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Brand Extension

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Declaration of Authenticity

I hereby declare that the Bachelor´s Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree programme.

Prague, May 1, 2017 Signature

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Abstract:

The thesis investigates the topic of brand extension and its importance in the business practice of companies. The theoretical part of the research outlines the key theoretical aspects related to brand and brand extension. The practical part investigates the case study of Starbucks' brand extension and compares it with other famous brand extension cases. The paper illustrates how Starbucks' brand extension from coffee onto the ice cream market had been successful on the initial stage, and how it failed in the long run, analyzing the key advantages and drawbacks of Starbucks' brand extension activities. The thesis outlines how Starbucks' brand extension could have been improved.

Key words:

Brand, brand extension, brand management, consumer behaviour, customer loyalty, Dreyers', multinational corporations, Starbucks.

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1 Introduction

The competition in the global economy as of today is very intensive under the impact of technological progress. Major multinational corporations seek market domination through the opportunity to save on the scale of their activities, while small businesses try to succeed in their niches or to focus on innovative business models which would allow achieving steady market positions for a long time.

All companies are forced to constantly improve their products and services offered to customers, and also their business models, as customers' needs and wants tend to steadily grow. However, for many customers, brand loyalty plays an important role. Many of us have preferred brands of particular goods, and tend to remain loyal to them, believing that their quality or particular features are better compared to their competitors.

Taking into account the aforesaid trends, many companies which have brands popular among customers, may use those brands effectively when expanding their business to new sectors or branches of activities. This process is commonly referred to as brand extension. Potentially, the use of a well-famous brand for a new branch of activities allows generating greater demand for the new line of products offered, and significantly reduces the amount of marketing costs to be incurred. However, in the case of any ineffective results of brand extension, the entire brand value may be affected.

This thesis will be dedicated to the investigation of brand extension, which represents an important phenomenon in the world of business as of today, and thus deserves particular attention in terms of research.

The aim of this thesis is to investigate in detail the brand extension case of Starbucks Company and to reveal its main advantages and drawbacks.

The research question is the following: What were the main advantages and drawbacks in Starbucks' brand extension case, and how could this deal be improved?

In order to run this research and achieve its aim, a range of methodological tools will be applied. Thus, within the theoretical part of the research, the main investigation method will be secondary research: it should allow revealing the main theoretical concepts related to brand, brand management and brand extension. Also, within this method, customer behavior will be investigated in terms of brand loyalty. In the practical part of the thesis, the main research methods will be case study and comparative analysis. Starbucks' brand extension case study will be aimed at revealing in detail the company's brand extension deal and its results, while comparative analysis will be aimed to compare the deal's effectiveness with other successful and unsuccessful brand extension cases among major multinational corporations.

Also, deductive analysis will be used in order to provide an own opinion on the investigated cases, and thus to maximize the value of this research paper. Suggestions and recommendations for Starbucks in terms of its brand extension will be developed by the thesis author based on the previous background and information collected throughout the course of this research.

The thesis will be written based on an extensive use of bibliographic sources, including both print publications and Internet sources with up-to-date information. Print sources will include KAPFERER, Jean-Noël. 2002. *Strategic brand management: new approaches to creating and evaluating brand equity*.; MACINNIS, Deborah J., PARK, C. Whan, and PRIESTER, Joseph W. 2009. *Handbook of brand relationships*; WOBBEN, Carolin. 2013. *Success factors of brand extension in international marketing*; PRINGLE, Hamish, and FIELD, Peter. 2008. *Brand immortality*; HAIG, Matt. 2003. *Brand failures*; etc. At the same time, websites of magazines, news agencies and companies will be used in order to draw the most relevant data for the practical part of the research as well.

The findings of the thesis should be both theoretically and practically valuable, and will be aimed for use as a framework for any research dedicated to brand extension cases of companies other than Starbucks.

2 Theoretical Part

2.1 Brand: Key Definitions and Theoretical Aspects

There are several definitions of the term “brand”. It can be structured within three groups based on the level of "virtualization concept". If to think about several definitions equally distributed along a single axis, on the one hand, we will have classical definitions focused on the products or services that represent a brand. On the other side of the pictured axis, we will have definitions focused on the non-material or "virtual" side of those products and services. For this sort of definitions, the quality of products and services, usability and customer experience are quite relative. However, the most important thing is to ensure that the customer would feel certain emotions motivating him or her to choose this brand over and over again. The group definitions that combine the aforesaid characteristics of products or services would be somewhere in the middle.

The well-known definition of the American Marketing Association states that a brand is a „*name, term, sign, symbol, picture, or it’s combination, intended to identify manufacturer’s products and services or a sales group network and to differ it from competition*” (Knowles, 2004, p. 91). This definition belongs to the first group. Also, this one and similar definitions are partially based on the history of brand genesis. There is an assumption stating that the word “brand” derives from the medieval practice of craftsmen and guild masters’ practice of putting cattle to the iron. Such kind of marketing helped differ products with high quality from low quality and justify the price.

The main disadvantage of the classical brand definition is the fact that it identifies the concepts of brand and trademark as same thing. According to these definitions, any trademark can be considered as a brand. According to the Russian legislation, “trademark” is a legal term meaning an intellectual property asset. However, it’s obvious that a brand is more than just a product or service with trademark or with a state certificate of registration (Kapferer, 2012, p. 11). In this regard, there is a simple but popular definition set to describe the term “brand” as a “recognized trademark.” The level of “recognition” defines two other definitions.

