Time to scrap the rules: Entering Virgin territory

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Abstract

This paper examines the brand extension strategies explored by the Virgin brand's founder, maverick British entrepreneur, Richard Branson. In so doing, five stages of brand stretching are identified, ie the core and its four strata. It is argued that the last two stages are the two which are rarely exploited by most brand-owning companies. It is these last two strata that represent the 'hidden gold' of brand equity which Virgin and few others have discovered. The paper concludes that the time has come to be more daring with brands by scrapping the 'rules' that may have made marketers fear failure and lie low. This inactivity and complacent caution with regards to brand extensions may eventually cause the partial downfall of the world's biggest players, at the hands of those more daring and adventurous entrepreneurs who seem to have no sense of fear or failure.

INTRODUCTION

Creating brand equity has been considered by Lannon[1] as the process of endowing a brand with charisma. In describing the relevance of anthropological concepts to several areas of marketing, Judie Lannon has argued that modern marketing is the system whereby consumption myths and consumption rituals, involving products and services endowed with symbolic meanings, are created and sustained through the mechanism of branding. Lannon goes on to suggest that if brands can have personalities, then it is worth examining the kinds of personalities that exert the strongest influence. For instance, charismatic personalities — which are more compelling, generate extremes of loyalty in their followers. The same can be said for cult brands. Building a cult brand requires a deep understanding of the kinds of meanings the brand is capable of conveying.

One man who is currently showing Britain the kinds of meanings a brand is capable of conveying is Richard Branson. His charismatic personality and respected Virgin brand is creating fear among the fat and complacent across a wide range of markets from fmcg to financial services. Now the pundits are asking if the Virgin brand is stretching itself too far,[2] but the irrepressible Branson continues 'to have fun' expanding his Virgin Group worldwide.[3]

From its beginnings in 1970 as a mail-order record company, Virgin's growth has been almost totally self-generated, with only a handful of acquisitions. The group, a loosely arrayed confederation of enterprises, — embracing retail, travel, hotels, an airline, communications and interactive entertainment, a radio station, book publishing, and now a cola, a vodka and financial services, among others — has a turnover projected at £1.4 billion.[3] This estimate was prior to the launches of the fmcg and financial services products and the barrage of new launches expected to be introduced over the next twelve months. Few major companies in the world, if any, are safe from the Virgin challenge.

The charismatic Branson has created a cult brand which appeals to youth markets and businessmen alike. Some may believe that Branson knows something that traditional marketers do not, namely that successful brand building and brand extensions has less to do with marketing theory than it has to do with vision, 'gut feel', and entrepreneurial flair. In attempting to make marketing sense of Branson's thinking, the author will attempt to show that there exists a distinct and powerful strategy behind Virgin's brand extensions, that has not, as yet, been recognised and understood. This paper attempts to create new brand extension rules on the back of the Virgin success story and from the remnants of the rules that Branson has already broken.

BREAKING THE RULES

One important benefit of building a strong brand is that the name can be extended to diverse categories.[4] This is especially true of certain house brands.[5] An extension is a way to exploit what is perhaps the most important asset owned by a business.[6] For established brands, there is an immediate customer awareness and recognition associated with the name, the investment outlays necessary to launch the new product are lowered, and a successful extension can mean additional loyalty and associated profits.[7] According to Gordon, di Benedetto and Calantone,[7] the biggest danger is that a wrong extension can cause damaging associations, as perceptions linked to the brand name are transferred back and forth from one product to another.

Aaker has warned that 'brand name can fail to help an extension, or (worse) can even create subtle — and sometimes not so subtle — associations that can hurt the extension. Worse still, the extension can succeed, or at least survive, and damage the original brand equity by weakening existing associations or adding new, undesired ones'.[8] Aaker argues that essentially the extension needs to fit the brand. The customer needs to be comfortable with the concept of the brand name being on the extension. If the fit is poor, desired associations will not transfer but (perhaps worse still) will distract, or even precipitate ridicule.

