

## Nielsen Featured Insights

Delivering consumer clarity

### Nielsen Innovation Series

Innovation powered by brand s-t-r-e-t-c-h-i-n-g

### PART II: FACTORS FOR SUCCESS IN A STRETCH STRATEGY

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- Brand stretches gain share faster and build distribution quicker than new brands
- Stretches are 2x more likely to succeed in an evolving category or one with fragmented brand shares
- Strong parents beget strong children

In part one of the Brand Stretch Series, we defined what a brand stretch (a.k.a. brand extension) is and the advantages it has over a new brand launch. In this edition, we explore the key elements that make the brand stretching exercise a success.

#### Stretching is profitable, how do I do it?

The contribution of stretches is significant in the Indian marketplace and is growing. The study carried out by Nielsen, a leading global information and measurement company found a significant number of marketing practitioners who said they prefer stretching their brands over launching an altogether new brand. Besides, the in-market analysis of Indian FMCG brands showed the likelihood of success of stretches is five times greater. Despite these positives, it is important to note that the track record is still a 50 percent in-market failure rate!

To unravel the factors of success in a stretch strategy, we conducted a comprehensive exercise which involved studying 82 brand extensions across 46 categories, soliciting responses from a diverse group of marketing practitioners and analyzing consumer responses to over 65 brand stretch initiatives.

The exercise revealed crucial insights which act as a guide for anyone seeking to understand the in-market realities and increase the likelihood of success in their stretch strategy.



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Every second brand stretch  
still ends in failure

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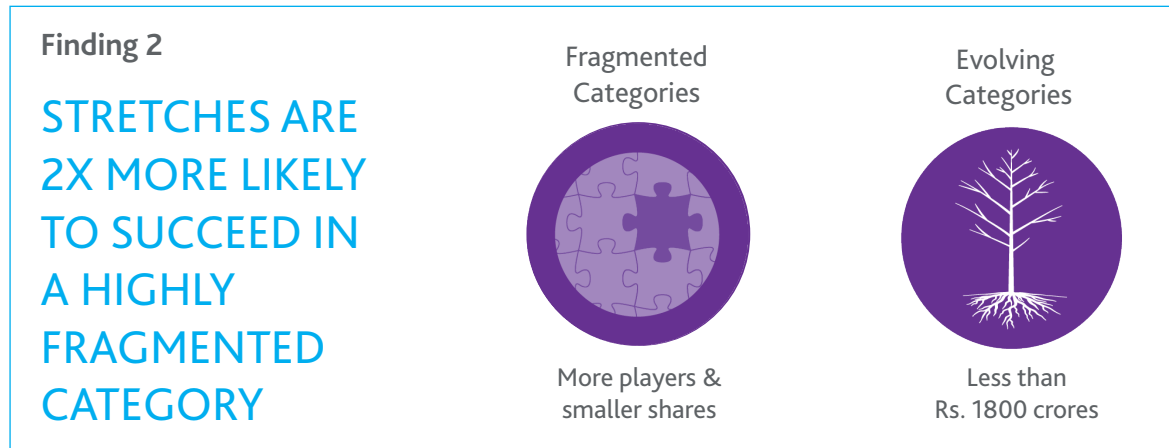
Source: Nielsen

The existing reputation of the parent brand helps extensions gain market share faster than new launches. In the illustration above, in the Body Lotions category, eight new brands went national and achieved a share of less than 0.3 percent while the seven brand extensions in the same period of review gained a market share of nearly four percent.

Similarly in the Oats category, one single brand stretch gained 9.2 percent more compared to the three new brands that went national. Both examples are typical of most other categories we studied suggesting a faster consumer trial and adoption process.

**Not only do stretches gain share faster, they build distribution quicker.** We looked at how long it takes a new brand to build distribution versus a brand extension. Comparing two large companies with similar sales infrastructures, we observed that brand extensions had two-and-a-half times faster growth in distribution in the same period. This suggests it is not just the result of leveraging past equity in the minds of consumers but also the positive reputation and experience with channel partners.

**The Caveat:** Each brand and its category has its own existing distribution footprint. Marketers should avoid the temptation of building a distribution strategy based solely on the footprint of its parent brand simply because it is easier. We found that four out of five successful stretches were able to get into at least 30 percent of the top-end stores of the new category.

