customers are often able to choose from a portfolio of different product options. Hence, if customers become bored or dissatisfied with their current product they can change to another product within the product or brand family. A brand extension may, thereby, prevent that customers choose to buy products from a competing brand (Keller 2003, 585).

- **Entice New Customers**
  By extending the brand it is possible to create new products, which customers have previously lacked and thus existing customers might be enticed to stay and furthermore, it may also catch the eye of new potential customers. In this way, the brand might extend its coverage and appeal to segments which have previously been unreachable (Keller 2003, 589).

3.5.5.2 Extension Disadvantages

Finding out *when*, *where* and *how* to extend a brand is predominant if a company wants to avoid tarnishing its existing brand. As with brand extension advantages, it has been perceived that only some of the disadvantages with brand extension are significant in connection with this thesis, and as some of the disadvantages are closely connected several have been combined under new headings.

- **Create Confusion**
  When a brand offers a variety of different products or closely connected brands it might cause confusion for consumers, as they are in doubt of which product or brand to choose. Consequently, they might refuse to buy the new extensions and instead remain loyal to what seems familiar to them (Keller 2003, 590)

- **Hurt the Image of the Parent Brand**
  Extending a brand comes with a risk, and there is always a danger that the product/brand extension will fail. However, the failure of the extension is not the worst possible result, as the extension or its failure may cause a negative effect on the parent brand. Customers of the parent brand may feel that the parent brand has lost its uniqueness or identity, because the extension is seen as incompatible or conflicting with the parent brand. Hence, a brand extension might hurt the image of the parent brand (Keller 2003, 591-595).

  Furthermore, Keller points out that in cases where customers find it difficult to separate or distinguish between the different brand extensions, it may have a significant negative impact on especially high-end or prestige brands. In the 1980s, the high-end brand Gucci experienced a dilution of its brand, as the Gucci Company in an effort to increase sales extended its brand in various directions, selling items, which did not fit the prestigious image that Gucci possessed. Consequently, the brand became too common and the strategy failed as luxury buyers felt as if the brand was losing its integrity and distinctiveness (Keller 2003, 595 and 598).

- **Cannibalise Sales of the Parent Brand**
  The introduction of a new brand may be profitable for the company, but it might be caused by the fact that the new brand is stealing customers away from the existing brand. Consequently, the high sales of the new brand may simply be the consequence of customers choosing the new brand instead of the parent brand. This occurrence is what is known as *cannibalisation*, as the new brand reduces sales of the parent brand. Cannibalisation might occur if the two brands offer products, which are too similar and as a consequence customers might choose the brand which is the least expensive. However, cannibalisation may also be favourable, if the alternative is that customers

choose to switch to a competing brand. This is known as *pre-emptive cannibalisation* as the brand extension prevents customers from leaving (Keller 2003, 594).

- **Obscure Identification with the Brand**
  When a company decides to extend its brand to a variety of different brands or products, it runs the risk of diminishing identification with any of the brands, as customers may find it difficult to distinguish between the brands. A loss of identification is especially present when the company chooses a horizontal brand extension where it sells a range of diversified products (Keller 2003, 594-595).

- **Miss the Chance to Develop a New Brand**
  As Keller's list of advantages and disadvantages is composed with a view to the company extending its product portfolio, and thereby, not developing a completely new brand, the last point on his list is directed at a product extension without the involvement of a new brand. Keller explains that by introducing a new brand the company does not take advantage of the fact that with a new brand, with a completely new identity, the company might be able to target a whole new segment which have previously been unavailable. However, Keller refers to brands, which have developed a new brand that is completely separated from the parent brand and thereby not a sub-brand, which is seen as closely related to the parent brand, (Keller 2003, 598).
  Since this thesis is about the relationship between two closely connected brands, it was perceived that Keller's list was applicable in connection with the thesis.

3.6 Brand Architecture

Aaker and Joachimsthaler (2002), describe brand architecture as *"the vehicle by which the brand team functions as a unit to create synergy, clarity, and leverage"* (Aaker and Joachimsthaler 2002, 133). Brand architecture encompasses the structure of a company's various brands and it identifies how the company's various brands and sub-brands are connected to each other and to the company as a whole. The function of the brand architecture is to organise and manage the company's various brands. Staying aware of the relation between each brand makes it possible for the company to make sure that its brands do not overlap, and in that way make sure that consumers are not confused by the company's offerings. As there exist various ways in which a company can extend its brand, it is important to consider what effects the extension might have on the other brands in the brand portfolio, as well as which kind of extension is suitable (Aaker and Joachimsthaler 2002, 26).

Brand architecture and brand portfolio are closely related and hence, they are often confused. Whereas a brand portfolio is used as an *"inward-facing tool"* for the company to make sure that its brands are maximising sales and not stealing customers away from each other, brand architecture is an *"outward-facing tool"* directed at customers to make sure that they understand the difference between the brands (Prophet). Kotler and Keller (2006) describe brand portfolio as *"the set of all brands and brand lines a particular firm offers for sale to buyers in a particular category. Different brands may be designed and marketed to appeal to different market segments"* (Kotler and Keller 2006, 301). The objective of an effective brand portfolio is to make sure that the market coverage is maximised, and that potential overlap between the company's brands are minimised (Kotler and Keller 2006, 302).

3.6.1 The Brand Relationship Spectrum

A company wanting to extend its current business can choose among a number of strategies and there exist different brand architecture tools depending on which business strategy the company wants to utilise. According to Hansen (2012) and Aaker and Joachimsthaler (2002), there exist two extremities within branding strategies. The first strategy is *house of brands*, and the other is *branded house* (Hansen 2012, 71; Aaker and Joachimsthaler 2002, 106). With the *house of brands* strategy the company markets all its brands separately, whereas with the *branded house* strategy the company only works with one corporate brand (Hansen 2012, 71).

In-between the *house of brands* and the *branded house* strategy, there are two other branding strategies: *endorsed brands* and *sub-brands.* Underneath the four main branding strategies there are an additional nine subcategories (Aaker and Joachimsthaler 2002, 106). These branding strategies are shown in figure 10 below, which provides an example of how brand architecture might be structured.

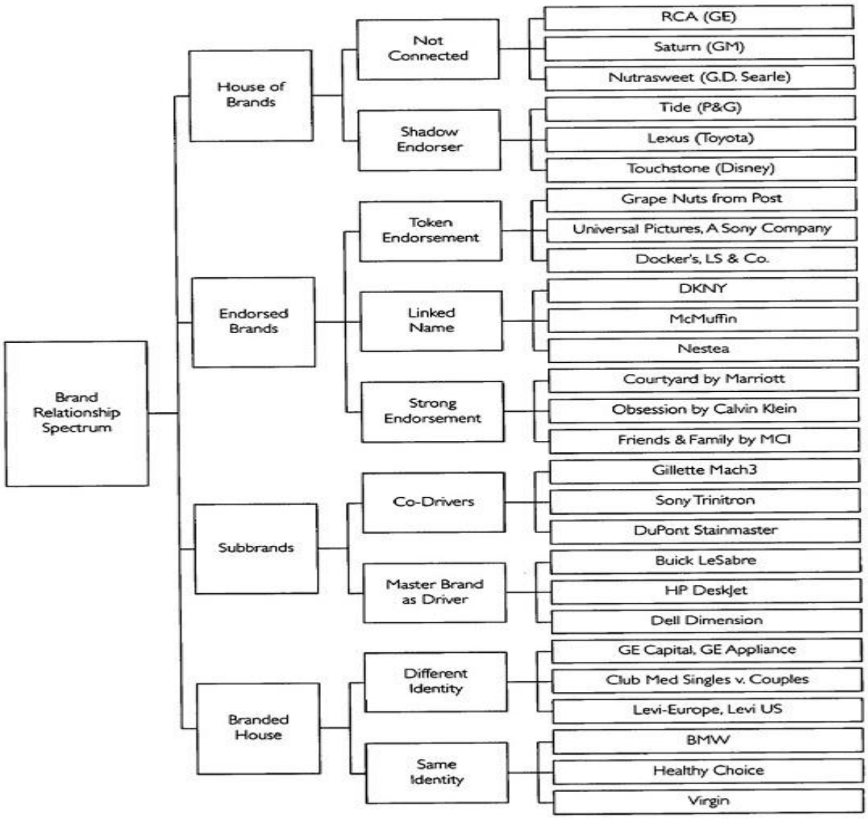

Figure 10 - Brand relationship spectrum (Aaker and Joachimsthaler 2002, 105)

The model is known as the brand relationship spectrum and it portrays in which way the brands are either connected or separated strategically, as well as which of the brands holds the driver role (Aaker and Joachimsthaler 2002, 104-105). The brand that holds the driver role is the brand which *"drives the purchase decision and user experience"* (Aaker and Joachimsthaler 2002, 103). This relates to why customers choose to buy a specific product and what associations they have of the purchased product. Hence, a customer choosing to buy an IBM ThinkPad computer may say that they have purchased a ThinkPad and not an IBM computer. Hence, the ThinkPad is the driver of IBM (Aaker and Joachimsthaler 2002, 103).

In the following section the four categories will be explained. As not every category is equally important in connection with the analysis, some of the sub-categories will be elaborated on while others will not be mentioned.

House of Brands

The advantages with a house of brands strategy is that each brand has an opportunity to target niche segments, and as they are not attached to each other, the brands avoid unfavourable associations (Aaker and Joachimsthaler 2002, 106). Furthermore, as each brand in the house of brands has its own unique and separate identity, each brand holds the position as driver (Aaker and Joachimsthaler 2002, 107). The brands in the house of brand strategy can be completely separated or they can be connected by a shadow endorsement (Aaker and Joachimsthaler 2002, 108-109).

Endorsed Brands

Endorsed brands are brands which have some kind of link to the corporate brand, but are still seen as independent. The corporate brand offers credibility to the endorsed brand in order to strengthen the endorsed brand's image. In connection with the driver role, the endorser brand/parent brand only plays a minor driver role, as it is the endorsed brand that is the main driver. With a linked name endorsement, consumers are able to associate the endorsed brand with the endorser because of a shared name. With a strong endorsement the parent brand provides a higher level of support to the endorsed brand (Aaker and Joachimsthaler 2002, 110-114).

Sub-brands

Sub-brands and parent brands are more closely connected than the endorsed brand and its endorser, and as a result a sub-brand has a greater ability to affect the parent brand either in a positive or negative direction. Furthermore, with this strategy the parent brand has a more dominating driver role than the endorser brand, explained above. According to Aaker and Joachimsthaler (2002), in a sub-brand/parent brand relationship, the parent brand is either the driver or the two brands function as co-drivers. In a situation where both the sub-brand and the parent brand share almost equal driver roles they are called co-drivers. For a co-driver strategy to function successfully, it is important that both the parent brand and the sub-brand offer equal quality (Aaker and Joachimsthaler 2002, 115-117). With the master brand or parent brand as driver, the endorsement from the parent brand assures consumers that they can expect the same quality and service from the sub-brand (Aaker 1997, 139). Yet, the parent brand is still the one which dominates the purchase decision and the user experience, as consumers buy the product due to the association they hold about the parent brand. Furthermore, the name of the parent brand is often dominating the logo of the sub-brand (Aaker and Joachimsthaler 2002, 117-118).

Branded House

With the branded house strategy, the parent brand or corporate brand assumes the position as dominate driver (Aaker and Joachimsthaler 2002, 118). Here it is the company which is branded and not each individual brand. This may prove to be beneficial, as it makes it possible to build a strong corporate brand (Hansen 2012, 73). Furthermore, this strategy increases brand awareness and creates more clarity, as consumers are not bound to work out how individual brands are connected to the corporate brand. However, a disadvantage is that when using a single corporate brand it might be difficult to target particular market niches, as the corporate brand has a specific image, which for some consumers might not be attractive (Aaker and Joachimsthaler 2002, 118-119).

3.6.2 The Sub-brand

As this thesis is centred on B&O's sub-brand; B&O PLAY, we perceive it as pertinent to include a section which is only concerned with the role of the sub-brand and its relation to the parent brand.

Sub-brands can be said to add associations to the parent brand and the role of sub-brands is often to enhance or modify the association of the parent brand. If a brand has a limited reach and is only focusing on one segment, a sub-brand may prove to be beneficial, as the sub-brand makes it possible to enter a new segment and at the same time enhance the knowledge of the parent brand. Furthermore, a sub-brand is less costly than constructing a whole new brand as customers already have associations about the parent brand. However, a sub-brand may also be more restricted as it has to remain loyal to the identity of the parent brand (Aaker and Joachimsthaler 2002, 103 and 106).

3.6.2.1 Definition of a Sub-brand

As with brand extension, there exist various definitions of what can be categorised as a sub-brand. Hence, in the following section we will account for the definitions we find to be the most pertinent in connection with the thesis.

Middleton (2011) describes a sub-brand as a facet of brand extension, where the sub-brand becomes a child of the existing brand, which in return becomes the parent brand (Middleton 2011, 131). Aaker and Joachimsthaler (2002), agree with this definition as they state that: *"Subbrands are brands connected to a master (or parent, umbrella, or range) brand that augment or modify the associations of the master brand"* (Aaker and Joachimsthaler 2002, 103).

Kotler and Keller (2006) have a more narrow definition of what a sub-brand is: *"when a new brand is combined with an existing brand, the brand extension can also be called a Sub-brand..."* (Kotler and Keller 2006, 296).

Aaker (1997) describes a sub-brand as *“a brand with its own name that uses the name of its parent brand in some capacity to bolster equity”* (Aaker 1997, 138). Aaker states that the sub-brand should tell new products apart from old/existing ones while taking advantage of the image of the parent brand. Furthermore, the sub-brand may bolster equity for the parent brand as it is able to extend the parent brand into a new market and hence, create new market opportunities (Aaker 1997, 138).

Hansen (2012) holds a more broad definition as she states that the term ‘sub-brand’ is a label, which can be used for all brands placed beneath the corporate brand, no matter which role they play in connection to the corporate brand (Hansen 2012, 77). Consequently, Hansen does not distinguish between endorsed brands and sub-brands.

In this thesis, we have chosen to rely on the definition provided above by Aaker (1997): *“a brand with its own name that uses the name of its parent brand in some capacity to bolster equity.”* It is a rather broad definition, but it still encompasses the fact that the sub-brand and the parent brand are closely connected in terms of a shared name and the purpose of the sub-brand is to create equity.

3.6.2.2 Perceived Fit and Relation

A perceived fit between the existing brand and the brand extension has been the focal point for many studies, and it may be of particular importance when dealing with sub-brands. Studies have shown that when consumers are introduced to a brand extension they compare the image of the brand extension to the image they hold of the parent brand (Doust and Esfahlan 2012, 4236). If consumers feel that there is a fit between the parent brand and the brand extension there is a greater chance for success. This is also the reason why line and vertical extension have a greater chance for success than category/horizontal extension (Aaker and Joachimsthaler 2002, 154). However, if customers feel a strong sense of loyalty towards the brand, it is possible for a company to develop a variety of different products successfully. This is the case with the Virgin brand that has extended its brand horizontally by offering a mixture of products and services (He and Li 2009, 1367).

With luxury products it is especially important that consumers perceive a fit, as the brand’s reputation and luxury image is at stake, and if this prestigious image is once lost it is almost impossible to regain. The luxury image may be tarnished if a misfit between the parent brand and the brand extension exists, but it may also be stained if the luxury brand is sold through discount shops, as this will cause it to lose some of its prestige (Wang et al. 2012, 69).

According to Aaker and McLoughlin (2010), the various options regarding brand extension can be decided according to the existing brand's image and what kind of products would fit the relation, which consumers have with the existing brand (Aaker and McLoughlin 2010, 218). Figure 11 shows the relationship between the existing brand/parent brand and the new offering.

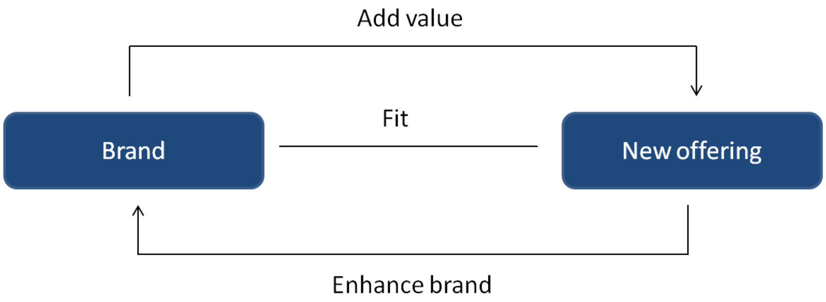

Figure 11 – Brand extension logic (Own production from Aaker and McLoughlin 2010, 218)

According to Aaker and McLoughlin (2010) it is essential to ask the following questions before deciding to extend a brand:

1) *Will the extension create a fit between the old and the new offering?*
   If consumers do not see a connection between the existing brand and the new product or brand the new offering is likely to fail.
2) *Will the existing brand add value to the brand extension?*
   If consumers feel that the existing brand and its name would be favoured in a new context the extension can be said to add value to the new offering.
3) *Will the brand extension improve the image of the existing brand?*
   The brand extension should also add value to the existing brand by improving the existing brand's image and reinforce its position in the market.
   (Aaker and McLoughlin 2010, 218-219).

The relationship between parent brand and sub-brand is particular important in order to create clarity. When a company creates a sub-brand or several sub-brands it might be difficult for consumers to distinguish between the various brands in the brand portfolio. To create a better overview and more cohesion in the branding strategy, it might be a good idea to formulate a *parent-child metaphor* (Aaker 1997, 140). By creating a metaphor it may become easier for consumers to distinguish between and identify with the brands. The child brand holds the same genes as the parent brand, but it often presents a more bubbling and playful side, and thereby, can be enticing another segment than the parent brand (Aaker 1997, 141).

4 Empirical data

This section will encompass the four brand extension cases. First the successes: Marriott and Ralph Lauren will be presented, followed by the two unsuccessful brand extensions: Gucci and Cadillac. Lastly, B&O's brand asset, in terms of B&O's equity, identity and image will be elaborated on.

4.1 Four Brand Extension Examples

As this thesis aspires to explore how B&O's sub-brand will influence B&O's existing brand, we found it essential to look at other cases of brand extensions, to examine how other companies have extended their brands, and whether or not their extensions have been successful or not. Thus, the aim of this section is to provide examples of brand extension successes and brand extensions failures in order clarify why or why not a brand extension might be remunerative.

This section along with the theoretical foundation will be applied in order to analyse our case, and create predictions about the future of B&O PLAY and its parent brand B&O. We have chosen to include four different brand extension cases, as we perceive four cases to be extensive enough to provide us with indications of whether or not a certain strategy might work or fail. Hence, two successful brand extensions, as well as two unsuccessful brand extensions will be provided. As B&O is a luxury brand, we found it applicable to analyse four brands, which are also within the luxury segment, as different precautions are present when dealing with a luxury brand. Furthermore, as B&O with their less expensive sub-brand tries to target another segment than the one they are currently serving, we find it important that the four brand extension examples have applied the same strategy, as this will be more comparable to our case.

4.1.1 Successful Brand Extensions

4.1.1.1 Marriott Hotels

Marriott International, Inc. is an American hospitality company owning more than 3800 properties in 74 countries. In 2012, Marriott had estimated revenues of almost 12 billion dollars. The company has existed since 1957, where the owners opened the first Marriott Hotel. Today the brand portfolio consists of 17 brands within excessive luxury and extended stay suites. Ever since the company's beginning, Marriott has kept expanding and in October 2012, Marriott International acquired Gaylord Hotels Brand and Hotel Management Company, which consist of an additional five hotels (Marriot (a)).

Figure 12 illustrates the various brands Marriott manages, as well as how the brands are differentiated from each other to make it easier for consumers to distinguish between the various brands (Marriott (b)).

Figure 12 – Marriott's brand architecture (Marriott (c))

The Marriott History of Innovation

The story of Marriott begins in 1927, when J. Willard Marriott and his wife Alice Marriott, opened the Hot Shoppers restaurant in Washington D.C. In 1957, the couple opened the world's first motor hotel in Virginia (Marriott (c)). In the 1960s, several Marriott hotels were added and within a few years Marriot hotels had surpassed the famous hotel chain, Hilton Hotel, in profit. Furthermore, the company started a fast-food chain and other catering companies. Marriott's aim, at the time, was to focus on business people that were willing to pay more for good quality (Grant and Pederson 1998).