One can just imagine the reaction of research respondents if asked ten years ago, in studies such as those conducted by Aaker and Keller,[6] whether they could conceive of an airline bearing the name of the music store and record label, Virgin. Had such research been rigorously followed, or had Virgin been concerned about ridicule, it is doubtful whether Virgin Atlantic Airways would be in existence today. It is doubtful that the public would have perceived the extension to 'fit' on any of the Aaker and Keller dimensions, ie quality, transfer, substitute and complement.

In Aaker's famous text,[8] he also suggests that perhaps the worst potential result of an extension is a foregone opportunity to create a new brand equity, and cites the 'more ugly' scenario of P&G having brands with generic descriptions such as P&G toothpaste, P&G coffee, P&G deodorant, and P&G 'potato snacks'. Had Branson followed this marketing text Virgin Cola, Virgin Vodka, and most other Virgin brands may not have existed today. By Aaker's definition,[8] Virgin has generic brands, and also launches brand extensions that do not quite 'fit'.

The old marketing schools of thought considered the strategies of leading branded manufacturers to be the ultimate branding strategies. Clearly, retailers had their owagendas strategies. Retailers understood the inherent power of their house brands and began to exploit this power on a scale never seen before and, for the first time in ages, the biggest branded manufacturers were being forced to rethink their branding strategies. Then came the surprise attack from Virgin. The brand had the chutzpah to go beyond private label products sold in-store (and 'on-board'), into travel, finance and even fmcg. Not only was Virgin breaking all the rules, it was also succeeding. For example, Virgin cola pushed Coca-Cola into second place in its main outlet, Tesco, very soon after its launch last year.9 Even more 'distasteful' is that these winning Virgin sub-brands are arguably 'generic' — or are they?

Generic brands have traditionally been defined as products that carry descriptive names, ie they have only their function on their label.[10] However, true generics do not even carry the manufacturer's name. It may be justifiable to argue that, if the manufacturer's name is known to the consumer, for example, Virgin, Tesco, Wal-Mart, and is used on a product followed by a descriptor, eg, Virgin Cola, then the product is not a generic. If the company name is unknown to the consumer then it could be said to have no brand equities (as it is not yet live in the consumer's mind[11]) and, therefore, its descriptive products would be seen as generic.

VIRGIN BRAND STRENGTHS

One of the differences between P&G and Virgin, is that P&G is not used as a house brand name, and may in fact not even be known to consumers. The Virgin brand does not represent a faceless company. It embodies the positive aspirational associations and charisma derived from Richard Branson — a factor which may arguably add more value to services than to products. As a record label and a retailer, however, Virgin was born a house brand. The name may be shocking to some, rebellious to others, although the word itself can be seen to symbolise purity, honesty, a first experience, and an original and fresh approach among others. The brand symbolised music first, entertainment megastores later, then an airline, a publishing business, a radio station, a cola and so on. The order of each launch is not of particular relevance.

What *is* relevant, is that consumers have accepted these extensions. Far from *diluting* its core properties or weakening its existing associations, as was the case with the Pringle brand which was stretched too far, ie from a masculine knitwear brand to jeans, cotton dresses, retail outlets and luggage,[12] the Virgin brand seems to have been *adding* core properties with each launch. The brand now conveys fun, excitement, quality, value for money, innovation and much much more. Virgin is no longer considered as a product-market specific brand. A key intangible factor (and new 'fit') which is being created by Virgin with each new launch, is to be seen to challenge the 'big bad boys' who are considered to be 'ripping-off' consumers due to a pseudo-monopolistic advantage, eg, British Airways, Radio 1, Coca-Cola, Smirnoff, the entire financial services industry. Virgin has become the *people's* brand.