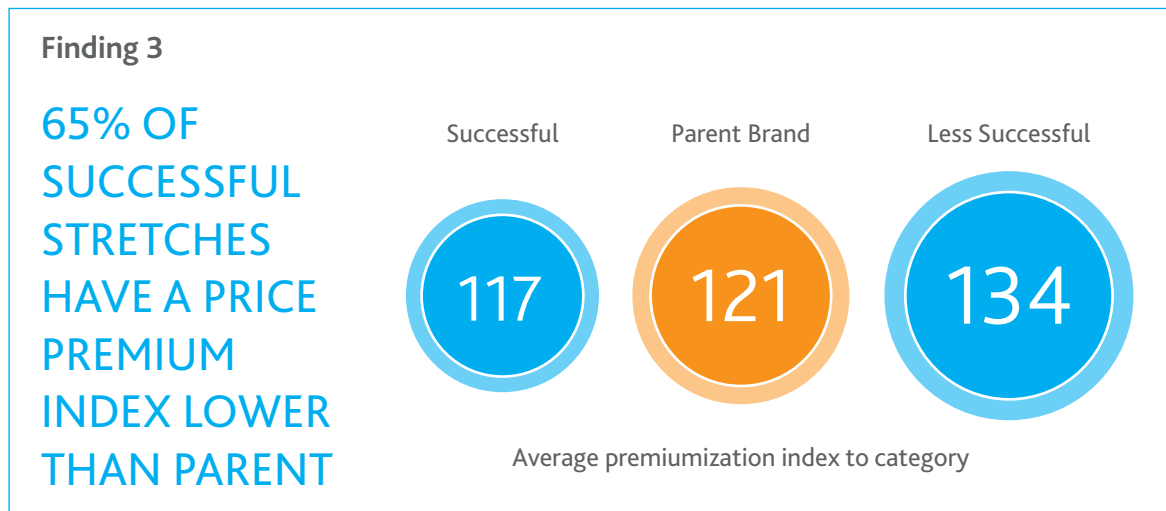


Source: Nielsen



Two distinct patterns emerged when we examined the link between a stretch category structure and success:

- a. Stretches introduced in fragmented categories (a lot of brands with small market share) are twice as likely to succeed compared to categories which have just a few dominant players.
- b. Similarly, there is a greater chance of success in entering categories that are evolving and where brands haven't fully penetrated. Early adopters have tried the brand but usage behaviour is still forming amongst consumers. Examples of such categories include breakfast cereals. We found more successful stretches where the category size is smaller i.e. less than Rs 1800 crore versus those of over Rs 3100 crore.

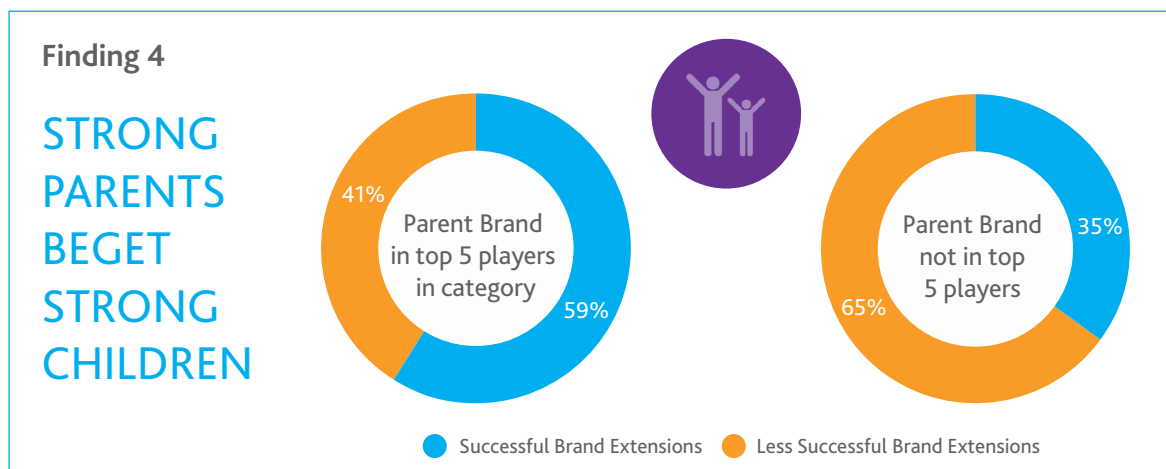


Source: Nielsen

Conventional wisdom would suggest that parent brands should be able to command a price premium with brand extensions in new categories. However, our analysis suggested quite the opposite.

In the sample of brands we observed, parent brands had a Price Premium Index\* of 121. Two out of three stretches that were successful had a lower average premium of 117 versus unsuccessful stretches which had a higher average premium. Brands that got greedy and charged a premium higher than that of its parent, had a lower chance of success. In some examples of success we noticed that marketers went in with a lower introductory promotional pricing and later moved to a higher band.

\*Price Premiumization Index is defined as average price of brand to average price in the category



Source: Nielsen



**Building the core is important.** One cannot stretch a brand into a new category unless it has built equity and reputation in its parent category. We found that parent brands which are in the top five on sales revenue have a greater probability to succeed compared to stretches of parents which are not in the top five.

Marketers who are able to creatively capitalize on these learnings are more likely to create a compelling formula to successfully make the brand extension journey.

### The next step

The factors of success constitute a fundamental base for understanding the elements that have worked on effective stretches in the FMCG space. In the next part, we propose a framework you can apply by combining advantages of market structure, company competence and leveraging the power of the brand using the four 'ARRC factors' to help you plot winning strategies."



Coming up in part-III of the Innovation Powered by Brand Stretch series:

### **FRAMEWORK TO MAKE BRAND STRETCH WORK FOR YOU**

*Innovation powered by brand s-t-r-e-t-c-h-i-n-g is a multi-part series of Nielsen's thought leadership on Innovation. The series focuses on the power of brand extensions as an effective innovation strategy to win in the Indian marketplace. Nielsen would like to thank our client contributors & industry practitioners who were instrumental in the co-creation of this thought leadership. The author would also like to thank Vishal Anam from Nielsen Mumbai for his analytical contributions to this series.*

#### About Nielsen

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