The company survived during the economic setbacks in the late 1970s and1980s, and as other restaurant business closed, Marriott kept expanding, adding several new hotels to its hotel chain each year. Moreover, the company acquired a restaurant chain and an airline catering kitchen. But the management at Marriott soon discovered that consumers were less willing to pay for quality in times of economic distress. As Marriott was only providing hotels in the upscale market, it was soon discovered that in order to continue to expand, the company had to focus on offering hotels at a lower price (Grant and Pederson 1998). Hence, in 1983 Courtyard by Marriot was established. It offered the same high-quality rooms, which Marriott was known for, but luxury facilities were cut away. In 1984, Marriott Vacation Club was added to the brand portfolio. Thus, Marriot became the first hospitality company that offered a portfolio of brands as it extended its brand collection with several new brands such as the Fairfield Inn & Suites by Marriott, and acquired the Residence Inn by Marriott, for extended stay travellers. By 1988, Marriott opened its hotel number 500 and was now managing Marriott Hotels and Resorts (the main brand), Courtyard, Fairfield Inn and Residence Inn (Marriott (d)).

In 1993, the Marriott Corporation split into two, meaning that Host Marriot owned the hotels and Marriott International managed the various brands. In 1995, the company bought half of the Ritz-Charlton luxury hotels, and in 1998, Marriott purchased the remaining shares (Keller 2003, 620). In the 1990s, the company expanded quickly and from 1997 to 1998, Marriott acquired the Renaissance Hotel Group and launched the TownePlace Suites, Marriott Executive Residences and the SpringHill Suites by Marriott (Marriott (d); Grant and Pederson 1998).

In 2004, Marriott opened the first Bulgari Hotel & Resorts in Italy (Marriott (d)), a leading luxury hotel and resort (Marriott (e)). In 2008, the EDITION brand was launched and the following year the Autograph Collection, both upscale luxury hotel brands. In 2011, the AC Hotels by Marriot was launched, targeting younger travellers wanting to stay in city locations (Marriott (e)). The newest edition to the brand portfolio is the Gaylord Hotels, which celebrate the history of each location where they are located (Marriott (f)).

In 2012, as Marriott celebrated its 85th birthday it was announced that Marriott would continue its constant innovation as well as the establishment of new brands (Marriott (d)).

Marriott's Brand Identity

In regard to Marriott's brand identity, the company's values are expressed on their website: *"putting people first, pursuing excellence, embracing change, acting with integrity and serving our world"* (Marriott (g)). Marriott cherishes its brand heritage, and it is stated on its website that the company value its proud heritage and founding principles. Thus, it could be said that the Marriott brand itself, according to Aaker's *brand-as-symbol: brand heritage* and *brand-as-organisation* (section 3.3.1.4), as Marriott proudly outlines each step of its story of innovation on its homepage, a story which sets it apart from other companies (Marriott (d)). Furthermore, in an interview with the company's CEO, "Bill" Marriott Jr., in 2005, he explained why the company is so hard to copy: *"We continue to change. We always have. At the same time, we care for our guests and make them feel welcome. That's something that's hard for our competitors to duplicate"* (Bloomberg Businessweek).

Marriott's vision is to be the number 1 hospitality company in the world, but its aspiration does not intervene with the fact that Marriott claims that it will *"stay true to who we are"*, which again shows its use of the *brand heritage symbol* (Marriott (g)). As shown in figure 13, Marriott's symbol is a specially designed "M" that is easily distinguishable, and thus, Marriott makes use of the *brand-as-symbol: visual imagery*, where consumers may recognise the brand due to its logo (Section 3.3.1.4).

Figure 13 – The Marriott sign (Marriott (e))

Marriott's Brand Image and Brand Equity

In 2011 Marriott won 13 awards, one of them being *"The Most Admired Company in the Lodging Industry"* and furthermore, Marriott was the highest ranked hospitality company in 2011 (Marriott (h)). According to Marriott's CEO, the image of the company is consistency, which is evident throughout the company's many brands: *"Our brand image is consistency. When you come to a Marriott, you know you're going to get friendly and efficient service and a room where you can get your work done"* (Bloomberg Businessweek).

In terms of Marriott's *brand loyalty* (Section 3.2.1), the company offers two loyalty programs: Marriott Rewards and The Ritz-Carlton Rewards that reward guests with points each time they visit one of Marriott's hotels. In 2012, the two loyalty programs had more than 41 million members and customers owning a reward program bought more than half of Marriott's total bookings (Marriott (i)).

Marriott is a well-known and valued hotel brand, which was evident in 2012, as five Marriott hotels were voted the best in Europe by *The World Travel Awards*. *The World Travel Awards* is perceived as the *"Oscars of the travel industry"* and hotels are nominated by both travel professionals and consumers around the world (Hotel Industry Magazine). The fact that Marriott was able to receive such prestigious awards indicates that the company has a strong *brand name awareness* and favourable *brand associations*, according to brand equity (Section 3.2.2 and 3.2.4).

Marriott's Brand Extensions

Marriott has applied an extensive amount of brand extensions within a mixture of the *house of brands*, *endorsed brand*, *sub-brand* and *branded house* strategies (Section 3.6.1). As figure 12 indicates, Marriott has made use of *vertical extensions* as it has both launched hotels above and below the position of its first hotel, in terms of price and quality (Section 3.5.4).

The *house of brand* strategy is applied with Marriott's luxury brands, such as The Ritz-Charlton, Bulgari Hotel & Resort and EDITION. This strategy is used in order for Marriott to differentiate its luxury hotels from the Marriott brand, and especially the lower priced brands, as it is difficult to change consumers' perception of an upward extension since the brand will still be associated with a cheaper brand (Section 3.5.4). The strategy is applied to make sure that iconic luxury brands such as The Ritz-Charlton is not associated with Marriott, and so it can be said that Marriott has applied a *shadow endorser* strategy (Section 3.5.4). Thus, the connection between Marriott and The Ritz-Charlton is not visible, but consumers may know the link between the two brands as Marriott promotes the hotel on its website. The *shadow endorser* strategy is perhaps the most judicious strategy in this case, as according to Keller, it is difficult to change consumers' opinion, once they have characterised a brand as being a cheaper brand.

Marriott's lower price hotels are *endorsed brands,* which have a *strong endorsement* from the parent brand. The Marriott brand provides support to the endorsed brands, but the endorsed brands are still the ones that hold the position as drivers. The Marriott endorsement is also visible in each of the hotels' symbols, where the Marriott name assures customers that they can expect a certain quality (Section 3.6.1). However, at the same time it could be said that Marriott differentiates itself from Courtyard, SpringHill Suites, Fairfield Inn & Suites and Residence Inn as the Marriott name is not as prominent as it could have been with an example like "Marriott Courtyard". Figure 14 shows the signs of four of Marriott's endorsed brands.

Figure 14 – Marriott's endorsed brands (Marriott (e))

A few of Marriott's brands can be seen as *sub-brands* as they have a closer connection to the parent brand in terms of a shared name. This is the case with Marriott Vacation Club where Marriott, as the parent brand, assures customers that they can expect the same quality as with the parent brand. The fact that Marriott has such a strong appearance on the Marriott Vacation Club sign indicates that the Marriott brand is still the one which dominates the purchase decision and user experience. Additionally, with this strategy Marriott may be said to apply a *branded house* strategy, as the parent brand assumes the role as the dominate driver where the subordinate brands only have a small driver role (Section 3.6.1). Figure 15 shows the Marriott Vacation Club sign, where it is apparent that the endorsement to the sub-brand is stronger compared to the four endorsed brands examined above.

Figure 15 - Marriott's sub-brand: Marriott Vacation Club (Marriott (e))

According to *Ansoff's Growth Matrix* it can be said that with each new acquisition or launch of a new brand, Marriott has applied a *diversification* strategy. Marriott is only operating in the hospitality industry and thus is offering related products, but each hotel is targeting different segments, and so it can be said that Marriott uses a *related diversification* strategy (Section 3.5.2). *"Each Marriott brand has a distinct personality and style. Marriott works hard to communicate the essence and strength of each brand so that target customers know what to expect"* (Capon and Hulbert 2007, 191-192). Marriott has applied this strategy successfully, as the company has managed to recognise "*...the varying needs of hotel customers..."* (Capon and Hulbert 2007, 192).

By targeting several different segments Marriott has achieved several advantages with its brand extensions. By endorsing some of its brands, Marriott has used the image of the parent brand to show credibility, and consumers may choose one of Marriott's hotels if they are worried about the quality and service of an unfamiliar hotel. The fact that customers are able to choose from a great variety of brands may also prevent customers from deciding to shift to another brand if they are dissatisfied with a hotel they have previously booked. Additionally, new customers might be enticed to try one of Marriott's many offerings (Section 3.5.5.1).

4.1.1.2 The Ralph Lauren Corporation

Ralph Lauren is an American luxury lifestyle brand. In 2012, the Ralph Lauren retail segment consisted of 379 stores, 474 concessions-based shop-within-shops and three online shopping websites. Furthermore, in 2012, Ralph Lauren had estimated revenues of almost 7 billion dollars (Reuters (f)). The Ralph Lauren brand dates back to 1967, where Ralph Lauren started designing men's ties. Back then the brand was known as Polo Ralph Lauren. In 1971, the first collection of women's fashion was launched, and in the 1980s, the company expanded its production to include home furnishing design. In the beginning, Ralph Lauren only designed clothing that was in the higher end of the scale, but in 1974, and again in the 1990s the company launched clothing lines that were sold only in department stores. These lines were launched under the names *Chaps, Lauren* and *Ralph* (Aaker & Joachimsthaler 2002, 130).

The company has existed for 45 years and is now one of the most successful brands in the world within the fashion industry (Aaker and Joachimsthaler 2002, 129). The Ralph Lauren Corporation ranks as number 98 on Forbes', a business news website, list of the world's most powerful brands, and number 907 on the list of the world's biggest public companies (Forbes (a)). The company is active within the fields of design, marketing and distribution of products. The company designs clothing for men, women and children. Furthermore, it designs everything that can be categorised under accessories (footwear, eyewear, watches, jewellery, hats, belts and leather goods), fragrances and products for the home (Forbes 2013 (a)). The world of Ralph Lauren consists of several brands, and today, the brand portfolio consists of 12 brands: *Polo by Ralph Lauren, Ralph Lauren Purple Label, Ralph Lauren Collection, Black Label, Blue Label, Lauren by Ralph Lauren, RRL, RLX, Ralph Lauren Childrenswear, Denim & Supply Ralph Lauren, Chaps* and *Club Monaco*.

Ralph Lauren and Brand Equity

Seeking Alpha, an American stock market analysis website, stated in 2011 that Ralph Lauren is a company that has a very strong brand equity, which is the reason why the company has survived the financial crisis, and has been able to maintain its market position. Seeking Alpha also declared that Ralph Lauren is *"arguably one of the most well known and appreciated brands (not just in fashion) in the world"* (Seeking Alpha 2011).

As described in section 3.2.5, good *customer-based brand equity* is favourable as it might make it easier for consumers to accept a brand's extension*. Customer-based brand equity* is connected to what consumers have felt, seen, learned and heard about a brand, and it is through these aspects that the company can achieve a strong and powerful brand. On Ralph Lauren's website and on the Internet, there are very little information available about brand extensions executed by the company and whether any of them have gone wrong. Taking that fact into consideration, and the fact that Ralph Lauren is one of the world's most successful fashion brands, one would assume that Ralph Lauren has what is considered as good *customer-based brand equity*. Moreover, the information provided by Seeking Alpha also indicates that customers are loyal towards the Ralph Lauren brand, even during a financial crisis where people are more aware of how they spend their money (Seeking Alpha 2011).

Additionally, the amount of brand extensions that the Ralph Lauren Corporation has implemented also indicates that the company has succeeded in obtaining good *customer-based brand equity*. In section 3.2.5, it is described that a company has to be careful in terms of brand extension, especially if it is considering to implement more than one. Ralph Lauren succeeded in launching several brands under the Ralph Lauren brand, which seems as if the brand is well received by customers, showing that the parent brand and the sub-brands all have loyal customers. In 1974, Ralph Lauren launched its first "budget" sub-brand – Chaps. Chaps was targeted at a less upscale segment, but it was still the same classic Ralph Lauren style customers could purchase. In this particular case, the company chose to apply a new name to the sub-brand, which was considered as a clever choice, as it helped prevent a *brand equity dilution* (Section 3.2.5). At the time the Ralph Lauren Corporation was still fairly new, so it was important for the company to separate Chaps from the Ralph Lauren Polo brand (Aaker & Joachimsthaler 2002, 130).

Brand extensions should create equity for the sub-brand as well as for the parent brand. It is essential that the brand extension, in terms of brand equity, both strengthens and creates more positive association for the parent brand (Section 3.2.5). As mentioned earlier, Ralph Lauren launched less expensive clothing lines in the 1990s under the sub-brands Ralph and Lauren, which are still sold in department stores. This helps to create positive associations as it indicates that the company has every customer's and consumer's need in mind as the Ralph Lauren Corporation offers both high-end and high-street products, which are less expensive products. With the above mentioned two brand extensions, Ralph Lauren provides cheaper products and with all of its sub-brands combined, Ralph Lauren offers something for every segment of its target market.

Ralph Lauren's Brand Identity and Image

Since the establishment of the Ralph Lauren Corporation, the logo of the brand has been the image of a polo player, which can be seen in figure 16 beneath. Even though it is a very simplistic logo, it holds everything that is associated with the Ralph Lauren Brand, whether it is the parent brand or one of the sub-brands. Judging from the fact that the parent brand as well as all of its sub-brands holds the same symbol it may be assumed that whenever a person is asked or reminded about Ralph Lauren, it is the image of the polo player that comes into mind. Thus, it is perceived that Ralph Lauren has a strong *symbol* (Section 3.3.1.4).

Figure 16 – The Ralph Lauren logo

The logo represents the company's core identity, which is associated with exclusive design and quality. Furthermore, the logo embodies what characterises the fashion brand. The Ralph Lauren products are often associated with the country club lifestyle. This specific lifestyle represents good taste, a classic, elegant and yet understated clothing style (Aaker & Joachimsthaler 2002, 129).

David Lauren is the person who is in charge of Ralph Lauren's brand identity. In an interview from 2012, he described Ralph Lauren in this way: *"We always say that it is never about a single shirt, or a pair of pants, or a suit, or a gown. It is about attitude and spirit"* (Petcu 2012).This statement represents how the Ralph Lauren Corporation wants to be perceived. The company wants consumers and its customers to view The Ralph Lauren brand as being more than just clothes and home furnishing, and they believe that when you purchase a Ralph Lauren product, you buy a lifestyle. This can also be seen in these lines from the interview: *"… the Ralph Lauren brand seems to have been around forever and the biggest achievement of his company is the use of the name as an adjective – people today saying 'That's so Ralph Lauren"* (Petcu 2012). The brand is so established that consumers can differentiate it from other luxury fashion brands and recognise if other brands have something that is similar to the company's design and style.

Another aspect of Ralph Lauren's brand identity that is very piercing is the fact that it is an American fashion label. Since the beginning the company has been true to its national roots. This can be seen in the associations that the brand provides consumers with. Associations such as the country club lifestyle, which is very characteristic of the U.S. as well as the sporty and preppy clothing style that the Ralph Lauren brand represents. Moreover, the company is true to its national roots by being a big supporter of the American national Olympic teams and a sponsor of the US Open (Petcu 2012).

Regarding the Ralph Lauren sub-brands and the company's success, it can be said that Ralph Lauren has made some wise choices over the years. The company's image might have been improved due to the choice of launching collections aimed at a less upscale segment as Ralph Lauren has attained an image of being customer conscious. The company has been aware of both its customers' and consumers' needs and demands, which affects the associations and perceptions people hold of the company. This might have helped Ralph Lauren in attaining and building a strong image and brand identity.

Ralph Lauren and Brand Extension

As described in the theoretical foundation, an aspect of branding is *brand architecture*. *Brand architecture* provides consumers with an overall structure of a company's brands. It shows how the brands are connected to each other and to the company. It is a helpful tool for the company, as it makes it possible for the company to organise and manage all its brands. In terms of consumers it is helpful, as the *brand architecture* makes sure that the brands do not confuse consumers, as it provides them with an overview. *Brand architecture* is important as it helps the company figure out whether or not it should extend its brand and, furthermore, which direction might be the right one for its brand (Section 3.6). Below you will find the *brand architecture* of the Ralph Lauren Corporation, which will help provide an overview of the company's multiple brands (Figure 17).

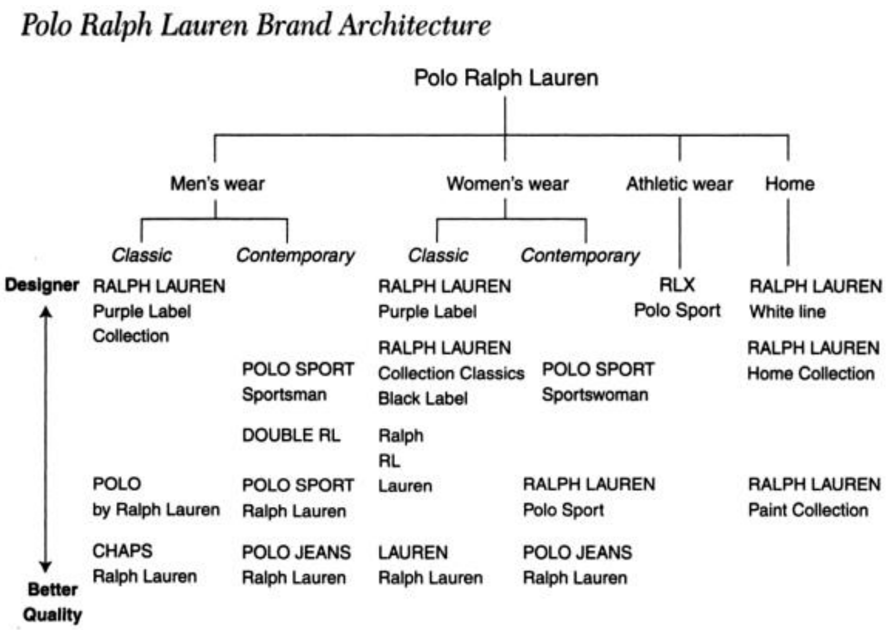

Figure 17 – Polo Ralph Lauren brand architecture (Aaker and Joachimsthaler 2002, 133)

As mentioned earlier, Ralph Lauren chose to launch a new and less expensive clothing line in the 1990s, which was sold in department stores. This provided the company with new related products and a new customer segment. The adjustment made by Ralph Lauren with the Ralph and Lauren sub-brands, was a price reduction. The company made sure that the products suited the new segment, which made it possible for the brand to attain a strong position, in terms of its competitors within the field of high-street products. Thus, Ralph Lauren made use of a *related diversification strategy*, as the new products had a relation to its already existing products. One of the reasons as to why a company chooses this strategy might be the fact that the product can be sold at a price that is similar to its competitors in that specific field. Moreover, this strategy will help the company attract new customers (Section 3.5.2).

Furthermore, Ralph Lauren has also made use of *unrelated diversification* as it has introduced products which are not connected to its existing product portfolio, such as home furnishing products.

A risk that is included when a company chooses to seek growth by *diversification* is that the company is faced with an unfamiliar situation. But, in the case of Ralph Lauren it can be assumed that the company knew how to address its customer segment and thereby it achieved a positive and successful result. The choice of extension made it possible for the Ralph Lauren Corporation to enter a new segment and offer lower and competitive prices while benefitting from the Ralph Lauren brand's equity (Aaker & Joachimsthaler 2002, 131).