HOUSE BRANDING

In an earlier paper Mihailovic and de Chernatony[5] have shown that some compa3ny names can become brands in their own right, which they define as 'house brands'. One of the benefits of having house brands, in terms of brand extension strategies, is that house brands tend to have the ability to stretch further than product brands. Product brands tend mostly to be confined to specific product-markets due to their tightly focused positionings. For example, Plenitude from L'Oreal has an anti-ageing positioning which would tend to keep the brand restricted to launching line extensions within the facial skin-care category.

In contrast, a house brand can stretch across various product-markets and categories, some having less limitations than others. Coca-Cola, for example, is beginning to question whether their world leading image will continue to be best served by being confined primarily to one product category.[13] The problem for the Coca-Cola Company is that their house brand name is derived from a specific product so tightly linked to a specific taste that even an orange juice would not benefit from using the house brand name. It is possible that Coca-Cola have left it more than 100 years too late to benefit from leveraging the house brand equities — surely one of the reasons why not even Fanta and Sprite were launched as Coca-Cola line extensions. Most house brand names have a much broader positioning than does Coca-Cola, for instance, Revlon, Sony, Yves St. Laurent.

Macrae[13] states that the Japanese have shown the business world that perceived quality is highest when a brand carries a corporate guarantee. Although this is partly true, we should not forget that house branding has served such a function almost since the beginnings of the fashion industry, the jewellery industry and other retailer-manufacturing industries, such as milliners. Perhaps too much emphasis has been given in recent times to the product branding strategies of the P&G's of this world so that the power of house branding has been overlooked only to have been rediscovered once product brands began to show cracks following the onslaught of retailer brands. Now even P&G are revisiting this.

P&G are said to be 'adopting Sony's route of overlaying its product brands with the corporate brand'.[14] Thomas and Saxena[14] have stated that some companies like Marsushita, have favoured building banner brands such as Panasonic and JVC, each of which covers multiple product categories and enables each product in the category to attract instant recognition. What is different about Virgin, is that it is a house brand that has stretched beyond its most logical and predictable categories.

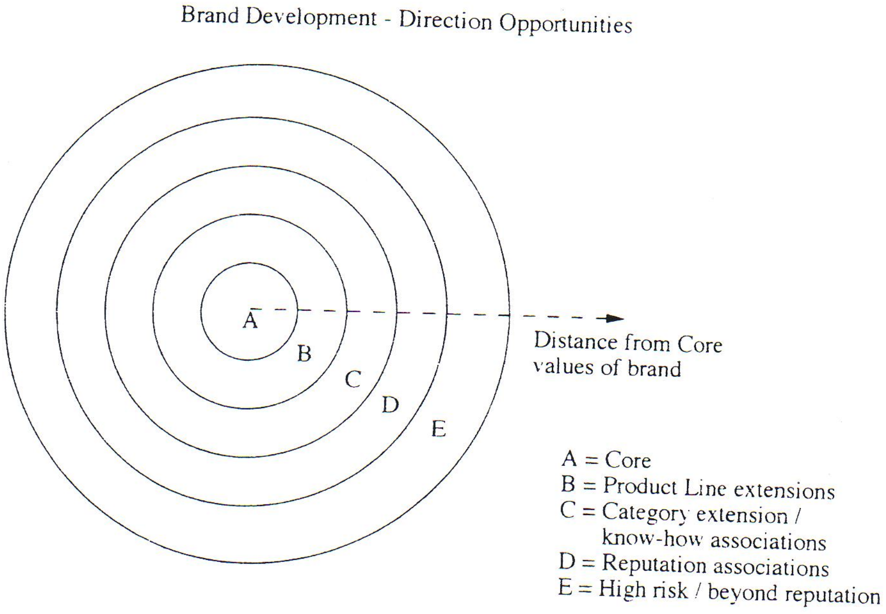
CORPORATE LIMITATIONS

The question, 'what business are we in?' may no longer be relevant to branding. It is doubtful that Virgin ever posed this question. Instead, 'which business can the brand go for?' would seem to be more likely. Had Virgin done the logical and predictable thing, it is probable that the company would have extended within the entertainment business in much the same way as have Sony. It would seem logical that firms which follow the product branding route would place the company and its core competencies above those of its brands. Conversely, when the brand name *is* the company, the development of the marque will be of primary importance. As 'the people's brand', the Virgin marque can go virtually anywhere, and is not restricted to the firm's ability to manufacture.

