How to Spin Off Your Product

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June 20, 2012 When faced with only a one-in-five chance of succeeding at something, most people wouldn't even try. And yet, companies introduce brand extensions all the time despite a brand-extension failure rate of approximately 80 percent in many fast-moving consumer good product categories (according to reports by Ernst & Young and ACNielsen).

The gamble is understandable. Brand extensions make attractive prospects for growth—compared with standalone new brand/product introductions, they're easier to cross-promote, require less investment, and tend to be more successful. So the potential benefits may outweigh the downside.

To tilt the scales in their favor, smart business leaders ensure their brand extensions meet a range of considerations. Here are five criteria you can use to evaluate potential extensions.

1. Consumer demand. Does enough incremental consumer demand exist? This may seem like an obvious point, but in today's retail environment, a company's assortment are often driven by the needs of the channel instead of those of the end buyer. Pressure from accounts for something new along with the aggressive competition for facings, may tempt you to introduce new brand offerings that don't really tap into demand. As a result, they may simply cannibalize your existing line and/or drag you into a pointless share war. Conduct your own consumer research among your target audience to gauge if a brand extension will generate incremental sales—and sustain them when your competitors up the ante.

2. Operations. Does the extension fit with your organization's operational capabilities? Some new categories may be very attractive from a customer perspective, but they don't make sense if they push the limits of your capabilities to the extent that quality would be compromised. In particular, be mindful of the capabilities of your supply chain and distribution channels. A brand extension either strengthens or weakens the perceptions of your existing offerings, so operational excellence is critical.

3. Financial benefit. Will you generate enough incremental revenue to offset the opportunity costs? Brand extensions require financial investments in all the marketing P's (product, place, price, promotion, and people) and a simple pro forma will reveal the expected return baseline. But to evaluate the true cost, it's important to factor in the opportunity costs of diverting investment, as well as resources and attention, from your existing line. Another financial consideration is potential upside: While a brand extension requires less financial investment than a new brand, it usually doesn't produce the long-term returns that a successful new brand might.

4. Competitive advantage. Does the extension improve your brand position? Think of your brand as a bank account. The value that your brand creates for your company can be very significant, but "withdrawals" happen through things like price-driven promotions and sub-par execution. A brand extension should serve as a "deposit"—it should increase existing brand appeal or differentiation. If the extension only puts you at parity with others, or if it could detract from your perceived value, don't do it.

5. Brand identity. Does your brand have a deep and transcendent identity to fuel the extension? Your brand identity is like a character in a movie. If you captivate your audience's imagination with a deep brand identity, people want to know more about it. And just like movie sequels, successful brand extensions unpeel the "character's" layers—they don't just keep telling the same story over and over.

Your brand identity must also transcend any one given product in order to spawn successful extensions. When your brand stands for something more than product attributes, helps people express themselves or shares values and communities with its customers, a brand extension can draft on this higher-order connection.

In business, as in life, nothing is ever a sure thing. But by interrogating potential brand extensions with rigorous criteria that covers a range of perspectives, you can beat the odds.

Are you thinking about spinning off your product? What steps have you taken?

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