One type of brand extension that has been applied by the Ralph Lauren Corporation is *category extension*, which can also be defined as *horizontal brand extension*. When a company chooses to apply this type of brand extension, it is planning to launch a new product, which belongs to another product category than the company has been occupied with before (Section 3.5.4). Ralph Lauren has produced both fragrances and home furnishing products, which were not a part of the company's product category from the start.

Moreover, Ralph Lauren has made use of *vertical brand extension*. This type of brand extension is applied when a company wishes to launch a product that is below or above its current position, in terms of price or quality (Section 3.5.4). In the 1980s, Ralph Lauren launched its sub-brand, the Ralph Lauren Collection, a collection for women. It was a *vertical brand extension*, as it was a more exclusive collection with a higher price level targeted at an upscale segment. Hence, Ralph Lauren launched a brand that was above its current position (Aaker & Joachimsthaler 2002, 130).

Additionally, the company also launched collections that were below its position, namely the Ralph and Lauren collections, which have been mentioned earlier. In section 3.5.4, this can also be described as *fighter brands*. A *fighter brands* is used to show consumers that there is a difference between the sub-brand and the parent brand, which Aaker (1997) and Keller (2002) believe to be a clever decision, in order for a company to avoid any negative outcomes. Furthermore, a *fighter brand* helps the parent brand in terms of competition. Thus, it is helpful when the parent brand has to compete against opponents that are implementing price reductions. Ralph Lauren was aware of the fact that it had to make sure that consumers were aware of a difference between its new sub-brands and the parent brand. The sub-brand, Lauren, still held the same quality as the upscale collections, but changes in the design were made. The Lauren Collection was targeted at another customer segment: *"…the young, smart, and sophisticated woman who wants to be cutting-edge but tasteful"*. The collection was more body-conscious and had more daring details (Aaker & Joachimsthaler 2002, 131). As mentioned earlier, this *vertical brand extension* affected Ralph Lauren in a favourable way, as it reinforced the company's brand equity.

In section 3.5.5, advantages and disadvantages of brand extensions are described. One advantage is *credibility*. If a company already has a well-known and well-reputed parent brand it is easier for consumers to accept a new sub-brand. Before its brand extensions, Ralph Lauren was already a well-known brand with a positive reputation, which might be the reason why the extensions have all been well received and successful. Furthermore, it can be estimated that customers believe that there is some kind of *fit* between the parent brand, Ralph Lauren, and its sub-brands, which makes it easier for customers to accept any new offerings (Section 3.6.2.2) Despite the amount of brand extensions that Ralph Lauren has implemented and the risks a financial crisis can entail, the company has been able to retain its leading position within the fashion industry. From this it can be said that Ralph Lauren has succeeded in choosing the right brand extensions with the use of an effective *brand architecture* which makes it easier to distinguish between Ralph Lauren's various brands.

4.1.2 Unsuccessful Brand Extensions

4.1.2.1 Gucci

Gucci is a well-known and world famous luxury fashion brand that has existed for 92 years. The fashion company was founded in 1921, in Florence, Italy by Guccio Gucci, where it designed and produced small leather goods and luggage in a small store (Gucci (a)). Gucci is a part of the Gucci Group, owned by PPR (known as Kering as of 18 June, 2013), a French fashion conglomerate. The Gucci Group includes some of the most well-known and well-reputed fashion brands, among others: Balenciaga, Bottega Veneta, Stella McCartney, Alexander McQueen and Saint Laurent (Gucci (b)).

Gucci ranks as number 60 on the list of the world's most powerful brands. On Forbes it is listed that Gucci's revenue currently is $4,3 billion, and as of October 2012, the company's brand value was $11,9 billion. Today, Gucci designs clothing collections for men, women and children. Moreover, it is active within the field of accessories, fragrances and leather goods (Forbes (b)).

Historical Highlights

From its early start, the Gucci brand experienced overwhelming success and quickly established a renowned name for itself, and a reputation of being a brand of exclusivity (Gucci (a)). At the time, Gucci's customers were sophisticated people vacationing in Florence (where the first store was located) and local horse-riding aristocrats. Holiday visitors visited the small Gucci store due to its positive reputation and the special designs. The designs were inspired by riding equipment and consisted of bags, trunks, gloves, shoes and belts (Gucci (a)). In the 1950s, Gucci slowly started the process of becoming a global company by opening up stores in Milan and New York. This process continued through the 1960s, where Gucci opened new stores in London, Paris, Palm Beach and Beverly Hills. In the 1960s, the Gucci brand became known and famous for its classic design, and celebrities slowly started wearing the products. One celebrity that made Gucci more popular and known was Jackie Kennedy. The company renamed the Gucci bag she was seen wearing after her and called it the Jackie O bag. The 1960s was also the decade where Gucci introduced a new design logo, the logo the company is most known for today, namely the double G's. The logo can be seen beneath in figure 18 and will be elaborated on later. In the 1970s, Gucci extended its designs to also include ready-to-wear collections (Gucci (a)). In the 1980s, Gucci started to experience harder times due to bad manufacturing, a family feud, and a battle against countless copies slowly started to emerge (Keller 2003, 595). This downturn of the Gucci brand will be the subject of the following paragraphs.

Gucci and Brand Equity

As mentioned, the Gucci brand has a brand value of almost $12 billion, and today Gucci is one of the most desired brands in the world. A survey conducted in 2008, showed that if Gucci products were not so expensive, more consumers would buy Gucci products rather than products from competing brands such as Chanel or Louis Vuitton (Forden 2008).

In the 1980s, Gucci implemented a brand extension that involved designing high-street products. At the time it was Maurizio Gucci who was the chairman of Gucci. His goal was to streamline the Gucci brand, but this resulted in the company having too many products in stock and it became a holder of a large number of licensing agreements. The company no longer had an overview of its brand; it had become uncontrollable (Vogue).

During this time Gucci produced a vast amount of high-street products. The company had experienced an immense level of success and recognition, and was now trying to increase its sales by reaping its current accomplishment. At the time, the existing collection consisted of 22.000 products that were sold in all department stores (Keller 2003, 595). Originally, consumers associated the Gucci brand with luxury and quality, but with the extension consumers started to perceive the brand in a different way, and the brand became associated with cheap products of poor quality, due to the materials that was used to produce them (Keller 2003, 595).

In section 3.2.5, good *customer-based brand equity* is explained. If a company is in possession of what is considered as good *customer-based brand equity*, it will be easier for the company to implement a brand extension without its customers turning their back and choosing a competing brand. In the case of Gucci, it can be assumed that the company had good *customer-based brand equity* in the first decades of its corporate life, considering the status that the company quickly established for itself, as consumers associated the brand with luxury, status, quality and elegance (Keller 2003, 595).

Moreover, *customer-based brand equity* is connected to what consumers have felt, seen, learned and heard about a brand (Section 3.2.5). During its time of decrease, it can be assumed that the Gucci brand started to lose its good *customer-based brand equity*. The brand extension changed how consumers perceived the brand. What they normally felt and knew about the Gucci brand was no longer applicable. Even though Gucci with the brand extension launched high-street products, it can be assumed that consumers still expected the products to maintain the design that Gucci was known for – that it would still symbolise status and quality. But, the products turned out to be too mainstream and cheap looking. The resemblance between a cheap copy from the street and an original Gucci product, whether it was a high-street or a high-end one, was too similar (Keller 2003, 595).

The downturn continued into the beginning of the 1990s, and due to a big family feud combined with the failure of streamlining the brand, which had become uncontrollable, the Gucci brand was now experiencing decreasing brand equity and facing the possibility of bankruptcy. The Gucci family was starting to lose control over their company. In 1990, the company hired a new designer, Tom Ford. This young designer ended up being the one person who could save the company and regain the brand's recognition and increase its brand equity again (Vogue).

Today, Gucci is one of the most desirable and famous fashion brands in the world. The Gucci brand's value taken into consideration indicates that the company has turned everything around and has continued to grow since its downward period in the 1980s and1990s.

Gucci's Brand Identity and Image

In its first decades, Gucci experienced a lot of success and the brand was characterised with words like luxury, elegance, quality and status. Gucci had what would be defined as a strong brand and a powerful image (Keller 2003, 595). The Gucci brand has a very simplistic logo that consists of five black block letters. Moreover, another Gucci logo exists, a logo that might often be the one that most consumers associate with the Gucci brand, namely the double G's. The two logos can be seen beneath, portrayed in figure 18.

Figure 18 – The two logos of Gucci

The double G's, also known as the Gucci monogram, was used as fastenings on bags and as a pattern on the luggage that the company designed, which quickly made the brand known all over the world. Over the years, the monogram has been used on almost every product that Gucci has designed, everything from scarves to shoes and jewellery. The Gucci monogram is now a symbol of status, high glamour, desirability and a contemporary edge (Gucci 2013 (c)).

As mentioned, the Gucci brand's popularity turned upside down and the company started to experience a *brand equity dilution* (Section 3.2.5) due to its choice of brand extension, which as mentioned earlier, involved a large number of licensing agreements and high-street collections. Soon the Gucci logo and monogram was seen on everything, for example on products like coffee mugs and key chains.

Furthermore, the high-street products that the company launched did not match the image that the Gucci brand had built. The high-street products were too easy to copy as they lacked the details and materials that were normally used. The fact that consumers could buy a Gucci bag on the street for only $35 did not have a positive effect on Gucci's image. The high-street extension products were too similar to the original ones, which meant that consumers had a hard time telling the difference. Gucci suffered under this and it had a negative effect on its image (Keller 2003, 595 and 598).

As mentioned earlier, Gucci hired a new designer in 1990, who made it possible for the company to regain its position within the fashion industry. The company had been on the edge of bankruptcy, but the talent of the new designer repositioned and refocused the brand, and increased its value from nearly nothing to $4.3 billion. Furthermore, he also succeeded in retrieving the brand's identity and once again Gucci had a strong and powerful brand and brand identity (Vogue).

Gucci and Brand Extension

The type of brand extension that was applied by Gucci in the 1980s was a *vertical brand extension*. As mentioned in section 3.5.4, a *vertical brand extension* is chosen when a company wishes to launch a product that is either below or above its current position regarding price or quality. The chairman of the company at the time decided that Gucci should extent its brand into high-street fashion, which involved producing a large amount of products in a short period of time. The collection Gucci launched at the time consisted of a line of high-street products that were sold in all department stores. These were all below Gucci's current position, both in terms of price and quality, as Gucci was originally known for its high-end luxury products and was amongst the most desired brands in the world (Keller 2003, 595 and 598).

What failed with the extension was the fact that the company produced too many products, products that did not live up to the level of quality that the brand was known for. Of course people know that when a luxury brand starts to produce high-street collections, differences in quality might occur, but in the case of Gucci, the quality had been disregarded and the focus had shifted to increasing sales. The materials used for the high-street products were cheaper fabrics like canvas, which made it easy for others to copy and make counterfeits. The collections were not compatible with the Gucci image, which caused a *brand equity dilution* (Section 3.2.5).

For Gucci to avoid a *brand equity dilution*, a solution could have been to introduce a sub-brand with its own identity and unique name, as in the cases of Marriott and Ralph Lauren (Sections 4.1.1.1 and 4.1.1.2). Launching the extension under the original Gucci brand meant that the extension was still connected to the luxurious part of the Gucci name that was associated with status and quality for customers who were loyal buyers of the high-end products. In that way, it can be assumed that the company could have avoided a downturn and maintained its existing customer base while obtaining a new one. As described in section 3.2.1, a company should never remove focus from its existing customers, as it is those who help a company maintain its brand loyalty. Brand loyalty is important for a company as it has a financial impact. Gucci might have been blinded by its current success and as a result, too focused on attracting new customers and increasing its sales. Furthermore, consumers did not perceive a *fit* between the Gucci brand and the new offerings as the new products were of poor quality (Section 3.6.2.2).

What made it possible for the brand to find the right path once again and regain its success was going back to basics with the help from a new designer. The company made an extensive cutback in its production and went from producing 22,000 high-street products sold only in department stores, to producing 7,000 high-end products sold only in its own Gucci stores (Keller 2003, 598). Furthermore, Gucci went back to basics by reviving its earlier luxury collections and relaunching them. In this way the Gucci image as a luxury brand was restored (Gucci (a)).

4.1.2.2 Cadillac

This section will be centred on Cadillac and its failed brand extension, the Cadillac Cimarron. However, in order to understand the connection between Cadillac which is owned by General Motors, a short presentation of General Motors will be provided.

General Motors (GM) is an American vehicle company that designs, builds and sells cars and trucks around the world. The company owns, or owns shares in a large number of sub-brands and its brand portfolio consists of: Buick, Cadillac, Chevrolet, GMC, Opel, Daewoo, Holden and Vauxhall (The New York Times (a)). The company was established in 1908 and in 1909 GM bought Cadillac (Cadillac (a)). From its beginning the aim of GM was to make its way in the American market, where it offered the low-cost car brand Chevrolet and high-end cars such as Cadillac. Hence GM made use of *vertical brand extensions* (Section 3.5.4) as its aim was to offer cars for *"every purse and purpose."* (The New York Times (b)).

Cadillac has existed since 1902, and ever since the beginning the brand was considered prestigious. During the Roaring Twenties, Cadillac became the first brand which had a car designed by a stylist and, according to Cadillac, the brand was known for beauty and luxury (Cadillac (a)). At the time Cadillac established the slogan: *"Standard of the World"* (Random History). Through the Great Depression in the 1930s, and into the 1950s Cadillac kept its innovative pace and with the baby boom, the Cadillac production reached an all time high. Through the 1960s and 1970s, Cadillac remained a first mover in regard to new technology. According to the company, its cars were revolutionary, offering new technology and in the early 1980s, Cadillac received the price as the company having the most satisfied customers (Cadillac (a)).

In 1982, Cadillac applied a new strategy in order to catch a down-scale segment, which could not afford the expensive cars that Cadillac offered. However, this was soon discovered to be a terrible mistake that would eventually hurt the luxury image that Cadillac was associated with. The Cadillac Cimarron was an attempt by Cadillac to produce a smaller car, which was more fuel-efficient, as the US had struggled with the fuel crisis in the 1970s. Cadillac witnessed how other car manufacturers such as BMW and Audi had responded to the fuel crisis by producing smaller cars that maintained the luxury image which was associated with the parent brands, but at the same time had a more sporty appearance that applied to a younger segment. Hence, Cadillac wanted to apply the same strategy (Autopolis).

As there is no information on GM's or Cadillac's websites about the Cimarron, the applied sources are selected from a variety of articles which have been deemed reliable.

Cadillac and Brand Equity

Cadillac has been around for many years and has built a large loyalty base. This is evident on Cadillac's homepage where the company provides links to its most devoted enthusiasts' websites and blogs (Cadillac (b)). The brand has always been associated with luxury and some even view the cars as a symbol of America. Furthermore, the Cadillac brand has been applied in numerous songs and films since the 1950s (Random History).

In the 1980s, with the introduction of the Cadillac Cimarron, Cadillac experienced what is known as *brand equity dilution* (Section 3.2.5), as the Cimarron had a negative impact on the parent brand. The Cadillac Cimarron was a big disappointment due to a misfit between the Cimarron and the associations people had of the Cadillac brand. The incident with the Cimarron is one which Cadillac does not want to be associated with, which might be the reason why the Cimarron is not mentioned on General Motor's or Cadillac's websites. One executive from General Motors has explained why the Cadillac Cimarron was such a terrible decision: *"The decision was made purely on the basis of short-sighted profit and financial analysis, with no accounting for its effect on long-run customer loyalty or, if you will, equity ... We paid for the Cimarron down the road. Everyone now realizes that using the model to extend the name was a horrible mistake"* (Keller 2003, 593).

The unsuccessful brand extension did not cause an equity *wear-out*, where Cadillac destroyed its own brand equity (Section 3.2.5), but it did show the importance of a *perceived fit* when extending ones brand (Section 3.6.2.2). Cadillac's fortunes declined in the 1980s and 1990s, which might be caused by changes in opinion of the Cadillac brand. However, it might also be caused by the fact that smaller and sportier cars entered the American market and Cadillac was unable to keep up with the strong competition (Zimmer 2009).

Hence, in 1988, the Landor Associates, a global brand consulting company, presented a study of brand names, where the Cadillac name was positioned as number 16 in awareness, but was placed as number 84 in regard to esteem. The introduction of the Cadillac Cimarron might have been one of the reasons why consumers and especially loyal customers lost some of the respect they had for the Cadillac brand (Aaker 1991, 117-118).

Cadillac's Brand Identity and Image

Cadillac is a brand which is proud of its history and heritage (GM facility image). However, with the Cimarron, Cadillac's core identity did not shine through. With its extension, Cadillac wanted to show that the Cadillac image of prestige and technology would not be compromised even though the size of the cars was reduced. However, the gap between the parent brand and the extension was too immense (Bonsall).

The Cadillac Cimarron only lasted until 1988, when it was taken off the market. The car had been criticised for its under-powered engine. Additionally, not only was it deemed as a misfit in connection to the quality and prestige that were the trademarks of the Cadillac, many consumers deemed it a second-rate car (Bonsall). The younger target segment did not receive the Cimarron well and loyal Cadillac customers did not approve of the model as they believed that it was inconsistent with Cadillac's image of big cars and prestige (Keller 2003, 591). Thus, the strong associations, consumers had about the parent brand were confused with the *unfavourable associations* they had about the brand extension (Section 3.6.1). As described in our theoretical foundation, a *perceived fit* between the brand extension and the existing brand is especially important when dealing with a luxury brand, as the image of a luxury brand is difficult to regain once it has been tarnished (Section 3.6.2.2).

Cadillac and Brand Extension

Until the introduction of the Cimarron, Cadillac was mainly aimed at a more mature segment, where people had the money to buy a big American car. But with the Cadillac Cimarron, Cadillac tried to catch another segment, a younger and less affluent segment that had not been able to afford a Cadillac (Keller 2003, 591). Hence, it can be said that Cadillac expanded its brand with the use of a *related diversification* strategy, as the Cimarron was an attempt to target a new segment with a new, but related product that could compete with the European brands (Section 3.5.2). Furthermore, in order to offer the Cadillac Cimarron at a lower price, Cadillac had to make a compromise in terms of quality and size, and so the Cimarron was offered at a price below the ordinary Cadillac cars and thus, can be distinguished as a *vertical brand extension* (Section 3.5.4).

When the Cadillac Cimarron was launched in 1982, it was marketed as the *"Cimarron by Cadillac"*, indicating that the Cimarron was an *endorsed brand* with a *strong endorsement* from the parent brand (Section 3.6.1). The fact that the Cimarron was not marketed as the "Cadillac Cimarron" from the beginning might signify that Cadillac was unsure about the connection between the Cimarron and the Cadillac brand (Bonsall). Furthermore, as Cadillac was moving into a new and unfamiliar territory with the production of a much smaller car, Cadillac might have thought that the Cimarron was a *"one-of experiment"* (Autopolis). Nevertheless, in the following year, 1983, the name was changed to Cadillac Cimarron, as consumers were already connecting the two, and Cadillac believed that the connection might have a positive effect on the sales of the Cimarron (Bonsall).

With its new name, the Cimarron had a much stronger endorsement from Cadillac as the Cadillac name was more dominant. Hence, it could be said that the Cimarron was changed from an *endorsed brand* to a *sub-brand* with the parent brand, Cadillac, as main driver (Section 3.6.1). Figure 19, portrays two ads for the Cimarron that was posted in 1982 and in 1985. As can be seen in the corner of both ads the connection to the Cadillac brand was changed from *"it's by Cadillac"* to *"it's a Cadillac"* (Bonsall).

Figure 19 – Two Cadillac Cimarron ads (Productioncars)

According to Keller (2003) the worst possible situation with an extension is not that the extension might fail, but that it might hurt the image of the parent brand (Section 3.5.5.2). The Cadillac Cimarron is seen by many as one of the biggest failures of brand extension, as both the extension, the Cimarron, and the parent brand, Cadillac, were affected negatively by the extension. The Cimarron has even been positioned on the TIME's Lists of *"The 50 Worst Cars of All Time"* (TIME Lists).