According to Kapferer,[15] the critical factors which allow for the acceptability of a brand extension include the brand's awareness and reputation; expertise and know-how transferability; how complementary each of the products are; and the perceived difficulty in making the extension. Each of these rules have been broken by Virgin at some point. So much so, that now almost anything Virgin does 'fits' in the minds of the consumer. For most brands, however, it is likely that consumers/customers will share a different perspective with regards to how far the brand can stretch from that of the company's management team or shareholders. It is here wherein lies the hidden gold.

Consumer tests[16] regarding brand extensions have found that the most favourable reactions occur when brand extensions are made with high brand concept consisitency

Figure 1 Brand development — direction opportunities



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and high product feature similarity. It could be expected that the company's management team would produce similar results. Yet Virgin seem to have recognised that consumers do not think like companies. To them, things just have to feel right, ie feel that the extension makes sense and is logical.[4] They are most likely to judge 'fit' by what they have perceived from the brand's past communication and are not, therfore, expected by Virgin to be visionaries of the brand's future. This is the role of the entrepreneur, marketing or corporate chiefs. Virgin had the courage to change, rather than reinforce, consumers' perceptions of 'fit' before it was too late.

In an attempt to illustrate what would or would not 'fit' the brand, Figure 1 (which is an adaptation of Kapferer's 'Perimeter of brand-extension model'[15]) reflects each major brand-stretching stage as an additional layer or stratum which envelopes the core of the parent brand.

Each stage is defined as follows.

A Stage one: creation of the core

Core is seen here as the original product brand for example, Nivea Cream, Virgin Records

B Stage two: the first stratum

Line extension is defined here as products launched under the same brand name within the same product-market category as the original core product/outlet/service. For example, Nivea Lotion, Virgin Music. This act will be described as stretching the brand to the first stratum.

C Stage three: the second stratum

Category extension refers to brand extensions which cut across different product-market categories, ie developing the 'second stratum' of brand stretching. In this situation, some of the original tangible associations with the core product/outlet/service are retained. For example, Nivea Shampoo, Virgin Megastore, Virgin Radio and Mars Ice Cream.

D Stage four: the third stratum

Intangible association refers to brand extensions which have no tangible link at all to the core product/outlet/service. The extension is purely based on the intangible properties that the brand has built into itself either consciously or sub-consciously. For example, Virgin Vodka (based on 'purity', youth, fun) or Cola (based on red and white livery, youth, fun). This 'third stratum' which remains virgin territory to most branding companies is most often the domain of the consumer/customer who will perceive 'fit' as a result of interpretations from past communications.

E Stage five: the fourth stratum

High risk relates to all brand extensions that have no link at all with any of the core properties of the brand other than in name and logo, for example, Yamaha motorcycles and Yamaha musical instruments. Kapferer[15] believes that in the consumers mind such 'discontinuous extensions' are mere homonyms'. Such extensions could threaten the brand's capital asset by causing the brand to disintegrate or break up into disjointed units in the eyes of the purchaser. Virgin Atlantic Airways was in this position at launch. This daring brand-stretching stage is by its very nature, a transitional one, ie if it succeeds, it sows the seeds of a new 'core' and if it fails, it proves transitional anyway. As such, the fourth stratum tends to act as the seed and soil of a new core, whether it grows or dies. It is at this stratum where Virgin has excelled in regenerating the brand, and in so doing, creating new 'cores' with new brand extension 'fit' opportunities, for example, financial services. There are no hard and fast rules to suggest that brands cannot expand by going directly from stage one to stage five, and it is more likely that its marketing team will be developing all strata simultaneously.