The Cimarron did not value the *brand heritage* of the Cadillac brand, as nothing was compatible between the parent brand and the extension (Section 3.3.1.4). The misfit between Cadillac and the Cadillac Cimarron shows the importance of knowing the image of the parent brand, and trying to consider how consumers and loyal customers may think about the extension, and whether or not the image of the extension is able to fit into the image consumers have of the parent brand (Pitta and Katsanis 1995, 51).

4.1.3 Summary

To sum up which strategies have worked successfully and which strategies have been failures, we have created a concise summary.

4.1.3.1 Successes

Marriott

Even though Marriott has extended its brand a number of times, it has been very successful with its *vertical brand extensions*, as it has managed to separate the high-end brands from the regular brands. Marriott has applied a number of different branding strategies which have made it possible to create both cohesion and differentiation. When separating two brands, in such a way that consumers may not realise a certain connection, Marriott avoids that consumers get negative associations if the image of the brands does not create a *fit*. Thus, Marriott is a *shadow endorser* of its luxury brands. However, whenever it is perceived that the extension, as well as the parent brand will benefit from the connection, Marriott has applied an *endorsed* or a *sub-brand* strategy.

Ralph Lauren

The types of brand extension that the Ralph Lauren Corporation has chosen to implement are a *vertical extension* and a *category extension,* which is similar to a *horizontal extension*. Ralph Lauren has extended its brand several times and it has experienced a high level of success with these extensions. The success is a result of Ralph Lauren choosing the right brand extension strategies, knowing its customer segment and adapting the products and collections to its customers. Even though Ralph Lauren chose to launch high-street collections, the company has never compromised on the image and the identity that consumers associate with the brand. The company has been very focused and conscious of what its goals are and who its customer segment is and meeting their needs and demands, which has resulted in the brand maintaining its market position and a large customer base. Furthermore, Ralph Lauren chose to extend its brand at a time where the brand had strong brand equity.

4.1.3.2 Failures

Gucci

In 1980, Gucci implemented a *vertical brand extension* as it launched high-street collections, but unfortunately the extension did not prove to be a success. What caused the extension to fail was the fact that Gucci produced too many products that was of poor quality and could not be compared to the quality Gucci was known for amongst consumers. The company used cheaper materials for the production of its collections, which ended up causing a *brand equity dilution*, as the collections were not compatible with Gucci's original image as a luxury brand. Gucci should have avoided a brand extension that had a strong endorsement from the parent brand, as it was too similar and connected to Gucci's high-end brand. Instead, a solution might have been to differentiate the brand extension from the parent brand by for example creating a sub-brand or used a *shadow endorser* strategy, which could have made it possible for Gucci to avoid the *brand equity dilution* the company experienced at the time.

Cadillac

The failure of the Cadillac Cimarron was caused by the fact that the image of the parent brand was not consistent with the extension. With the Cimarron, Cadillac tried to target a new segment that could not afford the high-end Cadillac cars. However, the quality of the Cimarron was a disappointment, and as it was deemed a second-rate car there was no *perceived fit* between the original products offered by Cadillac and the new offering. Instead of adding value to the Cadillac brand the extension caused a *brand equity dilution* as the Cimarron pulled the Cadillac brand down. As Cadillac is an old and much admired brand, it might have thought that it could benefit from its prestigious brand name, but the *downward vertical extension* was too dissimilar to the image consumers held of the parent brand. Instead of introducing an extension that had a strong endorsement from the parent brand, Cadillac should perhaps have applied a *shadow endorser* strategy, as this would probably not have caused such a negative effect on the parent brand.

4.2 B&O's Brand Asset

In the following paragraphs we will take a look at B&O's brand equity, brand identity and brand image in connection with the theoretical concepts by David A. Aaker and Kevin Lane Keller.

4.2.1.1 Brand Equity and B&O

As described in our theoretical foundation, a company's brand equity is highly affected by how consumers view the brand as well as what associations they have about the brand. For customers to stay loyal to a specific brand it is essential that the brand is aware of retaining the same level of quality. If the brand succeeds in retaining its quality it will be able to maintain its existing level of brand equity (Aaker 2002, 8). This paragraph will focus on how consumers and customers of B&O perceive B&O, in terms of the company's hardship and the launch of B&O PLAY, and how it has or is affecting B&O's brand equity.

It is no secret that B&O has experienced a lot of adversity during the last five years. The financial crisis is especially one of the reasons why the company has experienced harder times and a financial turnover. In 2008, customers started to pull away from B&O and instead considering the products from B&O's competitors. Customers were not dissatisfied with the design of B&O's products; it was merely the content, which did not meet their needs and demands. At the time, customers perceived the company's products as old-fashioned and technically inferior. One customer who had always been a faithful customer expressed his dissatisfaction in this way: *"Når B&O tager 79.000 kr. for en fladskærm, er det som at forsøge at sælge en Skoda som en Porsche."* Another customer expressed his opinion about a new B&O television like this: "B&Os *allernyeste TV er simpelthen så teknisk forældet, at det reelt svarer til at ville markedsføre et nyt sort-hvid TV efter, at alle er skiftet til farve-TV*" (Erhardtsen 2008).

As evident from the above quotes, B&O customers were far from impressed with the work that B&O did and had anything but positive associations about the brand, which led to disloyalty. As mentioned in the beginning of this paragraph, a company has to retain the same level of quality to maintain its customers and to keep a favourable level of brand equity. B&O experienced a substantial drop in value in 2008-2010 due to the fact that it could not meet its promises and the needs of its customers. Furthermore, the financial crisis also made it hard for the company, as consumers were thriftier with their money, which affected their willingness to buy. The B&O stock dropped sharply and the company experienced what seemed like a continual deficit (Nyhedsbureauet Direkte 2010).

In a more recent article from March 2013, a journalist makes his guess as to why customers are choosing products from competing brands. First, he believes that consumers are more interested in buying products that are less expensive due to the fact that they can always replace it when a new and better product is launched. With the fast paced technology, the product lifecycle has been shortened and so the lifespan of products has declined. Hence, the introduction of new products has increased, meaning that when consumers buy new products they are often outdated in a matter of months. Consumers want value for money and so they replace their products more rapidly and is thereby more inclined to buy products which are less expensive as these will soon be replaced by new and more exciting products. For companies, such as B&O, this entails that they have to keep a fast innovative development in order to stay competitive and abide by their customers' wishes. Secondly, the journalist states that consumers are not as concerned about status as they used to be. Consumers are not as focused on materialistic things; they are more interested in living the simple life.

From the article, it can be said that customers are concerned about the technological level of B&O's products. They might be afraid of ending up with an expensive television that may have a shorter lifespan, as it might be technologically inferior within a short period of time compared to the ones of competitors. B&O's customers do not have as positive associations about the company and its products as they used to have (Balle 2013).

Seeing that B&O has experienced a downfall in customers, the company had to think of new strategies, which led to the launch of B&O PLAY. B&O PLAY has a different target market than the parent brand, known as *"the young professionals".* This specific target market is more concerned with the level of technology, than it is about brands and keeping up appearances. They want value for money. According to David Guldager, a technology expert, B&O should focus on a younger segment and try to meet their needs and demands, as it will create positive associations for the consumers and then help the company maintain and raise its brand equity (Kielstrup 2013).

According to B&O, loyal B&O customers have expressed their satisfaction with B&O PLAY, saying that they would be interested in buying B&O PLAY products and placing the products in their holiday homes, teenage rooms or bringing them along when travelling (Engholm 2012). Before the launch of PLAY, consumers were of the opinion that B&O only designed products that went well together, which is still be the case with the parent brand. However, due to PLAY, it is now possible for consumers to buy a B&O product and place it next to a product from a competing brand without it looking misplaced (Erhardtsen 2008).

4.2.1.2 Brand Identity and B&O

Brand identity is about how a company wants consumers to perceive its brand. The following paragraph will be used to clarify how B&O perceives itself and thus what its brand identity encompasses.

"Bang & Olufsen manufactures a highly distinctive and exclusive range of televisions, music systems, loudspeakers, telephones, and multimedia products that combine technological excellence with emotional appeal" (B&O (d)).

The above quotation is the first statement you meet when you enter the company's website and select the category: *"The Company"*. In just a few lines B&O is able to describe the essence of the company as well as what the company perceives as being important. From the statement it is easy to see which factors B&O attach great importance to: technology and design. Furthermore, factors such as emotional appeal and high quality are also emphasised in the statement.

As described in section 3.3, associations are an important aspect in terms of a company's brand identity as these associations represent what the company stands for. Moreover, the associations also include what the company wants to promise its customers: *"Bang & Olufsen exists to move you with enduring magical experiences"* (B&O (d)). It can be said that this quotation expresses a promise made by B&O to its customers, as the company wants to provide its customers with an experience they will not achieve with any other technology brand.

Seeing that B&O is a luxury brand that has existed since 1925, many consumers are aware of the quality B&O offers. Hence, one would assume that they expect excellence and that the company meet this demand every time. On the website, B&O has a category called "*Heritage"* where visitors among other things, are able to find the company's ideal and values. B&O's values consist of three aspects:

- Passion
- Pride
- Persistence

Passion is the motivating force behind everything that B&O does and this is how the company is able to fulfil its promise. B&O is proud of its work and the fact that it is a company that has high standards, in terms of performance and technology. Pride is the reason why B&O is able to keep on giving its customers magical experiences. The company is persistent, which means that it is dedicated to excellence and running a sustainable business (B&O (d)).

On the basis of the website, B&O appears to be a company that has its customers in mind, and the company wants to keep its promises. B&O wants to be perceived as a company that offers consumers the best within quality and products and will give customers an experience beyond everything else – a magical experience.

As described in section 3.3.1, one of the perspectives in the *brand identity planning model* is *brand-as-organisation*. A company that chooses to employ this brand identity perspective is a strong competitor as it is harder to copy a company's organisational attributes than it is to copy its products. The information provided on B&O's website and in the 2011/12 annual report shows that B&O is a company which focuses a lot on its customers, its environmental footsteps and technological excellence, which are all part of what Aaker states as being important organisational attributes (Aaker 2002, 83). A statement taken from B&O's 2011/12 annual report shows that B&O wants to make an effort to satisfy its customers, and hence, B&O is focused on constantly improving its level of customer service: *"…building a more efficient, globalised and customer-oriented organization"* (B&O: Annual Report 2011/12, 7).

As mentioned, B&O focuses on its environmental footsteps, and it is important for the company that its products are sustainable. Furthermore, B&O finds it important that it does not have any negative environmental impact on its employees, surroundings or customers. This can be seen in the following statement: *"Bang & Olufsen, as an environmentally responsible company, aims to create sustainable products. The considerations involved in the operation, design, and longevity of our products must be in mutual balance with the environmental impact of production"* (B&O (d)).

Another *organisational attribute* that B&O is very focused on is creating and upholding technological excellence. This might also be the most important attribute for B&O, seeing that it is a luxury brand within technology. The company has a name and a high level of technology to uphold: "*Today Bang & Olufsen a/s is world renowned for its distinctive range of quality televisions, music systems and high-performance loudspeakers; products that combine technological excellence with emotional appeal in a sensational design language"* (B&O (d)).

As explained in section 3.3.1, a company does not have to employ all four brand identity perspectives (*brand-as-product*, *brand-as-organisation*, *brand-as-person* and *brand-as-symbol*), but if a company chooses to employ *brand-as-organisation* it might have a positive effect on the company and its values, and how consumers receive the values. Focusing on organisational attributes like technological commitment, environmental concern and customer focus may result in B&O achieving more admiration and respect.

As described in section 3.3 *"Brand Identity"*, that for a company to avoid confusing its customers it should only send out one message in order for customers to feel that the company only have one brand and not several, which could cause confusion. B&O produces several products within the technology industry, such as televisions, music systems, loudspeakers, telephones and multimedia products. However, despite the fact that B&O offers several products, the company still manages to send out only one message. The message that B&O communicates to its customers, no matter what product customers have purchased, is that the company produces and provides customers with high quality products and distinctive and timeless design (B&O (d)).

4.2.1.3 Brand Image and B&O

As stated in section 3.4, the core aspect of brand image is *brand perception*: how a brand is perceived by others, that being either consumers or existing customers. There are three aspects of brand image that are important if a company wants to achieve and maintain a positive brand image: *favourability*, *strength* and *uniqueness* of brand associations.

Strength is connected to consumers and their associations about a brand. Based on the above paragraphs, it can be said that consumers and B&O's existing customers have a lot of associations about the company. The associations and opinions they have about B&O are strong ones. However, as evident from the above quotes, some of B&O's customers feel as if they have been let down due to the company's insufficiency to show technological superiority, and therefore, as mentioned earlier they have started to buy products from competing brands.

Uniqueness is connected to the associations consumers have about the brand, and whether or not these are more favourable than the ones they have about competing brands. In terms of uniqueness, it can be said that the associations customers have about B&O are favourable in terms of design. B&O's products represent a unique design, but consumers are just as, or even more interested in the level of technology than they are about the design of the products. Moreover, consumers are interested in getting value for money, so they might be more willing to invest in a product they know will provide them with more than just a unique design.

Favourability is concerned with the associations consumers have about the product of the extension, and whether or not these are positive or negative. In this case, consumers seem to be satisfied with B&O's brand extension, B&O PLAY. As stated before, loyal B&O customers have embraced the new sub-brand and expressed their interest in buying the products and making them a part of their home (Riising 2012).

B&O's image has suffered these last couple of years due to allegations made by consumers, customers and analysts about the company's inferior level of technology. However, B&O still has a positive image in terms of design, but more and more consumers have chosen to deselect B&O in favour of a competing brand. It is no longer possible for B&O to rely mostly on its design, as consumers today expect more.

5 Hypotheses

In our research design in section 2.3 we described how we would connect our chosen theory to the research. We have chosen the *hypothetico-deductive* method as we have deduced hypotheses on the basis of the applied theory, which we will then try to test on a given reality, namely the B&O case.

This section will encompass which hypotheses we have deduced from our chosen theory and the preceding knowledge we already have of B&O and its sub-brand, B&O PLAY. This is connected to hermeneutics as we cannot approach a given phenomenon without having already evaluated and judged a given situation.

For this thesis we have deduced the following hypotheses:

H_1) B&O will lose some of its exclusivity due to the introduction of a downward brand.

H_2) B&O will experience a brand cannibalisation where B&O PLAY will acquire customers from the parent brand's AV segment.

H_3) Instead of introducing a sub-brand, B&O should have applied a shadow endorser strategy, where customers are not aware of the connection between the two brands, as B&O will experience an equity wear-out.

H_4) Instead of introducing a new sub-brand, B&O should have focused more on technological innovation in regard to its AV products, as it is in the position of losing customers.

After having deduced the above hypotheses we will though our analysis try to verify or falsify the hypotheses and hence our result will be presented in the conclusion. However, we are aware of the fact that we are only able to surmise about the future of B&O and B&O PLAY and hence, it is difficult to predict the future of B&O.

6 Analysis

The analysis will be divided into three parts as described in *Explanation of Methodological Choices* (Section 2.2). **First**, we will provide the reader with a concise timeline of B&O PLAY's lifespan in order to clarify the progress of the sub-brand since its introduction in January 2012. The timeline will be followed by an analysis of B&O PLAY. **Second**, an analysis of B&O PLAY's connection to its parent brand, in terms of its target market and a perceived fit between the parent brand and the sub-brand will be presented. **Third**, the analysis will consist of a section concerned with two of B&O's competitors, namely Loewe and Samsung, and a comparison between B&O and the four brand extension cases.

6.1 Timeline of B&O PLAY

August 2011:

- B&O's new strategy:"*Leaner, Faster, Stronger"* is introduced. It consists of six *"must-win battles"*:
    1. Increased focus on sound and acoustics
       B&O will strengthen the company's skills and market position within sound and acoustics
    2. **Launch of B&O PLAY**
       B&O will focus on a new customer segment with its new sub-brand
    3. Optimisation of distribution
       B&O will optimise distribution and upgrade its store concept
    4. Growth in the BRIC markets
       B&O will seek new growth potential in the BRIC countries
    5. R&D transition
       B&O will use its partners to provide greater efficiency in product development
    6. Quicker and simpler execution
       B&O will create a more agile organisation

January 2012:

- B&O PLAY is launched and presented in Las Vegas 10 January, 2012 at the Consumer Electronics Show (CES).
- The intention with PLAY is *"to deliver incremental turnover and generate new customer leads to the existing Bang & Olufsen distribution offering the complete product portfolio, home integration services and installation support*."
- With the launch of B&O PLAY a web shop that sells PLAY products exclusively followed.

- B&O PLAY cooperates with Apple and B&O PLAY products can be purchased in Apple stores.

<u>March 2012:</u>

- B&O PLAY's first product, the Beolit 12, wins the *"Red Dot Design Award"*.

<u>April 2012:</u>

- Interim Report, 3rd quarter 2011/2012 (1 June 2011 – 29 February 2012).
  Revenue in the B2C market:
    - AV segment DKK 559 million
    - B&O PLAY segment DKK 78 million

<u>May 2012:</u>

- Annual Report 2011/2012 (1 June 2011 – 31 May 2012).
  Revenue in the B2C market:
    - AV segment DKK 2,043 billion
    - B&O PLAY segment DKK 378 million

<u>September 2012:</u>

- The 13 September 2012, Beolit 12 wins the award for *"Best Design 2012"* by the Danish magazine "Boligmagasinet".

<u>November 2012:</u>

- On 18 November 2012, Beolit 12 wins the award for the *"Best Danish Gadget"* on the Beep fair.

<u>January 2013:</u>

- The BeoPlay A9 wins the award for best of innovations in the category: High Performance Home Audio at the Consumer Electronic Show (CES) in Las Vegas.

April 2013:

- Interim Report, 3rd quarter 2012/13 (1 June 2012 – 28 February 2013). Revenue in the B2C market:
    - AV segment DKK 362 million (decline - compared to April 2012)
    - B&O PLAY segment DKK 162 million (growth - compared to April 2012)

June 2013:

- PLAY's product portfolio consists of headphones, earphones, television speakers and a television.

August 2013:

- The new Annual Report 2012/2013 will be released 16 August 2013.

6.2 Analysis of B&O PLAY

This first part of the analysis of B&O PLAY will be centred on an introduction of the sub-brand. The introduction will be followed by a closer analysis of B&O's brand extension strategy. Lastly, PLAY's brand equity, brand identity and brand image will be elaborated on. As B&O PLAY is closely connected to B&O, and as the sub-brand is still fairly new it has been deemed appropriate to include B&O in this analysis.

6.2.1 Introduction of B&O PLAY

B&O PLAY is one of the initiatives behind B&O's five-year strategy: *"Leaner, Faster, Stronger"* that was introduced in August 2011, and aims to *"release the company's full potential, which is believed to be in the range of DKK 8-10 billion in turnover EBIT margins exceeding pre-crisis levels of 12%"* (B&O: Annual report 2010/11, 17).

The strategy was announced in the annual report 2010/11 where B&O only declared that it would *"launch a new category of products towards the end of 2011 aimed at attracting new customers to the brand"* (B&O: Annual report 2010/11, 24). B&O's intention with B&O PLAY is *"to deliver incremental turnover and generate new customer leads to the existing Bang & Olufsen distribution offering the complete product portfolio, home integration services and installation support"* (B&O: Annual report 2010/11, 24). That B&O PLAY is intended to generate new customers to B&O's existing brand is also evident in B&O's presentation of the Annual Report for the 2011/12 Financial Year, where both PLAY and B&O's Automotive should create sales to the main brand (Figure 20).

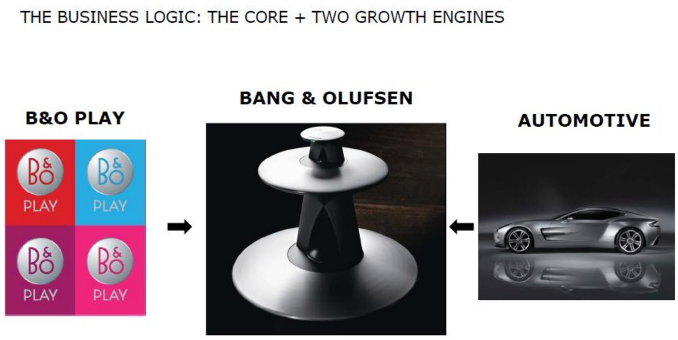

Figure 20 - B&O's aim with B&O PLAY and Automotive (B&O (e)).

As explained in the timeline, B&O PLAY was presented at the Consumer Electronics Show (CES) in Las Vegas 10 January, 2012 (B&O: Annual report 2011/12, 32). Figure 21 below, provides an overview of B&O's stock from 6 June, 2011 to 3 June, 2013. By looking at the vertical line which is placed at 9 January, 2012 and thus the day before B&O PLAY was presented to the world, it is clear that B&O's stock increased both before and especially after the announcement of the new sub-brand. This may indicate that investors and analysts had big expectation to the potential earnings of B&O PLAY and so the stock increased in the following period.

Figure 21 -B&O's stock overview (Reuters (a))

As already mentioned B&O PLAY is directed at a younger target market, than the existing brand, which is known as the "*digital generation*" and *"young professionals"* (B&O: Annual report 2011/12, 6). To reach the new segment B&O has for the first time launched a website where customers are able to buy its products directly. Hence, B&O PLAY has its own web shop from where B&O PLAY products are sold exclusively. On B&O's AV website products are merely portrayed and customers are only able to buy these products in the selected stores. On B&O's main website both the AV and the PLAY products are portrayed, but when customers click to buy a PLAY product they are linked to the B&O PLAY website. This strategy is possibly used as the sub-brand is still fairly new, and so the parent brand draws the attention to the sub-brand. The strategy does not work the other way around, as B&O PLAY only offers its own products on the PLAY website. To make customers aware of the differentiation between the two brands, the products from B&O PLAY are displayed with the PLAY logo on the parent brand's website (Figure 22).

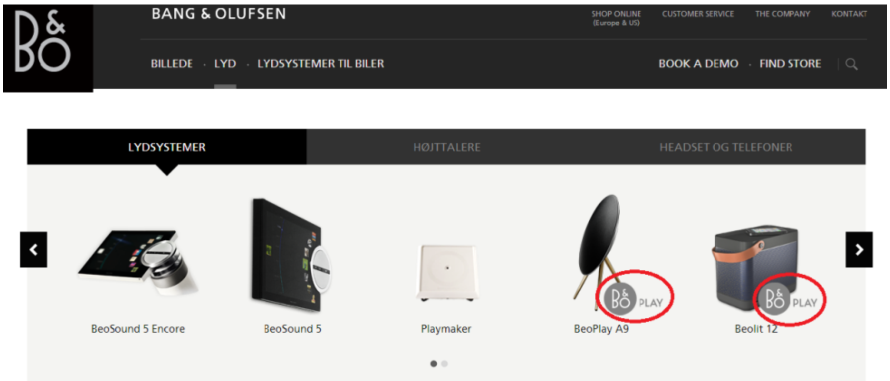

Figure 22 – The differentiation in products (B&O (f))

Furthermore, unlike B&O's AV products, which are only sold in B1 stores (which sells the brand exclusively), B&O PLAY has an agreement with Apple about selling their products in Apple shops (B&O (g)).

6.2.2 Brand Extension and B&O PLAY

As B&O introduced its new brand in January 2012, it announced that the new brand would continue B&O's tradition by producing the very best audio and sound systems combined with an exclusive design (B&O (b)). To differentiate the new offerings from the existing products, B&O PLAY was introduced with "... *a twist: The products will be designed to represent a different usage pattern of the digital generation and with a contemporary and playful design"* (B&O (b)). Until the launch of PLAY, one of B&O's features was that it offers integrated home installations, which entails that technicians are needed when the products are to be installed. However, with the sub-brand, B&O wanted to add more lightness to the installation and design of its products, and as PLAY is supposed to appeal to a new segment than the original brand it offers "*stand-alone* *products with clear and simple operations..."* indicating an ease of use for first time users of the brand (B&O 2012 (b)).

According to B&O's own presentation of its new brand, there is also a difference between the AV products and the PLAY products, as PLAY, according to B&O, has a more fashionable and playful design. In this connection it can be said that with B&O's brand extension the company has made use of the *diversification* strategy as B&O with its sub-brand has created new products for a new market segment (Section 3.5.2). As the new products are still in the same product category as B&O's AV products it is *related diversification*.

According to Orcullo (2007) *diversification* is especially applied when a company is experiencing slow growth and with the introduction of the new products the company wishes to renew interest in the existing brand. In this regard it is pertinent to mention the image drop B&O has experienced for some years, as this may be one of the reasons why the company has chosen a completely new strategy (Section 3.5.2). Furthermore, by focusing on a younger segment, B&O tries to retain customers at a younger age, in order to make it possible for the company to hold on to its customers for a longer time.

B&O has used its name for the extension to expand its target market and bolster equity for the brand. In this connection B&O PLAY can be defined as a true sub-brand according to the definition we have chosen to apply (Section 3.6.2.1). According to Aaker and Joachimsthaler (2002), the sub-brand extension strategy may be applied if the company wishes to use the image of the existing brand to reach a new segment without having to construct a whole new brand. Additionally, as the sub-brand has a close connection to the parent brand, the sub-brand may help to enhance or modify the image consumers have of the parent brand, and in this way hopefully create a situation where the brands benefit mutually from each other (Section 3.6.2).

B&O shows differentiation between the old and the new brand in terms of reduced prices: *"Price points will be at more accessible levels than typically seen from Bang & Olufsen"* (B&O (b)). This indicates that prices will be more competitive compared to the prices of the parent brand, and hence the extension can be characterised as a *downward*, *vertical extension* (Section 3.5.4). In this connection it is assumed that B&O wants its sub-brand to function as a *fighter brand* that protects the parent brand from competitors that might try to cut prices to compete against B&O's parent brand (Section 3.5.4). Even though, B&O PLAY is offered at a lower price, Tue Mantoni, states that the new brand will remain *"Premium Priced"* and that B&O will not compromise on quality (Gullev 2012).

By introducing a sub-brand B&O has applied a strategy where the extension is thought to have its own identity, but at the same time show a close connection to the parent brand. According to Aaker (1997), it is a good idea to create a *parent-child metaphor* that makes it easier for consumers to distinguish between the parent brand and its sub-brand. Hence, B&O PLAY has the same core genes as the parent brand, as PLAY will continue B&O's tradition of quality and exceptional design (Section 3.6.2.2). However, B&O PLAY will be more *"energetic"* and *"curious"*, portraying the younger segment that B&O wants to target (B&O PLAY).

Figure 23 below, is B&O's own definition of the identity of the two brands. It is evident that even though the brands share some core characteristics they are also very different in terms of their personalities. Hence, B&O wants consumers to perceive a *fit and relation* between the brands, but at the same time the company wants the two brands to have their own separate identity (Section 3.6.2.2). As described above B&O's intention with its sub-brand is to generate new customers to the parent brand and so the parent brand and the sub-brand share some core characteristics, such as: "*design, performance, humanization* and *craftsmanship*". B&O hopes that when customers of B&O PLAY become intrigued by the sub-brand they may want to try the parent brand, and so B&O hopes to retain customers throughout their lives.

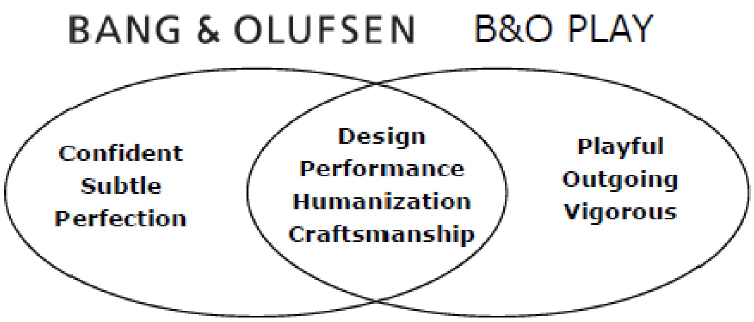

Figure 23 - The characteristics of the parent brand and the sub-brand (B&O (g))

As both the parent brand and the sub-brand hold separate identities and are directed at different market segments, it may be assumed that the two brands function as *co-drivers*. However, B&O is providing a strong endorsement to its sub-brand, as it assures consumers that the sub-brand will provide the same quality and service as the parent brand. Thus, it can be assumed that the B&O brand dominates the purchase decision and user experience as customers buy B&O PLAY products due to the associations they have of the parent brand. Hence, the parent brand, B&O, assumes the role as main *driver*. Furthermore, as the name: B&O, is dominating the name of the sub-brand it is reasonable to assume that B&O wants consumers to buy B&O PLAY products because they want a piece of the B&O brand (Section 3.6.1). The B&O brand would have been less dominating if the new offering had been called: PLAY by B&O, as this would have centred the attention more on the new offering instead of the parent brand.

6.2.3 Brand Equity and B&O PLAY

This paragraph will be centred on B&O PLAY and brand equity, and will include an analysis of the launch of B&O PLAY, in terms of whether or not it has had an effect on B&O's brand equity.

In 2009, analysts were very critical towards B&O and the financial position the company was in. As mentioned in section 4.2.1.1, one of the reasons as to why B&O was experiencing adversity at the time was because consumers were of the opinion that B&O's products were technically inferior. The downturn B&O experienced in 2009, led to analysts believing that the company was going to be sold to another technology company, like Samsung. Furthermore, analysts stated that what would attract another company to buy B&O would not be because of its technological abilities, but rather its brand value, which can be seen in this statement by share analyst, Jacob Pedersen: *"For en eventuel køber, så vil selskabets brand have den største værdi. Efter min vurdering udgøres hele kursværdien af brandværdien "* (Ramskov 2009).

Today, B&O's market value is estimated at DKK 2,159.87 million as of 31 May, 2013 (Euroinvestor). As shown in the timeline, during the period from June 2012 to February 2013, the company's revenue was DKK 524 million in the B2C market. B&O PLAY accounted for DKK 162 million of that amount compared to DKK 78 million the year before. The AV segment accounted for DKK 362 million of the year's revenue compared to DKK 559 million the year before. Even though PLAY only accounted for a small percentage of B&O's total revenue, the above numbers show that PLAY is doing remarkably better than the parent brand. B&O PLAY more than doubled its value compared to the year before (B&O 2013, Interim Report 3rd Quarter, 5). Why B&O PLAY has experienced such a remunerative time is difficult to predict, but it could be due to B&O PLAY's reduced prices or the fact that the products are able to function with other products because of the AirPlay technology that the products feature.

Figure 24, shows B&O's and B&O PLAY's revenues and growth from June 2012 to February 2013, where it is apparent that B&O PLAY has experienced a growth of 107 percent, whereas B&O's AV segment has decreased 35 percent. Even though B&O's AV products are still B&O's main source of income, the brand has experienced a significant drop the past year and hence is the main reason why B&O's total revenues in its B2C market has experienced a 18 percent decline (B&O 2013, Interim Report 3rd Quarter, 6).

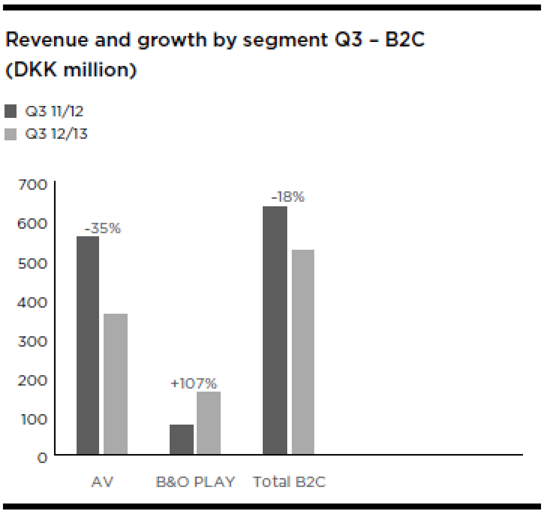

Figure 24 - Revenue and Growth, third quarter – B2C (B&O 2013, Interim Report, 3rd Quarter)

Regarding B&O's brand equity, analysts believe that by introducing a less expensive sub-brand, the company should take into account that there is a high risk of the sub-brand affecting the value of the parent brand. Therefore, it is anticipated that this might happen to B&O or that it maybe already has happened with the launch of B&O PLAY. Analyst, Søren Løntoft Hansen, states that B&O PLAY is currently B&O's source of growth, which is also evident from the above analysis of B&O's revenues. Moreover, he believes that due to the lower price class that PLAY is categorised in, B&O might experience that its parent brand will lose some of its exclusivity (Rasmussen 2013). Even though B&O's parent brand has declined since the introduction of PLAY, it is difficult to predict whether or not it is the launch of a new brand that has caused a negative effect on the parent brand, or whether the parent brand would have declined regardless of the sub-brand.

The price level of PLAY makes it possible for more consumers to purchase B&O products, which might result in B&O experiencing a *brand equity dilution* as the brand might lose some of its exclusiveness (Section 3.2.5). Even though B&O will lose some of its exclusivity, Søren Løntoft Hansen states that B&O should keep B&O PLAY as a part of its brand portfolio as the sub-brand plays an important role in the company's revenues. However, he also believes that a sub-brand that represents another price range than the parent brand might cause a problem for a brand that has the same status and image as B&O. A *brand equity dilution* might emerge as consumers could end up perceiving the parent brand negatively as a result of B&O introducing a sub-brand (Rasmussen 2013). It is likely that consumers will end up associating B&O with something else than a luxury brand, which might cause the brand to lose some of its status.

6.2.3.1 B&O and B&O PLAY - Brand Loyalty and Perceived Quality

In this section we will analyse how B&O's parent brand might have affected or will affect B&O PLAY in terms of *brand loyalty* and *perceived quality*.

In section 3.2.1, *brand loyalty* is described. If a company wants to succeed in maintaining this aspect of branding it is important that its main focus is on the existing customers instead of how to entice new customers (Aaker 2002, 21). In terms of B&O PLAY, it can be said that B&O did the opposite of what Aaker believes a company should do. B&O found itself to be in a situation where business was lacking behind and the company was experiencing financial trouble. In order to turn things around B&O applied its new strategy *"Leaner, Faster, Stronger"* in 2011, which included the launch of B&O PLAY. It is likely that by implementing a brand extension and adding a new brand to its company, B&O removed its focus from the parent brand and became more preoccupied with how to attract new customers to PLAY, seeing that the new brand was directed at a different target market than B&O's AV segment. According to Aaker, B&O should have been more aware of its existing customers and how to ensure that they would stay loyal to the parent brand and its products (Section 3.2.1).

As described in section 4.2.1.1, B&O started experiencing more difficult times in 2008, where loyal customers were expressing their dissatisfaction about B&O's products in terms of the level of technology. Customers perceived the products as technically inferior and outdated. In this regard, an aspect of branding is concerned with *perceived quality*. If a company wants consumers to associate its brand or products with quality, it is important that the company is aware of what consumers consider as good quality (Section 3.2.3). Due to outmoded technology and other product defects, B&O has ever since and maybe before, 2008 experienced a decreasing customer loyalty. It can be assumed that B&O has not been aware of what it is customers' consider as acceptable quality. Therefore, B&O has not been able to meet its customers' needs and demands and thereby maintained loyal customers. Furthermore, it is likely that B&O has not been able to define an acceptable level between the technological features people receive and the price they have to pay. This might be connected to the fact that analysts are of the opinion that B&O is experiencing a lack of strong management abilities and a clear strategy (Section 6.2.4).

Considering the above information, one might question whether or not B&O PLAY will be able to achieve a high level of brand loyalty. PLAY is endorsed by B&O and therefore it might be affected by the negative associations people have about the parent brand. If consumers have been sceptical about B&O PLAY it might be a result of the negative associations they have of the parent brand. In this case B&O should perhaps have chosen to apply a *shadow endorser* strategy and thus create a completely new brand, as it might have made it easier for B&O to achieve positive associations for PLAY, regarding *perceived quality* in terms of the products' technological lifespan, and hence attracting more customers who might eventually show brand loyalty towards B&O PLAY. However, if this strategy had been applied PLAY's premium priced products should perhaps have been offered at a lower price, as PLAY could not have made use of B&O's *brand heritage*, which we assume is one of the reasons why people buy B&O PLAY (Section 3.3.1.4).

6.2.3.2 B&O and B&O PLAY – Brand Name Awareness and Brand Associations

In this section we will analyse how B&O might have affected or will affect B&O PLAY in terms of *brand name awareness* and *brand associations* (Sections 3.2.2 and 3.2.4).

As described in section 3.2.2, *brand name awareness* is about the connection that exists between the consumer and the brand, more precisely, whether or not the consumer remembers the brand, and how. In the case of B&O, it can be assumed that most people know and remember the brand seeing that it has existed for 86 years and is known as a Danish treasure (Børsen 2013, (a)). As PLAY is closely connected to its parent brand, in terms of a shared name, it is believed that PLAY is able to benefit from B&O's brand awareness, as consumers will remember the brand since the parent brand has a well-known name. However, considering the financial situation B&O has experienced for several years, and the negative brand associations that started to emerge in 2008, it is likely that B&O's brand awareness is not as favourable as B&O wants it to be. From the information presented throughout the thesis, it can be said that B&O is not associated with the same positive views as it once was. Though, B&O is still associated with producing products of excellent design that is considered as timeless, the brand is today also associated with producing products that are technically inferior (Section 4.2.1.1).

In the past, B&O was associated with a certain status and it was not everyone who could afford to buy one of the brand's products. However, with the lower price range that PLAY represents, it is now possible for less affluent people to buy B&O products. However, over the past years the status of owning B&O products has slowly dropped. Though, the parent brand is still associated with exclusivity due to its design and brand heritage, and the fact that its prices categorise it as a high-end brand. As mentioned in section 6.2.2, analysts believe that PLAY might affect B&O's exclusivity due to the lower prices. Consumers might end up being confused, as their brand awareness about B&O is associated with exclusivity and high-end products, and hence something that cannot be afforded by everyone (Rasmussen 2013).

6.2.4 Brand Identity and B&O PLAY

In this section of the analysis, perspectives of brand identity will be applied to B&O PLAY, in order to clarify which of the four perspectives B&O has made use of. The four perspectives that brand identity consists of are: *brand-as-organisation*, *brand-as-product*, *brand-as-person* and *brand-as-symbol* (Section 3.3.1). However, in this section we will only be focusing on three perspectives, namely, *brand-as-organisation*, *brand-as-person* and *brand-as-symbol*. *Brand-as-product* is not included, as it requires a study of whether or not consumers think of a specific brand when they are in need of a specific product class, and hence it is more difficult to measure.

6.2.4.1 Brand-as-organisation

As described in section 3.3.1.2, when a company focuses on *brand-as-organisation* it is focused on organisational attributes like quality and innovation. Furthermore, organisational attributes can also be areas like customer focus or environmental concern. Aaker states that these organisational attributes can have a positive effect on a company's values and how consumers perceive these values. If the values are received in a favourable way, the company will benefit from consumers admiring and respecting the company (Section 3.3.1.2).

In section 4.2.1.2, *brand-as-organisation* was applied to B&O, where it was described that B&O is a company that is much focused on customers, technology and which environmental footsteps the company leaves behind. In the case of PLAY, it can be said that the brand holds the same values as the parent brand, which can be seen in this statement from PLAY's website: "*Firmly grounded in our 86 year history in Bang & Olufsen, we interpret the same core values for a new type of contemporary products*" (B&O PLAY). Even though B&O introduced a new brand, B&O did not find it necessary to devise a new set of values or organisational attributes. If consumers are interested in finding out which attributes B&O PLAY considers as important, they will have to visit the website of the parent brand. B&O has probably applied this strategy as the sub-brand is thought to be closely related to its parent brand.

Aaker states that organisational attributes are a helpful tool for a company regarding competition, as it is harder for other companies to copy its programs, people and values, than it is to copy a product (Section 3.3.1.2). Aaker's statement taken into account and the fact that B&O PLAY has its own website, it can be said that B&O PLAY should perhaps have had its own set of values and organisational attributes, as the brand is directed at a new target market and therefore, is supposed to be different from the parent brand. If B&O had devised a new set of values and organisational attributes that was tailored towards PLAY, it is likely that it might have made the brand a stronger player in terms of competition. Yet, as PLAY is a sub-brand it is closely connected to its parent brand, which is probably the reason why they share the same values. As B&O has chosen to apply the same organisational attributes to its sub-brand may be because B&O has taken advantage of its long history and the distinctiveness B&O is associated with.