CONSUMER VERSUS COMPANY PERCEPTIONS OF 'FIT'

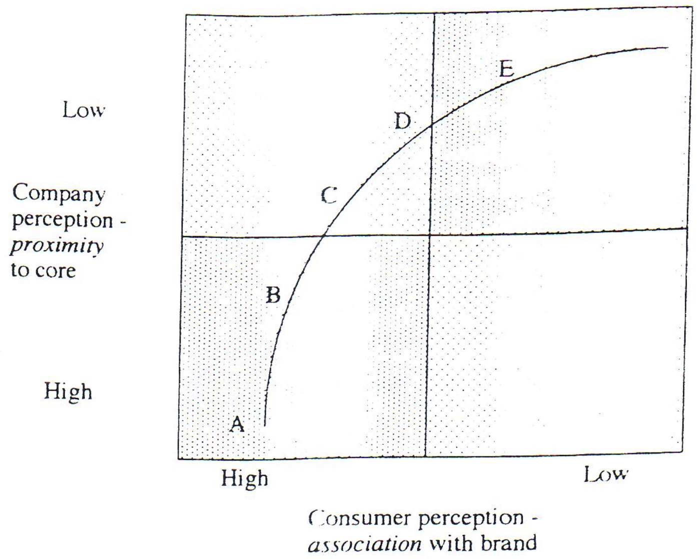
Figure 2 attempts to reflect the likely differences in perceptual thinking between the company and its brands' customers regarding brand extensions. Clearly this matrix would differ from company to company and from customer to customer, however, it serves to highlight the fact that existing or potential customers/consumers are likely to carry perceptions of a brand based on what they believe the brand stand for, which would include intangibles, rather than on its firm's actual competencies.

The matrix tries to show the way in which brand extensions within the four strata are likely to be seen by consumers to 'fit', versus how they are likely to be considered by the company to 'fit' relative to the parent core. It attempts to illustrate how line extensions which stretch as far as the first stratum (B) are likely to be considered by both consumers and the company as 'fitting' with the core. The assumption is made that all or some of the Aaker and Keller's[6] dimensions of 'fit' would apply here.

Line extensions that stretch to the second stratum (C) are already less likely to be accepted by the company than by the consumer. For example, when Mars went into ice creams without having an ice cream production plant, the decision was clearly harder for the management team to envisage than it was for the consumer.

Line extensions that stretch as far as the third stratum (D) in which only brand intangibles are able to transfer, clearly tests the vision and courage of company's management team more than it would test that of the consumer. Consumers may tend to be more

Figure 2 Brand potential perceptions



Developed for Couture Brands in conjunction with Garry Honey, management consultant specialising in strategic marketing

open to diverse brand extensions than companies, due mostly to the fact that consumers are unaware of what the corporation's limitations may be. Thus if Boots the Chemist, with its 'medical' and 'caring' credentials were to launch a private health care scheme to compete with BUPA in the UK, it would likely find itself highly accepted as a serious option vis-a-vis banks who offer private health care but fail to have the credibility of caring for anyone. The Boots management team may, however, choose to overlook such an opportunity if Boots considers itself to be only in 'the retailing business'.

Line extensions that stretch the brand beyond all three strata and into the fourth (E) are less likely to be understood or accepted by either the company or the consumer. By Aaker and Keller's definition[6] the 'fit' is likely to be 'difficult'. When Virgin went into the airline business, it was no doubt at a very high risk. Branson clearly had the courage to take the risk, but ensured that he took customers with him. Branson generated tremendous transatlantic publicity with his hot air balloon adventures, as well as offering real high quality value for money transatlantic fares. Branson was not in fact draining value from the core brand, he was enhancing value by trading upwards. Once established (1984), Virgin Atlantic had become a new core product/service in its own right and has since been line extending across the entire travel industry.