6.2.4.2 Brand-as-person

It can be said that B&O employs the *brand-as-person* perspective (Section 3.3.1.3) as PLAY is described as *"playful, outgoing and curious"*, all human characteristics (B&O PLAY). Personifying the brand by providing it with human qualities might evoke a closer connection between customers and the brand, as customers might see the brand as a symbol of their own identity and hence an extension of themselves, or perhaps the products or brand might serve as an image of how they want to be perceived by others. Another outcome could be that by providing the brand with human qualities, it might create a kind of relationship between the customer and the brand, as the brand is ascribed a specific role in the customer's life. Thus, with PLAY, B&O has tried to target a younger segment by using characteristics, which B&O has perceived as being features of younger people, and in that way making its offerings more than mere products.

6.2.4.3 Brand-as-symbol

As described in section 3.3.1.4, there are three symbols that a company can utilise in order to assure that consumers remember its brand: *brand heritage*, *visual imagery* and *metaphors*. The ones applied by B&O and B&O PLAY are *brand heritage* and *visual imagery*.

Visual imagery is very powerful and memorable, as this kind of symbol contains a company's logo and thus, makes it easier for consumers to remember the brand when exposed to it (Section 3.3.1.4). Below you will find figure 25, which portrays the logo of B&O. It is likely that this logo is what consumers associate with B&O and what comes to their mind whenever the brand is mentioned as it has not been subject to any great changes during the years.

Figure 25 – The logo of B&O

Another logo that is often associated with the company can be seen in figure 26. This logo is often the one used on the company's stores and on its products. The fact that B&O has not made any changes to its two logos over the years might make it easier for consumers to recognise the brand just by mention, which may indicate that the company has strong brand associations.

Figure 26 – The second logo of B&O

With the introduction of B&O PLAY in 2012, the company had to devise a new logo and as B&O PLAY is endorsed by B&O, its logo resembles the parent brand's logo (Figure 27). It is likely that PLAY benefits from the strong and powerful imagery of B&O's logo, as there is no doubt that these two brands are related.

Figure 27 - The logo of B&O PLAY

In connection with B&O's and B&O PLAY's logos, Aaker states that *"A strong symbol can provide cohesion and structure to an identity and make it much easier to gain recognition and recall"* (Section 3.3.1.4). B&O's choice to apply almost the same logo to B&O PLAY has made it possible for the company to maintain and carry on its *brand heritage*. It can be assumed that B&O chose to reuse the logo of the parent brand to show what is behind the two brands in terms of B&O's long history, and to make sure that consumers know there is cohesion between B&O and PLAY in terms of quality and design, despite the differences in price (Section 3.3.1.4). Moreover, the logos also represent the same minimalistic design that is associated with the products of the two brands.

6.2.4.4 B&O's Perception of PLAY's Identity

This paragraph will include a clarification of how B&O perceives its sub-brand, B&O PLAY, and what PLAY's brand identity encompasses. When you enter PLAY's website and select the category *"About"*, the first words you see are: "*LIFE MUST BE LIVED LIKE PLAY*". From this it can be assumed that B&O believes PLAY is about interaction, interaction between people, and between a person and a PLAY product (B&O PLAY). On the website, it is apparent how B&O

perceives the identity of PLAY: "*To us, PLAY means curiosity, positiveness and energy*" (B&O PLAY).

As described in section 3.3, brand identity encompasses how a company wants its brand to be perceived, as well as which associations the company sends out. The associations represent what the company wants to promise its customers. With PLAY, B&O promises its customers that they will get "*excellent high-quality experiences*". Furthermore, B&O assures that PLAY will provide customers with the best sound and acoustic performance compared to other products from competing brands within its field (B&O PLAY).

These promises resemble what was described as the essence of B&O in section 4.2.1.2, which are *"technological excellence, great design, high quality and emotional appeal"*. B&O has been able to create a connection between the two brands' identities and combine what is the core of its business while succeeding in differentiating the brands at the same time. This can also be seen in a statement made by B&O on its website "*Marrying the values of PLAY with the substance, quality and luxury of Bang & Olufsen characterizes what we stand for*" (B&O PLAY).

The following two quotations present what the essence of B&O PLAY is, "*We want to evoke senses, to elevate the experience of listening and watching*" and, "*We want to provide the opportunity to experience media in a convenient and easy way, but still outstanding high quality*" (B&O PLAY). According to B&O, PLAY is a brand that will provide customers with an amazing experience, an experience that they will not find with a competing brand. Hence, customers will receive the B&O experience at a much lower price. In addition, B&O states that PLAY is a brand that is a leader within the development of technology (B&O PLAY).

The brand identity that B&O PLAY encompasses is an identity that is closely connected to the parent brand. PLAY products are produced and designed on the basis of the same core values as the original B&O products. According to B&O, both brands present customers with emotional experiences and high quality. What differentiates the brands from each other are a difference in operation and price range. Furthermore, the identity of PLAY represents a product that is contemporary and playful in terms of its opportunities. It is a stand-alone product that is easy for consumers to incorporate into their homes and lives, especially due to the portable aspect that some of B&O PLAY's products offer.

6.2.5 Brand Image and B&O PLAY

It is no secret that B&O has experienced quite a downturn the last couple of years, which has had an impact on the company's image. But, the launch of B&O PLAY in 2012 had a positive influence on B&O's image, as can be seen from the company's stock overview in section 6.2.1, and the company regained some of it status (Børsen 2013, (b)).

Every year, several image lists are released where a number of brands are analysed and ranked according to their brand image. Two of these lists are compiled by *Reputation Institute* and *Berlingske Business*. In 2012, after the launch of B&O PLAY, B&O had the third most successful brand image on *Berlingske Business'* image list. However, the success did not last long. This year the company lost its spot in the top of the list and dropped 59 places. No other brand experienced as big a drop on the image list as B&O (Nielsen 2013). In 2012, B&O was also ranked as number three on the image list compiled by *Reputation Institute*, but this year it dropped nine places and was ranked as number 12 (Jurhagen 2013).

As to what is behind B&O's significant image drop has been a subject amongst experts and journalists, and disagreements have occurred between the experts and journalists and B&O. B&O is of the opinion that its image has suffered due to financial reasons. The company believes that it is the interim financial statements that are the main reason behind the company's current poor image. This is evident from a statement made by Morten Juhl Madsen, B&O's head of communication: *"Når vi er gået tilbage i forhold til sidste år, hænger det nok sammen med, at vi over to omgange i januar og marts har været nødt til at nedjustere forventningerne. Det har nok været med til at påvirke bedømmelsen i en negativ retning"* (Nielsen 2013).

Reputation Institute's managing director, Henrik Strøier, is of a different opinion than B&O. He believes that the negative impact on the company's image is a consequence of B&O's abilities regarding management and innovation, which he expresses in this way: *"Arvesølvet er ved at smuldre mellem hænderne på dem"* (Jensen 2013). Moreover, B&O has experienced an image drop due to facts like communication and credibility because of its failure to meet its own promises, as well as reach the goals that the company presented to the stock market (Nielsen 2013).

It is likely that B&O did not only launch B&O PLAY to increase its profits, but also to strengthen its image. Hence, it is perceived that B&O PLAY is supposed to help the company regain its status and reinforce its image, but journalist, Ayoe Maria Jurhagen, states that it might be *"too little, too late"* (Jurhagen 2013). As mentioned earlier, B&O PLAY did affect B&O's image positively when it was launched in 2012, but unfortunately it has not been a continuous process. The launch of B&O PLAY has resulted in the company being associated with a second-class brand:
"Virksomheden havde ellers en kort opblomstring i omdømmet efter lanceringen af det billigere

subbrand B&O Play i 2012, men nu har danskernes vurdering af det tidligere så ikoniske brand altså ændret sig markant" (Børsen 2013, (b)). According to Ayoe Maria Jurhagen, consumers have changed their view on B&O, not only as a brand but also as a company. They do not have as much respect for the company as they used to have (Jurhagen 2013). It can be assumed that B&O does not live up to the original image and perceptions consumers used to have about the brand.

According to the above analysis, B&O PLAY has only provided a short-term effect on B&O's image, which is currently suffering from the launch of B&O PLAY, and the fact that the company is not superior enough when it comes to innovation, and not strong enough in terms of its management style. B&O believes that the drawback is to be found in the company's financial condition, whereas people from the outside are of the opinion that the problem is to be found within the company, as they believe that what B&O is experiencing is an internal weakness.

6.3 B&O PLAY and Target Market

In this section the focus will be on B&O PLAY and its target market. The section will be used in order to clarify which target market the company has chosen to level PLAY at, and whether or not the company's choice to separate its target markets in this way is prudent. The material used for the analysis will consist of the telephone interview with Jesper Clement as well as a video interview where Tue Mantoni and a technology expert, David Guldager, comment on B&O PLAY in regard to its target market and the future.

The target market that B&O has chosen to level PLAY at, is a segment that the company calls: *"the young professionals"*. According to B&O, this target market is more aware of what they spend their money on and they want value for money. The CEO of B&O, Tue Mantoni, describes the target market in this way: *" … kvinder og mænd med gode job, der endnu ikke har slået rødder og altid er på farten"* (Gullev 2012).

In a video interview from April 2013, Tue Mantoni states that 75 percent of the people, who have purchased a B&O PLAY product, have never bought B&O before. This can be a sign of consumers having a positive view on B&O PLAY and are willing to pay a bit more, if the products are up to date. In the video, David Guldager, a technology expert, shares this opinion, as he believes that it is essential for the company to distance itself from other brands within the field of technology, as it would be profitable for the company to be known for more than just the brand and as a manufacturer of expensive products and excellent design (Kielstrup 2013).

Moreover, David Guldager states that B&O was used to an older customer segment that had more money and was more focused on design than they were on the technological features. According to David Guldager it is now a younger generation, a generation of technology, who might be interested in buying B&O PLAY products. However, for this generation it is not just about the design and whether or not it looks good. As mentioned earlier in section 4.2.1.1, they are more focused on the products' technology and what special qualities the products have to offer. Today the development of technology changes rapidly, which means consumers have become more intent on owning the latest gadgets, and appearance is seen as less important. Furthermore, David Guldager states that B&O PLAY is the company's future, as he believes the brand will be one that boosts the company's sales. Therefore, he believes that B&O should consider making a shift in its priorities and focus more on PLAY (Kielstrup 2013).

In the telephone interview with Jesper Clement, he was asked whether or not he believed segmentation was the right strategy for B&O PLAY. He stated that he does not believe that there is a target market, which can be described as *"the young professionals"*, and he is of the opinion that it is not possible to divide consumers in terms of preferences. Jesper Clement expresses his opinion about B&O and segmentation in this way: *"Så jeg vil sige at det der med segmentering det hører også tiden til for 25 år siden, og det er også igen et eksempel på at B&O har mistet pusten. At de overhovedet kan finde på at bruge ordet segmentering"* (Appendix 2 - Interview, p. 13 ll. 10-13).

B&O describes PLAY with words like curios and energetic, which is often associated with characteristics of a younger generation. However, Jesper Clement states that today, a 70-year-old might like the same technology product as a 30-year-old. Jesper Clement uses an example such as Apple where he states that it is consumers of all ages that own an Apple product, whether it is a MacBook, an iPad or an iPhone (Appendix 2 - Interview, p 13).

From this it is evident that Jesper Clement is of a different opinion than David Guldager who, as mentioned earlier, believes that B&O should maintain focus on a younger generation, as the younger generation and B&O PLAY are the future of the company. Jesper Clement is very sceptical about the future potential of B&O PLAY and he does not believe that PLAY will exceed five years. Furthermore, Jesper Clement states that B&O might not even exist in five years. Jesper Clement believes that B&O is using outdated techniques in terms of the marketing of B&O PLAY, and that the company has lost its connection to the market.

In section 6.5.3.1, one of B&O's competitors, Samsung Electronics will be introduced. In terms of segmentation, the strategy applied by Samsung Electronics is one where the company does not direct its products at a specific target market. Its product portfolio consists of products that differ in prices, which makes Samsung's products available for everyone, no matter what target segment they might belong to. Taking Samsung's great success into account, it can be said that B&O should have applied a similar strategy in connection with B&O PLAY. It is likely that B&O has been focusing too much on the design process of PLAY and which consumer to direct it at. Instead, it might be a good idea if B&O focused more on technological innovation if it wants to catch and retain the attention of younger consumers.

As mentioned earlier, 75 percent of the people who have bought a B&O PLAY product are first time buyers. Moreover, from June 2012 to February 2013, PLAY more than doubled its revenues compared to the year before, which shows that it is experiencing progress contrary to the parent brand (Section 6.2.2). Hence, this might indicate that the negative image of B&O might not have affected PLAY as much as it could be assumed, but Jesper Clement is of a different opinion. He believes that B&O PLAY is experiencing progress due to the fact that PLAY is still considered as new, and therefore still exciting. At some point, Jesper Clement believes that consumers will lose interest and B&O PLAY will experience a downturn in its sales (Appendix 2 – Interview, p. 13). Furthermore, the 75 percent does not prove whether or not it is a younger generation that has bought B&O PLAY products, and so it is difficult to tell if B&O's strategy with PLAY has worked.

From the above it can be said that there is a difference of opinion regarding B&O PLAY's target market and how the sub-brand will influence B&O. Jesper Clement has a very critical stance towards B&O and B&O PLAY, as he believes that there might not be a way back to success for B&O, and if so, the success will not be caused by B&O PLAY. Jesper Clement does not believe that PLAY will be able to secure B&O's success now or in the future. Whereas David Guldager believes that B&O should focus on PLAY and a younger target market, Jesper Clement does not believe that B&O is able to single out a specific target market for B&O PLAY, as he is of the opinion that segmentation is outdated. Hence, if B&O wants to target a new and younger segment it should be aware of the fact that this target market wants value for money, and they are very focused on the technological features that the products have to offer.

6.3.1 PLAY's Influence on B&O's Target Market

As described, B&O PLAY was launched with the aim of attracting a younger generation. Hence, the company was interested in creating a distinction between the two brands and their target markets. However, as already mentioned, there are no numbers or any information available from B&O that shows whether or not customers of B&O PLAY are younger than B&O's AV customers. Is it *"the young professionals"* who buy B&O PLAY, or is it a mix of generations? It is difficult to prove when it is not possible to find concrete evidence, and we only have the assurance of Tue Mantoni. If we take Jesper Clement's thoughts into account, he is of the opinion that the words which PLAY is characterised with, "*curiosity, positiveness and energy"* (B&O PLAY), do not necessarily show that it is targeted at *"the young professionals"*. He believes that those words can describe any person no matter what age. Moreover, Jesper Clement believes that the design does not display the fact that it is directed at a younger target market; it is merely minimalistic, which is also the case with the products of the parent brand. He states that the design of the B&O PLAY products is just as old-fashioned as it is young at heart (Appendix 2 – Interview, p. 12).

From the above it can be assumed that even though B&O's aim with PLAY is to attract a younger target market, the company cannot be sure of that it is a younger generation that buys B&O PLAY, even if PLAY's products were supposed to display a youthful design that would attract that specific target market. The minimalistic design, which B&O is known for, can attract all generations, which indicates that it is difficult to separate consumers when it comes to design.

Furthermore, it can be said that consumers' interest in technological features does not only apply to *"the young professionals"*, it also applies to an older segment. Today, with the fast advancement in technology people want value for money as they want to buy products, which will not be outdated in one year's time. One loyal customer, who it can be assumed belongs to another target market than *"the young professionals"*, expresses his view on B&O's products in *Berlingske Business* in this way:*"Jeg har gennem 40 år aldrig ejet andet end utallige B&O-produkter, men nu er det desværre slut. Det er med absolut blødende hjerte, at jeg har skiftet til den tyske konkurrent Loewe. Designet kommer ikke i nærheden af B&O, men Loewes teknik gør B&Os TV til en museumsgenstand"* (Erhardtsen 2008). Thus, it can be said that no matter age, consumers are becoming more and more aware of what they spend their money on as they want value for money in terms of the lifespan of the products.

B&O PLAY offers the same quality as the parent brand, but at a lower price which could end up affecting the parent brand's customer segment, in the sense that PLAY might end up enticing B&O's existing AV customers and thus PLAY would cannibalise sales of the parent brand (Section 3.5.5.2). If this is the case, it is likely that a better strategy for B&O would have been to spend more money on developing more innovatory technology within the AV segment that would have created a better connection between B&O's premium prices and the level of technological innovation/advancement that customers receive. As a result, B&O might have had one brand that would have succeed in doing better in time, compared to B&O's current situation, where the company's main source of income, namely its AV products, are falling behind.

6.4 Perceived Fit between B&O and B&O PLAY

This part of the analysis will focus on the importance of a perceived fit between the parent brand and the extension, as this is considered one of the most important aspects when a company chooses to extend its brand. In this connection we will include the interview with Jesper Clement and comments from journalist, Ayoe Maria Jurhagen, as they both challenge B&O's strategy.

As explained in our theoretical foundation (Section 3.6.2.2), Aaker and McLoughlin (2010) have stated that the following questions are important when dealing with a brand extension that is closely connected to the parent brand:

1. *Will the extension create a fit between the old and the new offering?*
2. *Will the existing brand add value to the brand extension?*
3. *Will the brand extension improve the image of the existing brand?*

In the following section B&O and B&O PLAY will be analysed according to the above questions.

Will the extension create a fit between the old and the new offering?

The first question is concerned with whether or not the extension will create a fit between the existing and the new offering, as consumers should be able to perceive a certain fit, if the extension is to succeed. In order to create coherence between the two brands the image of the extension should be consistent with the image consumers have of the parent brand.

With PLAY, B&O has, according to the company itself, extended its identity by introducing a product that holds the same features in terms of "*substance, quality and luxury…",* and hence does not compromise with B&O's core identity (Section 4.2.1.2). However, according to Jesper Clement's statements in the interview he does not believe that this kind of extension has created a fit between B&O's existing brand and the new sub-brand, as B&O's strategy does not show coherence between the two brands: *"Jeg synes helt klart at deres brand strategi er sådan en 'stuck in the middle' strategi. De sætter sig mellem to stole"* (Appendix 2 – Interview, p. 9 ll. 35-37).

When introducing a sub-brand it is important that the company issues a clear message as to where the company is going with its new strategy. According to Jean-Noël Kapferer communication is important as it prevents consumers from getting confused when a new marketing strategy is applied (Section 3.3.2). Jesper Clement shares this opinion, as he believes that consistency and a clear message to the public are essential if the extension strategy is to be successful. However, Jesper Clement believes that by choosing to focus on both an exclusive brand and introducing a downward extension B&O is confusing consumers: "*Det giver den der underlige … 'Nå, hvad er nu det. Nu troede vi lige at B&O var i den dyre ende' eller omvendt. 'Nu troede vi lige at B&O var sådan og sådan.' Så det giver kludder oveni knolden på folk"* (Appendix 2 – Interview, p. 17 ll. 4-7).

Journalist, Ayoe Maria Jurhagen, gave her opinion in connection with *Reputation Institute's* list of the 40 most visible brands in Denmark, and she seems to share Jesper Clement's view: *"Blandt kommunikationsfolk er der bred enighed om, at det ikke er lykkedes for Tue Mantoni at forklare den almindelige befolkning, hvor B&O er på vej hen og med hvilken målgruppe"* (Jurhagen 2013).

In terms of the quality and design of the B&O PLAY products, it has not been possible to find any negative comments in terms of the quality of PLAY's products. Thus, it has been concluded that even though some critics are dissatisfied with B&O's management and the company's unclear communication to the outside world about where the company is heading, B&O has managed to apply the same quality and design, which the parent brand is known for, to its sub-brand.

From the above quotes, it is evident that there exist different opinions about B&O's applied strategy and whether or not the company has succeeded in creating a fit between the parent brand and its sub-brand. In regard to the quality of the products, B&O has not made any compromises with the PLAY products. Yet, the fact that B&O has introduced a less expensive brand may interfere with the exclusivity that B&O is associated with and hence consumers may feel that B&O PLAY does not fit into the associations they have of the B&O brand.

Will the existing brand add value to the brand extension?

If we go back to Aaker and McLoughlin's (2010) three questions, they state that if the existing brand can be utilised in a favourable way in a new context, the existing brand is said to add value to the brand extension. As already mentioned, B&O PLAY has a strong endorsement from the parent brand and B&O has made use of its well-known brand name to promote its new sub-brand. In this regard Jesper Clement, however, believes that a *shadow endorser* strategy would have been preferable:*"Jeg tror at den forbindelse er til skade for dem"* (Appendix 2- Interview, p. 17 l. 4) and he expresses what he believes would have been a better strategy: *"De skulle have lavet et helt nyt mærke. Kaldt det noget helt andet. Aldrig solgt det sammen med B&O anlæg. De* *skulle have solgt det i nogle helt andre butikker, om det var i Silvan eller et eller andet. Komme så langt væk fra deres moderbrand som overhovedet muligt … "* (Appendix 2 – Interview, pp. 14-15 ll. 43-1).

Furthermore, Jesper Clement believes that customers who buy expensive AV products from B&O do not want to be pigeonholed with B&O's cheaper products, as this will cause the AV products to lose some of their exclusivity: *"Folk der gerne vil betale enormt mange penge for et af deres eksklusive tv-apparater har jo ikke lyst til, at blive sat i samme bås som de der billige produkter …"* (Appendix 2 – Interview, p. 15 ll. 2-4). On the other hand, Jesper Clement also considers PLAY's products, with their premium price, to be too expensive compared to competing brands' products. Consequently, customers of B&O PLAY would gain the same feeling as the AV customers; feeling that the products they have bought are too expensive in terms of what they receive compared to other brands: "…og omvendt er de der billige produkter det er sådan lidt: *"Hvorfor i alverden betaler du så mange penge for det?"* (Appendix 2 – Interview, p. 15 ll. 4-6). Hence, Jesper Clement does not necessarily believe that the B&O brand adds value to its sub-brand, as B&O PLAY is only considered a secondary brand where prices are too high compared to other competing brands.

Will the brand extension improve the image of the existing brand?

The last question which Aaker and McLoughlin put forward is whether the brand extension will improve the image of the parent brand. This is also the first point on Keller's list (2003) of various advantages of brand extension, as Keller states that brand extensions should either strengthen or add new positive associations to the parent brand (Section 3.5.51). This outcome may be the most desired as it may renew consumers' attention to the parent brand if they have started to lose interest. In connection with B&O, it can be assumed that B&O chose to extend its brand in an effort to renew interest in the brand whose popularity, according to the company's revenues, critics and various image lists show signs of a company that is in need of a completely new strategy to uplift its brand. Thus, with B&O PLAY and B&O's strategy: *"Leaner, Faster, Stronger",* B&O is trying to exceed pre-crisis levels (B&O: Annual report 2010/11, 17) and add new life to the brand. In 2007 and hence before the financial crisis, B&O was rated as number 1 on *Reputation Institute*'s list of the most visible brands in Denmark, but according to Ayoe Maria Jurhagen, the respect for the brand has declined considerably ever since (Jurhagen 2013).

As already stated, Jesper Clement is very critical about the connection between B&O and B&O PLAY, and he does not believe that the connection has improved B&O's image or will benefit the company in the long run. Jesper Clement further stated, as we asked him about the future of B&O and B&O PLAY, that he does not believe that B&O PLAY will exist in five years and that the future of B&O is very uncertain (Appendix 2 – Interview, p. 17). This is also the reason why he believes that B&O should try to sell as many B&O PLAY products as possible while the brand still has a certain novelty value, because in the long run the sub-brand will affect B&O negatively (Appendix 2 – Interview, p. 9).

6.5 Analysis of B&O's competitors

We have chosen to include a section in our analysis regarding how B&O's competitors, such as Samsung and Loewe AG, have managed the period during the financial crisis, and whether or not they have decided to cut prices. This is conducted in order to receive a more holistic picture of how other electronics companies have marketed themselves during the recession.

Loewe has often been compared to B&O and some even refer to it as the German B&O (Guldager 2012). Like B&O, Loewe also sells high-end products with a minimalist design and so it was deemed applicable to compare Loewe with B&O. Furthermore, we have chosen to compare Samsung with B&O, as Samsung is a company in continuous growth, where its success is based upon its ability to create innovative technology and a high level of quality. Therefore, it was deemed relevant to compare an innovative company, such as Samsung to B&O that has been criticised for its lack of innovation. The reason why we have chosen only these two competitors is because we are not trying to analyse the global competition which B&O is situated in, but instead we have chosen the two companies as an example of which strategies other electronics companies have applied.

6.5.1 Loewe AG

The German company, Loewe, is regarded as one of B&O's biggest competitors as both companies sell a variety of high-end AV products such as speakers, televisions and sound systems (Ajami et al. 2006, 469).

Loewe and B&O have many similarities in regard to their effort to produce timeless design and create something extra for their customers in terms of a user experience that they cannot receive elsewhere. Loewe is especially known for its innovation and this is also highlighted in its brand values that are expressed the following way: *"A minimalist design idiom, innovation for the senses and exclusive individuality - following these central brand values, Loewe creates innovation* *with added value. The values also shape the brand's look and the entire chain of experience where the customers come into contact with Loewe"*(Loewe (a)).

Loewe was founded in Berlin in 1923, and from its early beginning the company focused on innovation, and it is considered to be the first company in the world that invented an integrated circuit (Ajami et al. 2006, 469). Furthermore, Loewe launched the first television transmission in 1931 (Loewe (b)) and the company was the first to produce a recorder which contained a cassette tape in 1950 (Ajami et al. 2006, 469). The image of innovation adheres to Loewe's own principle: *"...setting new standards with innovation for the senses"* (Loewe (b)).

6.5.2 Loewe vs. B&O/B&O PLAY

Just as B&O has received a number of awards and has several products exhibited at the Museum of Modern Art in New York, Loewe's "Art 1" television from 1985 was awarded a design icon (Loewe (b)), and Loewe has been awarded several prices for innovation and design (Ajami et al. 2006, 469). The company has become known for its quality and tasteful design, which is also the trademark of B&O. However, unlike B&O's image of being a luxury brand which can mostly be afforded by affluent people, Loewe's image is less centred on the luxury segment, given that it offers products at more consumer-friendly prices (Ajami et al. 2006, 469).

When comparing the two companies it is pertinent to compare their products, as both B&O PLAY and Loewe have produced speakers with Apple's AirPlay technology that enables customers to play music wireless from Apple products or a PC. Furthermore, both speakers are directed at a younger customer group than what the companies have targeted before. B&O's Beolit 12 and Loewe's AirSpeaker are both positioned in the same price segment, as the speakers are offered at around 5000 DKK. Loewe announced in its annual report in 2012 that: *"With the new product family, Loewe specifically meets the needs of a significantly broader target group and moreover appeals to a younger customers base which will thus be introduced to the brand at an earlier stage"* (Loewe: Annual Report 2011, 15).

Hence, from the above quote it can be said that Loewe has applied the same strategy as B&O in terms of broadening its target market. Moreover, just as B&O has created B&O PLAY to generate new customers to its AV products, Loewe announced the following in its Annual Report 2012: *"With the Audiodesign products and Xelos family, we now offer a brand-adequate entry into the Loewe premium world, which aims at a significant expansion of the customer groups"* (Loewe: Annual Report 2011, 12).

As Loewe has chosen to launch new products, aimed at a younger segment, which are to introduce new customers to Loewe's premium products, it can be said that both B&O and Loewe have applied the same strategy which aims at expanding their target market. This could be caused by the financial crisis which may have forced both companies to seek growth opportunities by expanding into new markets. Hence, Loewe has applied a *market development* strategy as it offers the same products under the same brand, but targeted at a new customer segment. Whereas B&O has, as previously mentioned, made use of *related diversification* as it has created a new brand targeted at a new segment (Section 3.5.2).

Figure 28, shows the Beolit 12 from B&O PLAY and the AirSpeaker from Loewe, which are both directed at a younger segment. It is evident from the picture that the products have some similarities.

Figure 28 **-** B&O PLAY's Beolit 12 and Loewe's AirSpeaker
(Products copied from the companies' websites)

Figure 29 below, compares B&O's stock (blue line) with Loewe's stock (purple line) the last 5 years, dating from 9 June, 2008 to 4 June, 2013. As shown in the figure it is clear that both companies have struggled during the financial crisis. Loewe's stock price did not decline as radically as B&O's in the first years of the financial crisis, but in 2010 Loewe's stock price started to decline and has been below B&O's ever since. From the chart it is clear that Loewe's stock price has declined almost 80% within the last 5 years, whereas B&O's stock, during the same period, has declined around 50%.

Figure 29 - B&O's and Loewe's stocks from 2008-2013 (Reuters (b))

The fact that Loewe has experienced a downturn can also be seen from the company's key figures in its Annual Report 2012 (Appendix 3), where the company's annual sales have almost solely been declining since the financial crisis struck in 2007. In 5 years the company's sales have declined from 372,5 million euro to 250,0 million euro. This development is also clear in terms of the company's share price, which has declined more than 75 percent since 2008, cf. the above figure. Compared to B&O's revenue in the same time span, the company experienced a decline from 2008-2010, but B&O's stock advanced a little in the fiscal year 2010/11 (Appendix 3). The result from the fiscal year 2011/12 shows that B&O experienced growth from 2,867 million DKK in 2010/11 to 3,008 million DKK 2011/12, which gives an increase of +4,67% (B&O: Annual Report 2011/12, 8).

Loewe is a considerable competitor to B&O, but if we compare the size of the two mentioned companies it is clear that B&O is the dominant player in the market. Loewe had a market capitalisation[1] of EUR 33,820,000,- (DKK 252,111,190,-) 5 June, 2013 (Reuters (c)), which corresponds to approximately 11,5% of the market capitalisation of B&O, which was EUR 292,375,075,- (DKK 2,179,510,000,-) 5 June, 2013 (Reuters (d)).

Hence, from the above analysis it is evident that even though B&O and Loewe are both producing high-end AV products B&O has a bigger market value. However, as we have already mentioned in our analysis of PLAY, B&O has been accused of selling technically inferior products that are incomparable with the brand's premium price, and thus Loewe with its innovative focal

[1] Market capitalisation is defined as the value of the company's outstanding shares.

point could be a dangerous competitor to B&O. As one journalist expressed it: *"Hvor Loewe både satser på design og teknologi, satser B&O åbenlyst kun på design"* (Sperling 2008).

6.5.3 The Samsung Group

The Samsung Group is a global company that was founded in 1938, in Taegu, Korea. The company has existed for more than 70 years and encompasses numerous subsidiaries. Today, it is located in Samsung Town, Seoul and is considered a multinational conglomerate. In the beginning, Samsung conducted business within the food industry. Today, the Samsung Group has a very extensive product portfolio and is active within several different fields (Samsung (a)):

- Advanced technology
- Semiconductors
- Skyscrapers
- Plant constructors
- Petrochemicals
- Fashion
- Medicine
- Finance
- Hotels

6.5.3.1 Samsung Electronics

Samsung Electronics was founded in 1969 in Suwon, South Korea. Today, the company has 88,504 employees and considers itself as a leader within high-tech electronics, manufacturing and digital media (Samsung (a) (b)). Samsung Electronics is ranked as number 12 on *Forbes*' list of the World's Most Powerful Brands, and has a market capital of $174.39 billion as of May 2013. Currently the company's brand value is estimated at $19.3 billion (Forbes (c)). Samsung Electronics is also referred to as one of the world's leading consumer electronics company, as it produces almost everything in terms of electronic equipment, like televisions, phones, laptops, freezers, vacuum cleaners and microwave ovens (Growth Champions).

The brand has won several awards in categories like design and innovation (Samsung (b)), as consumers and experts associate Samsung Electronics' products with value, quality and great performance. Design is an important factor for Samsung Electronics and its success, and the company produces almost everything that you will find in a Samsung product. Moreover, the company is also known for designing and producing components of great quality, which are not only used in its own products, but also by competing brands. One factor that is said to be behind

Samsung Electronics' success is the company's ability to create a relationship between the manufacturing process and the design process. The company is focused on the internal part of its production in terms of cooperation between the different departments, which has made it possible for the Samsung brand to separate itself from competitors and stand out (Growth Champions).

In recent articles and studies it has been stated that Samsung Electronics is experiencing more success than Apple that for a long time has been consumers' all-time favourite. What analysts believe to be the underlying reason for the success of Samsung Electronics is the fact that the company is doing a better job launching more products at the same time within the same product category. They offer consumers several models, several screen sizes and a wider price range. Furthermore, Samsung Electronics is faster than its competitors regarding updates for its products (Forbes (d)).

As mentioned earlier in this section, Samsung Electronics is a brand that differentiates itself from other brands within the field of technology. According to a Forbes analyst, the company's persistence in terms of corporate governance has made it is possible for Samsung Electronics to apply a strategy that involves a high price – low cost aspect to its business. This means that it is very likely that the company is making a bigger profit on its products than competing brands do on theirs. The company is very intent on its products being of the highest quality and better than competitors, which means that the main focus of its business is on efficiency and quality. A Forbes contributor expresses Samsung Electronics ability and success in this way: *"It has the market outlook of a start-up trying to survive in a world of fierce competition. Yet it has the massive capital, technology, and human resources of a big company"* (Forbes (d)).

From the above it can be assumed that Samsung Electronics is a company that has an enormous amount of resources and a market position that will be hard for any competitor to take over or exceed. The company is very confident about its future and its position, which can be seen in this statement made by Samsung Electronics' head of investor relations, Robert Yi: *"Although market uncertainties from the European crisis and the slow global economic recovery are still lingering, we expect to increase"* (Sang-Hun 2013). Samsung Electronics is a brand that has made some wise choices in financial terms, and it is spending a lot of money on research and development in order to stay competitive.

6.5.4 Samsung vs. B&O

There are numerous brands within the market of technology that B&O are competing against and compared to, and one of them is Samsung. Even though the two brands can be divided into different categories regarding image and identity, it is still relevant to look at what might be the reason behind the fact that one brand is doing better and experiencing more success than the other.

B&O produces luxury products that are positioned within a higher price range than Samsung's, and B&O is just as, or even more focused on the design process than it is on the technological part. B&O's products are directed at a wealthier segment, whereas Samsung products are not directed at a specific segment in terms of prices. Samsung produces products that have consumer friendly prices. As mentioned in the previous section, Samsung Electronics offers products at different price levels, making it possible for everyone to purchase one of the company's products (Section 6.5.3.1).

From researching B&O and Samsung and comparing them to one another, two aspects stand out regarding the two companies' business processes: corporate governance and technology. As mentioned in section 6.5.3.1, Samsung Electronics is a company that is very focused on management and whether or not the employees are doing a good job in terms of production. It can be assumed that Samsung Electronics is driven by the will to win, which also shines through the company's management choices.

Compared to Samsung, B&O's corporate governance is lacking efficiency. As analysed in section 6.5.4, analysts believe that B&O is experiencing an internal weakness in terms of communication, and perhaps what can be considered as poor management choices and wrong strategies. Furthermore, analysts are of the opinion that B&O is not strong enough when it comes to the company's management style. B&O is falling behind and losing what the brand has been building up over time (Jurhagen 2013).

Samsung Electronics can be considered as a superior company regarding technology, as its components are not only used by Samsung itself, but also by competing brands. Compared to B&O, Samsung is not as focused on the design process as it is on the technological process. As mentioned above, quality is viewed as the most important factor for the company. Samsung spends a large amount of money on development and research, which might be the reason why Samsung is superior to its competitors, including B&O.

B&O has for a long time been falling behind in terms of technology. As mentioned earlier, compared to Samsung, B&O seems to be more focused on the design of its products than it is on technology. After all, B&O's trademark is its luxurious and minimalistic design. As mentioned in section 4.2.1.1, some consumers are deselecting B&O's products as B&O's products are not up to date in terms of technology. Consumers are worried that B&O's products will be technologically inferior within a short period of time. Therefore, they are not as willing to pay a large amount of money on something they do not know the technological lifespan of.

Samsung Electronics is aware of the risks that follow its great success. The company knows there is a risk of it becoming too complacent, and that it might be too consumed with competition. However, it can be assumed that the fact that Samsung is such an oncoming company is an advantage, considering its level of success and ability to avoid downturn (Forbes (d)).

In terms of the financial crisis the two companies have been affected differently. Figure 30 below, compares B&O's stock (blue line) with Samsung Electronics' stock (green line) for the last 5 years, dating from 9 June, 2008 to 4 June, 2013. As B&O has declined, however, still maintained a somewhat stable level, Samsung's stock has increased since March 2009. Samsung's stock has increased by approximately 75 percent (Reuters (e)). As can be seen from the figure, Samsung Electronics experienced a challenging year in 2008, which resembled the conditions during the Asian financial crisis in 1997 (Samsung Electronics, Annual report 2008). The decline was partly caused by the financial crisis in the US, which created uncertainty in the market. It is however, interesting to observe from the figure that Samsung quickly regained its strength, whereas B&O continues to be afflicted by the financial crisis. However, as B&O is operating in a somewhat smaller market than Samsung and has focused on the European market and the US market, it has been difficult for B&O to sell products as these markets are still much affected by the financial crisis. This is in contrast to Samsung, which operates in a big Asian domestic market with significant growth, where Samsung is able to sell a large part of its products despite the financial crisis that is taking place in other countries.

Figure 30 – B&O's and Samsung Electronics' stocks from 2008-2013 (Reuters (e))

As can be seen from the above insight into how B&O's competitors have managed the financial crisis, it is apparent that Samsung Electronics, with its fast pace and constant technological innovation is a difficult company to compete against, and probably one that B&O will never be able to really touch. However, in regard to Loewe it is notable to see how both B&O and Loewe have introduced new products targeted at a younger segment, which are supposed to generate sales to their main brand. In terms of Loewe, it will be interesting to see whether or not the company will experience any success with its new products, and if this kind of strategy, where the company only extends its brand by introducing new products might have a more fundamental effect on the image of the parent brand than the strategy applied by B&O. However, with that being said B&O is still the brand that has received the greatest success.

Concluding, it should be mentioned that we are aware of the fact that it is difficult to evaluate B&O and its strategy when we have only studied two competing companies. However, there are especially two things that are noticeable when B&O is compared to Samsung and Loewe. First, B&O's lack of technological innovation, and second the company's difficulties in terms of its management style, where it is evident that a company such as Samsung has managed to juggle with both. It will be interesting to see if Loewe will experience any success with its *market development* strategy as this is perceived as a less risky strategy compared to B&O's *diversification* strategy.

6.6 Comparing B&O's strategy to the four brand extension cases

As described in our theoretical foundation, Keller (2003) claims that it is beneficial for almost all companies to extend their brand and the only questions are *when*, *where* and *how* the brand extension should be conducted (Section 3.5.5). In this connection this thesis studied four other companies which have extended their brands, both with and without success. This was conducted in order to use the information obtained from the four cases in a combination with the knowledge we have gained from our theoretical foundation to evaluate whether B&O has chosen to apply some of the same strategies, and if B&O could have learned anything from the brand extension successes, as well as the brand extension failures.

6.6.1 Brand extension successes and the case with B&O

If we compare B&O's strategy to the two brand extension successes, Marriott and Ralph Lauren, some notable differences appear which will be elaborated on in the following paragraphs.

Marriott vs. B&O

Marriott was able to keep expanding its brand despite economic setbacks in the 1970s and 1980s, but as consumers were less willing to use money, Marriott extended its brand with Courtyard by Marriott which was a lower price hotel. This strategy can be paralleled with the one applied by B&O, as B&O has also introduced a lower price brand during a time of economic recession. Apart from Marriott's ability to innovate and devise new hotel concepts, the company is known for its ability to give its customers consistency, indicating that no matter if customers choose a high-end or a more mediocre hotel brand, Marriott has an image of providing good customer service and a room which will fit customers' individual needs. Additionally, Marriott has invented a hotel for every customer's need, as customers can choose between a variety of location, facilities and services, and hence, Marriott has kept expanding its target segment to be able to offer something for every taste.