The launch of a prestigious airline off the back of a 'lesser' business (records) must rank as a classic case of branding courage which few, if any, have emulated. It is in this 'fourth stratum' where Virgin is truly fearsome. The launch into fmcg and finance sectors are all at this level and no longer come as surprises. Next could be television stations and alternative banks. Each time new brand 'cores' are being created and simultaneously new rules in brand stretching are being established.

THE VIRGIN BRAND

Richard Branson has prided himself on never having read a textbook on marketing and has given the impression that he markets by instinct rather than design.[17] However, he is known to employ the services of top marketers and advertising agencies. The very name Virgin, apparently coined by Branson to describe his inexperience in business, caught the mood of the times and set the tone for much of Branson's subsequent image-building. Branson has recognised that Virgin's primary asset is its brand. He considers it a brand so powerful that it can, in effect, be licensed to a diverse range of business ventures. In such instances he feels confident that the name Virgin, and the values attached to the name, can give those businesses considerable benefits in the marketplaces in which they operate.[18] It is more common, however, to find Virgin involved in strategic alliances than in straight licensing agreements.

Branson's strategy is to build a portfolio of attribute-based, rather than product-based, brands which will probably have nothing in common other than their association with the Virgin name, ie at stage five. Branson's influence is Japan, where a Mitsubishi, for example, can be a car, a bank or a ship.[19] Kapferer,[15] however, argues that Mitsubishi is not yet a brand in the full sense — we cannot perceive its values, its source of inspiration, its intention, direction and guiding force. It is a name on countless products, a means of reassurance through its implied connection with the industrial power of the Mitsubishi group. It is the manufacturer's sign on packaging — an indicator of origin.

In contrast to Mitsubishi, the Virgin brand has an ever expanding range of core values. Instead of ending as nobody's brand, it has become everybody's brand. A recent independent NOP poll has shown that 83 per cent of people in the UK think that Virgin is friendly, 75 per cent say it is high quality, 66 per cent innovative and 68 per cent, fun.[18]

VIRGIN CRITERIA

Is the brand stretching itself too far? ask the pundits.[14,19,20,21,22] The Pierre Cardin brand is often cited as one which lent its name to such a wide array of products of a lesser standing that the brand was hopelessly diluted and devalued as to become virtually worthless.[12,16,19] Loken and John have shown that brand dilution effects occur when brand extension attributes are inconsistent with the family brand beliefs.[23] Kapferer[15] argues that a brand constitutes a plan, a genetic programme. It is often not a written plan. More often than not, there is no plan, either conscious or unspoken. Even brand creators such as Yves St. Laurent, he states, have not been aware of following a specific plan, yet they would have no hesitation in saying what the brand should or should not do. They in fact see the brand as themselves.

Branson could well be seen to fit this description except that he does not use the Virgin brand for all his businesses. It was not used on the condom business because this was done for charity, and it was not used for the modelling agency which introduced 'super-waif' Kate Moss to the world, because the Agency head thought Virgin Girls was slightly questionable.[3] By such admissions, it is clear that Branson does consider 'fit'. Virgin claims to only choose products where the brand name works and where a lot of research has been done. Cola, for instance, is associated with youth and fun and is therefore seen to suit the corporate colours of red and white perfectly.[19]

Unlike Pierre Cardin, the Virgin brand is not 'sleeping around'. The name is never used on a product that does not have its own sustainable differential advantage. Of them all, perhaps the cola is the one with the weakest advantage if consumers perceive its key USP to be price rather than taste. De Chernatony and McDonald[10] have argued that the core of a successful brand is that it offers benefits to consumers in a way that other brands are unable to meet. Winning brands, it is argued, have a supporting communications strategy which results from a deep understanding of the myriad of clues that consumers use to interpret them. For those brands differentiating themselves primarily through their unique image, advertising is invaluable.