Unlike B&O, which provides a strong endorsement to its lower price sub-brand, Marriott has applied a *shadow endorser* strategy to differentiate its high-end brands from its more mediocre brands. According to Jesper Clement, this strategy should have been applied with B&O PLAY. However, on the other hand, as B&O is a well-known brand around the world the company can make use of the image and brand heritage of the parent brand when it markets B&O PLAY and hence, B&O is able to save money on advertisement (Section 3.5.5.1). Marriott also provides a strong endorsement to some of its brands in terms of *brand-as-symbol* where the Marriott name is dominating the hotel logos (Section 3.3.1.4) and hence, like the case with B&O and B&O PLAY, it is assumed that the parent brands, Marriott and B&O, are the ones that dominate the purchase decision (Section 3.6.1).

As Marriott is a hospitality company, whereas B&O is a company which manufactures and sells audio and television products, it is difficult to compare the two companies and their applied brand extension strategies. However, it might be assumed that B&O PLAY may not have experienced an increasing profit since its introduction in 2012, if it had not had a strong endorsement from B&O, as it is assumed that one of the reasons why customers buy B&O PLAY is because it is a brand that is connected to a prestigious brand.

Ralph Lauren vs. B&O

With the Ralph Lauren case, the company was able to keep its good image even though it extended its brand several times, both *vertically* and *horizontally*. Ralph Lauren has managed to stay true to its core identity of being an American icon of prosperity and the company has maintained its image of life in the countryside. The company's associations to a country club lifestyle with its more sporty clothing line indicates a brand, which is not seen as purely exclusive, or in a distinct elite, where only a minor part of the population is able to afford the brand. Thus, the brand is more a symbol of nationality. Ralph Lauren chose to separate its first downward extension, Chaps, from the parent brand as it did not want a *brand equity dilution* to ruin the image of the parent brand. However, as time went by and Ralph Lauren's success and brand image increased, the company launched *fighter brands* which were more connected to the parent brand. As Ralph Lauren already had a good *Customer-Based Brand Equity* (Section 3.2.5) and a well-reputed brand, the company was able to extend its brand at more auspicious times, and hence the *fighter brand* only reinforced Ralph Lauren's position as an American icon.

Even though Ralph Lauren and B&O have applied the same strategy by introducing *vertical extensions*, Ralph Lauren did not extend its brand during a decrease compared to B&O and furthermore, even though Ralph Lauren is a high-end brand it does not radiate the same exclusiveness as the B&O brand does. With PLAY, B&O wanted to alter consumers' perception of the existing brand at a time when the parent brand is at a less lucrative stage. Consequently, it can be assumed that consumers might feel that B&O is merely trying to renew interest in the brand instead of focusing on issues such as innovation and management, where the company had the lowest scores this year according to *Reputation Institute's* study of the image of various Danish brands (Reputation Institute 2013). In connection with B&O's management and innovation being criticised, figure 31 provides a detailed insight into how consumers perceive B&O. As can be seen the company scores high when it comes to its products and service, but in terms of management and innovation B&O's image is not as reliable as it used to be.

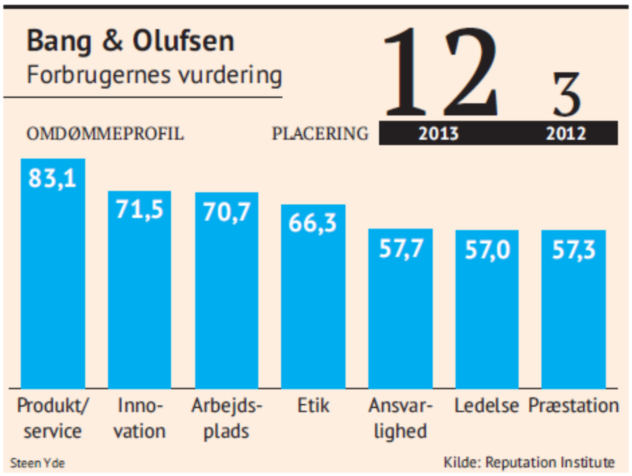

Figure 31 – Consumer evaluation of B&O (Jurhagen 2013)

The lack of confidence in the management is also evident in *Berlingske Business'* article from June 2013, where internal confusion has started to emerge. Hence, the shop steward at B&O, Karsten Grønholdt Hansen has stated: *"Jeg er utroligt stolt af virksomheden og vil meget nødig være sortseer. Men jeg må sige, at vi på det seneste er blevet skuffet. Vi havde forventet, at der var mere hold i de strategiske planer, som Tue Mantoni præsenterede for os"* (Hall 2013). Thus, the management's inability to provide its employees and the outside world with a clear message as to where the company is heading has caused an internal and external confusion.

Even though Ralph Lauren does not encompass the same exclusive luxury as B&O, the case with Ralph Lauren portrays the importance of launching a brand extension at the right time, when both the image of the brand and the company is at a vigorous stage. It is assumed that when consumers have a positive image of a brand (*good customer-based brand equity*) it may be easier for consumers to accept the extension (Section 3.2.5).

6.6.2 Brand extension failures and the case with B&O

The cases with Gucci and Cadillac both show the importance of a perceived fit between the parent brand and the brand extension, especially when it comes to luxury brands.

Gucci vs. B&O

The case with Gucci shows the consequence of launching products which are seen as cheaper versions or merely counterfeits of the existing brand. Gucci has always been associated with luxury and exclusiveness, but the company's decision to sell high-street clothes in a number of different shops, and its agreement to a large number of licensing agreements caused a *brand equity dilution*. Gucci chose to introduce a high-street brand in order to extend its target segment and increase its profit and hence, it can be assumed that the company was thinking in terms of short-term profit, and not the negative spillover effects that this kind of extension might have on the brand. The extension stained the image of the Gucci brand, as cheap looking products showed up everywhere, and the various extensions ended up *obscuring identification* with the Gucci brand (Section 3.5.5.2).

According to B&O it does not compromise when it comes to quality and design, and as we have not been able to find any negative comments about poor quality of PLAY's products, it can be concluded that B&O has understood the importance of a fit between its brands, both in terms of quality and design. Hence, in can be concluded that B&O has been more careful with the extension of its brand, as B&O still positioned the sub-brand in a premium price to inform consumers that PLAY should not be categorised as a second-rated brand.

Cadillac vs. B&O

Cadillac experienced the same consequences, in terms of *brand equity dilution* as it introduced a brand extension which was seen, as not only an inferior model compared to Cadillac's previous models, but an inferior car. Cadillac introduced the Cadillac Cimarron in order to modify the perception people had of the Cadillac being a car that was mainly directed at a more affluent and mature customer segment. This strategy is very similar to the one applied by B&O, but as Cadillac introduced a car which did not meet the requirements of Cadillac's existing customers in terms of quality and design, B&O PLAY products have not been criticised as being inferior products. Cadillac believed that it could utilise its brand heritage and customer loyalty to extend its brand vertically, and that consumers would approve the Cimarron as it was associated with Cadillac. In regard to B&O, it can be assumed that B&O had the same thoughts in mind, as it has chosen to provide a strong endorsement to its sub-brand, in order to make it possible for PLAY to utilise the image of the B&O brand, and thereby use B&O's *brand heritage*.

6.6.3 Summary of the brand extension cases

When comparing B&O to the four brand extension cases, it is interesting to see how some strategies might be generally applicable, while some are certainly not. However, it should be mentioned that we are aware of the fact that there are differences in regard to the product's lifespan. Seeing that the four companies and B&O sell different products the product life cycle of the various products is very dissimilar. Furthermore, the fast pace of technology has entailed that the product life cycle of AV products is changing continually. Thus, from the products are introduced until they are in the declining stage have been shortened immensely, meaning that there is a great difference between B&O and the four brand extension cases in terms of the lifespan of the products.

B&O decided to introduce a sub-brand with a strong endorsement from the parent brand at a point where the parent brand was and still is experiencing a harsh time, both according to the financial crisis, but also in terms of its weakened image and decreasing revenue. B&O PLAY was one, among several other strategies, which were supposed to turn the decrease into progress.

Marriott has been successful by separating its luxury brands from the parent brand. This strategy could also have been applied by B&O, but this would cause B&O to lose the chance to boost the news about B&O PLAY and furthermore, it is assumed that one of the reasons why people buy B&O PLAY is because the B&O brand with its *brand heritage* promises good quality and a prestigious design. Unlike Ralph Lauren, which had good *Customer-Based Brand Equity* at the time it introduced its *fighter brands*, B&O has been experiencing a decline in sales and a decreasing image for several years. Thus, it can be assumed that even though it is difficult to compare Ralph Lauren with B&O, as the Ralph Lauren brand does not encompass the same exclusiveness, it can be concluded that it might be more successful to extend a brand when the parent brand is experiencing remunerative times, instead of believing that the sub-brand will renew the image of the parent brand and turn things around. In comparison with Gucci and Cadillac, it can be concluded that B&O has been more careful and chosen a more considered strategy by introducing a sub-brand that values its *brand heritage* in terms of quality and design.

After having applied our theoretical foundation in combination with the four brand extension cases it is pertinent to sum up what B&O has succeeded in with its brand extension and where we believe that the company has fallen short. Thus figure 32 is a visual conspectus of how we perceive B&O’s strategy. The figure portrays a weight scale where we have positioned what we believe has been pros and cons in terms of the company’s strategy.

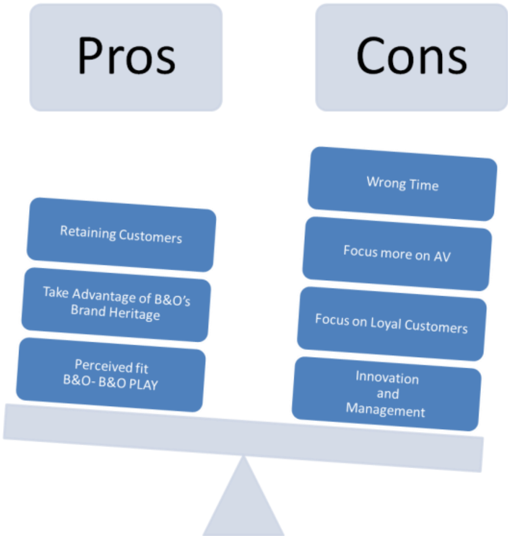

Figure 32 - Evaluation of B&O's brand extension (Own production)

We believe that it is beneficial for B&O to try to retain customers for a longer time by attempting to entice a younger customer segment, as this segment will once become the company's target segment. By endorsing B&O PLAY, B&O has made it possible to take advantage of the company's brand heritage and familiar name, and thereby created a foundation for B&O PLAY in order to avoid that the sub-brand should start from scratch. Furthermore, it is believed that unlike Gucci and Cadillac, B&O has managed to create a fit between its parent brand and the sub-brand in terms of quality.

According to B&O's cons we believe that B&O PLAY was introduced at a less favourable time as B&O's image is suffering and hence consumers may believe that B&O is merely trying to make a short-term profit and has milked the company dry. Moreover, we are of the opinion that B&O should have focused more on its AV products, since B&O's existing customers have expressed their discontent with the company. Lastly, B&O's innovatory skills and management style have been criticised as B&O is perceived as being slow-paced in terms of its innovation, and not providing the public with a clear message about where the company is going.

However, despite the fact that we are of the opinion that B&O has been less successful, it is still believed that when considering B&O's declining revenue and fading image the company was in a position where it had to react in order to slow down the negative course which the company experienced. The question remains whether analysts would still have been sceptical towards B&O choosing to extend its brand if B&O PLAY had been launched at a more favourable time, as it can be assumed that B&O's declining image, lack of innovation and criticised management style make it more difficult to turn people's perception around.

7 Conclusion

The thesis has been written on the basis of a wonder about whether B&O's new and less expensive sub-brand will have a negative influence on the B&O brand, or whether the sub-brand will renew interest in the parent brand and turn B&O's declining image around. Thus, our problem statement for this thesis has been:

How will B&O's new sub-brand, B&O PLAY influence B&O's existing brand?

In order to find out what influence B&O PLAY has on B&O's existing brand it was perceived as being suitable to analyse in which way the two brands differ and are related in terms of their expressed identity as well as their aim in terms of target segment.

When B&O introduced PLAY in January 2012 it was with the aim of enticing a new and younger customer segment, who B&O hoped would eventually make a shift to B&O's AV products. By alluring customers at a younger age B&O hoped that these customers would eventually make a shift to its AV products, and so B&O expected to be able to retain customers for a longer time.

Since the introduction various views about the extension has been expressed. Some, such as David Guldager a technology expert, believes that B&O should focus on the sub-brand as PLAY is doing remarkably better in terms of revenue compared to the parent brand. Others, such as lecturer in Marketing at CBS, Jesper Clement holds a different view. He believes that B&O should not have introduced a less expensive sub-brand as the parent brand will lose its exclusivity. We have chosen to include various views, as we consider it important to stay objective. Since we are only able to surmise about the future of B&O and B&O PLAY, the various opinions have provided us with different scenarios as to whether or not B&O has chosen the right strategy with B&O PLAY.

With B&O PLAY, B&O has sought growth opportunities by introducing a new, but related brand to a new market segment. This strategy is known as related diversification as it is applied to improve and perhaps renew the image of the existing brand and increase growth. Furthermore, as PLAY is in the same products category as the parent brand, but if offered at a lower price range it is a downward vertical extension. We believe that as the sub-brand offers more accessible prices than the parent brand, PLAY might function as a fighter brand that will protect the parent brand against any competing brands that offers the same within audio technology as B&O, but at a lower price.

B&O PLAY has its own separate identity where B&O has tried to create a more youthful identity for the sub-brand by describing the brand with adjectives that B&O believes will be directed at a younger segment. However, the sub-brand is still closely connected to B&O as they share the same values and core genes. The close connection is also visible in relation to the brands' logos, which are very similar. B&O's strong endorsement of B&O PLAY is evident as the B&O name is dominating the B&O PLAY logo, showing that B&O is behind both brands.

Hence, the B&O brand is what drives the purchase decision and the user experience, as it is assumed that one of the reasons as to why people buy B&O PLAY is because they want a piece of the B&O brand. If B&O PLAY had not been endorsed by the parent brand we believe that PLAY could not have offered products at a premium price, as it is assumed that one of the reasons why consumers are willing to pay more is because they receive an exclusive brand such as B&O. If B&O had chosen a shadow endorser strategy we believe that it would have been obliged to reduce prices as consumers buy B&O PLAY products due to the positive associations they have about the parent brand. Hence, customers receive the B&O experience at a much lower price.

Even though B&O PLAY is a less expensive brand, B&O has not made any compromises in terms of the quality of the products as customers still receive the B&O quality. Thus, it is believed that there is a fit between the quality of the AV products and the PLAY products. However, as B&O has always offered high-end products the company is in a position where consumers and customers might be confused due to the fact that a clear message is missing regarding what the core business of B&O is. The associations that consumers and customers used to have about the brand will possibly change as B&O now offers products in a price class below the parent brand.

Instead of introducing a new brand, B&O should perhaps have focused more on its AV products, which according to B&O is still its core business, as our analysis showed that some of B&O's loyal customers are dissatisfied with B&O as they believe that B&O's AV products are technically inferior, and some are even of the opinion that the products are outdated. In reference to this B&O should perhaps have focused more on satisfying its loyal customers and what they perceive as quality.

The closeness between the sub-brand and the parent brand makes it difficult to separate the two brands, and hence the negative image of the parent brand may create a spillover effect which will affect the sub-brand and vice versa. This spillover effect was evident as the introduction of B&O PLAY was received positively by investors and analysts, which meant that B&O's stock increased and the image improved. However, the improvement of the image was brief as several image lists this year shows that B&O has experienced an image drop. This may be a sign that the novelty value of B&O PLAY has already worn off. Even though the revenue of B&O PLAY has increased from 2012 to 2013 by 107 percent the sub-brand has not been able to reinvigorate the sales of the AV products. That B&O PLAY has experienced an increase could be a sign of consumers having a positive view on the brand and that the negative image of the parent brand has not influenced the sub-brand yet.

B&O PLAY aims at a segment known as *"the young professionals"* or *"the digital generation"*. However, as indicated by the name *"digital generation"*, consumers in this segment are considered to be more aware of which technological features the products offer as they want the most up-to-date products since this is what they consider value for money. With the fast pace of the technological development and the shortening of the product life cycle, B&O is no longer able to offer products that will still be up to date in three years time, and hence the company's innovative pace has to move faster in order for consumers to still believe that the brand is creating value for money.

Whether or not B&O has been able to entice younger customers to the sub-brand is unknown, but Tue Mantoni has claimed that 75 percent of consumers who have bought B&O PLAY products have never bought B&O before, indicating that B&O PLAY has not cannibalised sales of the parent brand. Even though PLAY targets a younger segment, it is difficult to separate consumers when it comes to design, seeing that the minimalistic design of B&O can attract all generations.

B&O introduced the sub-brand during a time where the brand was experiencing a downturn, and so from the analysis of other companies that have extended their brands, it is evident that it could have been more advisable to extend the brand at a time where the brand is well-functioning. When extending one's brand having good Customer-Based Brand Equity is advisable as consumers may be more complaisant towards the extension and so the positive associations consumers hold about the extension may strengthen the equity of the parent brand.

From the analysis and the above recapitulation it can be concluded that B&O chose to introduce the sub-brand at the wrong time, as B&O has experiencing a decline for several years. However, we believe that B&O was in need of a new strategy in order to turn its decline around. Yet, it could seem as if the sub-brand was a temporary solution in order for B&O to renew interest in the brand and increase its revenue. As it seems as if the sub-brand was a quick solution may also be connected to why analysts and even employees at B&O have criticised B&O's management style, as it is unclear where the company is going. The company is caught between two stools, as it is unclear which direction the company is aiming at. As also stated by Jesper Clement B&O should figure out whether or not it wants to focus on being an exclusive luxury brand or it wants to sell products at more accessible prices. A more beneficial extension could perhaps have been a product extension, where B&O could have expanded its product portfolio and offered products with the same technological features and prices as B&O PLAY, but within its existing brand, which is also the strategy applied by Loewe and Samsung. This would signify that B&O would have remained focused on its main brand and perhaps tried to advance the brand in terms of innovative technology and thereby, creating a stronger brand.

We believe that B&O PLAY might have a negative influence on B&O's brand in regard to image, as the exclusiveness which B&O is associated with will be weakened, as people can now receive the B&O quality at more affordable prices. In this connection it may be assumed that B&O PLAY will cannibalise sales of the parent brand in the long term. However, the fact that B&O's image has suffered a significant drop this year is not only because of the introduction of PLAY, but has been a long time coming, as B&O has not been able to keep pace with development.

Hence, we can conclude that hypothesis $\mathbf{H_1}$ and $\mathbf{H_4}$ can be verified, as it is believed that a downward brand will cause the parent brand to lose some of its exclusivity and instead of having introduced a sub-brand B&O should have focused more on its AV products as the company is in a position where it is losing customers. B&O PLAY has not yet cannibalised sales of the parent brand, as 75 percent of the B&O PLAY customers are first time buyers. However, in the long run it is difficult to predict if a cannibalisation might take place as consumers receive the same quality at a lower price. Thus, it is difficult to verify or falsify $\mathbf{H_2}$. According to $\mathbf{H_3}$, we do not believe that B&O will experience an equity wear-out as B&O PLAY has so far not proved to have such a negative impact on the parent brand that the whole value of the B&O brand is at risk.

It is difficult to predict the future of B&O and B&O PLAY as conditions change constantly, which has also affected our thesis throughout. Our theoretical foundation has been static, but as we have been examined a social process in time, our study has been under constant development providing us with new information all the time. Hence, it will be interesting to see whether B&O's other five *"must win battles"* are able to have a profitable impact on B&O's parent brand.

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