The publicity generated as a result of Branson's charisma and strong public relations machine has no doubt been a major critical success factor while advertising perhaps less so. One of the key reasons why Virgin has managed to generate such huge PR is because everything that is launched bearing the Virgin name is in the consumer's interest. Virgin is in most part, a challenger of 'big bad' corporate companies — each time another is attacked from the 'fourth stratum' with a better product, a better price or both, the Virgin brand is regenerated rather than extended in the conventional sense, ie a new 'core' is born.

With no large headquarters and other conventional trappings, Virgin's corporate attitude enables lower overheads and an unconventional use of marketing funds. As such, the 'bad guys' are thereby almost always susceptible to a Virgin challenge. For example, Virgin claim to have asked Pepsi to include Virgin Cola in its latest Pepsi Challenge, but Pepsi declined the offer. Branson now openly assumes that it is because Pepsi would be beaten 'hands down'.[24] The cumulative effect of all the publicity (for both Virgin and Branson), various new product launches and crusades has led to the creation of a powerful brand that seems nowhere near dilution, and even less likely to become so. Providing that Virgin's thinking remains consistent, and that, by virtue of its size, the company does not turn into a corporate 'bad guy' itself, the Virgin brand could find itself as the flagship brand of the new millennium.

CONCLUSION

The Virgin brand extension strategy, whether planned or not, can be placed within a logical marketing framework. The brand may have broken all the rules but, in so doing, it has created new ones. In essence, its most visible brand extensions stem mostly from launches in the 'third' and 'fourth stratum'. It is mostly because brand extensions have so rarely been made from these strata that the marketing pundits have been taken by surprise. They are accustomed to seeing bricks and mortar, tangible products, and a firm operating within the confines of its historical know-how. As a result of this attitude, many marketers may be missing golden opportunities to exploit their brand's true assets to the fullest.

Boots, for instance, may never have the will or the courage to challenge BUPA in the private medical insurance field. The company may not have seriously considered the fact that, in this era of strategic alliances, know-how is readily available from established and often brandless firms who would be only too pleased to licence such a powerful brand name in order to compete against BUPA. If Boots leaves it too long Virgin may do it instead.

Virgin exploits its colours, its name and its founder's charisma to the fullest. As a house brand it explores its potential to the fullest. It does not shy away from exploiting its intangible associations. Rather, it embraces them. It goes beyond the 'third stratum' into the relatively unknown 'fourth stratum' in order to sow the seeds of a new brand 'core' and thereby reproduce the cycle. Each time it does so, it fosters its image further as a consumer champion by playing the role of David versus Goliath. It enters into licensing agreements, joint ventures, and strategic alliances, sells off parts that get too rigid (for example, Virgin Records sold to EMI) and keeps its overheads down. Without a head office, it is perhaps, a 'virtual organisation' that exists in brand name alone, and thereby mostly in peoples' minds.

It is possible that all brands have such latent potential, especially those that are, or have become, house brands. Establishing a house brand would seem to be the most important critical success factor to enable brand extensions to take place in the third and fourth strata. For Virgin, having a clear cause, challenging 'the big bad boys' would seem to be another. Virgin may not have become such a powerful cult brand had it not taken huge brand extension risks and challenged the biggest and the best. The extent to which Virgin is sustainable without Branson still remains to be seen.

Until such time as marketers begin to discover and exploit their brands' hidden assets, either those buried beneath the deep levels of the consumers' mind, or those simply lying at the back of the CEO's mind, brands like Virgin will be leading the way. All marketers, academics and practitioners, should consider learning from this virgin experience, and try to build on it. Perhaps the time has come to scrap the rules and to start experimenting again.

Many firms may find themselves in a unique position to launch brand extensions in the third and fourth strata and would be wise to consider it. The avoidance of risk may prove to be the greatest risk of all.

It may help, of course, if the company has a charismatic and visionary head backed up by a strong PR machine, flexible structures, low overheads and a dynamic management team to begin with. A strong house brand and a spot of courage, however, may suffice. Unfortunately for some, it may be too late.

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