There are definitions that don't even mention the product or services. Those definitions belong to the group of extreme "virtual" definitions. To describe the most extreme version of the definition in a simple way, it can be said that "*the brand is a promise for a certain customer experience*." (Kapferer, 2012, p. 11). As far as the quality and authenticity of products become relative, the key expectation from the brand will not be in product or services, but rather in customer experience. Based on Naomi Klein's point of view, in those circumstances the best brand effects are achieved when "*companies provide customers with the ability not limited to purchasing only, but to fully experience and feel a sense of brand spirit and value*." (Dahlen, 2008, p. 15). A cup of good coffee can be served with similar quality in a small private coffee shop as well as in a famous franchise network outlet. But small private companies have less chances to overcome famous brands, because they don't propose anything more than just a cup of coffee. Famous brands offer familiar life situations and ready-made role models. Also, often, the quality of branded products does not exceed the quality of similar non-brand products, while price of branded products is completely out of line compared to the quality provided. Nevertheless, most customers prefer branded products (Klein, 2010, p. 56).

Eventually, somewhere in between the two extremes, there is a large number of definitions that are taking into account as much as possible both components – the material and the intangible.

One of the most famous definitions belongs to David Ogilvy who said that a brand "*is the intangible sum of a product's attributes: its name, packaging, and price, its history, its reputation, and the way it's advertised*." (Postman, 2009, p. 78). The brand is also a combination of impression and experience provided to the customer that resulted from trying the brand's products. On the one hand, this definition proves the fact that the brand is something more than just a registered trademark and on the other hand it emphasizes the material side the brand has. Not any product is a brand. Not even any registered trademark can be called a brand. Only the most successful trademarks can be considered as brands.

According to the book "Basics of PR", "*Brand is a bundle of customer's ideas about a trademark including a set of stereotypes, symbols and emotionals*." (Smith, 2013, p. 98). Thus, it is clear that any brand is created jointly by the manufacturer and the customer. It would not be enough to have only the willingness to create a brand, as customer's active and motivated participation is a key contribution to make an ordinary product transform into a branded product.

There is a term "strong brand" that helps distinguish a large number of candidates from a real valuable brands. This term was introduced by David Aaker in his book "Building strong brands" and became very popular in specialized literature. A strong brand has a number of features that provide an open-minded evaluation of it's value (Aaker, 2012, p. 15).

The first point is that there is a high brand awareness among the targeted audience. It is believed that the level of recognition of a strong brand within the targeted audience should not be lower than 60% (Aaker, 2012, p. 17).

The second point is that there is perceived quality of products or services that do not change and do correspond to the brand's stated promises.

The third point would be positive associations of the targeted audience with the brand.

And finally, fourth, and perhaps most important point for a strong brand would be a loyal group of customers.

In his book "Brand Asset Management", Scott Davis highlights very interesting details on how great the influence of strong brands can be on customers' behavior: 72% of customers say that they are ready to pay for a favorite brand a price 20% higher than for the competitors' brands; 50% of customers are ready to pay a price higher by a quarter, and 40% of customers are ready to pay a price higher by one third compared to competitors' brands (Scott, 2007, p. 75). Thus, the main target of a brand manager is the creation and development of a strong brand which would justify its cost compared to its value. The only challenge which may be faced is that often investments in brand are not efficient. Nevertheless, a majority of business practitioners and theorists agree that brand is one of the most effective marketing tools, while owing a strong brand becomes a must for a stable and successful business.

Due to the fact that creating a strong brand becomes a must for most of commercial, non-profit and political organizations and even for some individuals, the idea of branding technology has been created that combines a certain sequence of actions and procedures to be repeated with greater or smaller success. According to N. Tesakova and W. Tesakova, branding as technology was created in the US in the 1930's. That's where old brands such as Coca-Cola (established in 1893), Kodak (1888) and other are coming from (Tesakova, 2004, p. 49).

2.2 *Key Components of a Brand*

Marketing experts consider that the following features should be possessed by a successful brand (Pasotti, 2010, p. 18):

- visual sign or branded mark (symbol, name, design, color, or their combination), which is attached to products or services;
- work on the consolidation of trust, reliability and exclusivity perceived by customers for a certain business;
- adding value to the product or service;
- providing customers with certain psychological reward;
- solutions that help customers simplify the understanding of offered products;
- facilitation of the positive relationship between the customer and the brand.

Table 1: Tangible and intangible brand components

Brand tangible components	Brand intangible components
Products itself	Trust and reliability
Brand name	Psychological reward
Brand trademark	Added value
Benefit description	Quality differentiation

Source: De Chematony, 2012. p. 181

A brand's tangible components (product quality and its characteristics) and its external features (brand name or its trademark, benefit description) are the result of a complex planning process done. This process also includes studies helping identify the brand's specific intangible features that will be available to the customer in case of purchase (for example: trust, reliability, added value, quality differentiation, and other forms of psychological rewards) (De Chematony, 2012, p. 181). All of those tangible and intangible components facilitate branded products to be sold at a higher price compared to products without a brand (generic products), as the brand adds additional value against generic products. The price difference between a generic and a brand product that customers are ready to pay is called brand premium, and that is why experts state that brands have a premium price or a price with markup (De Chematony, 2012, p. 182).

Typically, the value added by the brand and its realistic influence on cost are not aligned, and relatively low investment in brand may cause additional influence and provide bigger price markup compared to non-branded products.

„*A brand provides not only a source of information (thus revealing its values) but performs certain other functions which justify its attractiveness and its monetary return when they are valued by buyers. The brand has 8 functions. The first two are mechanical and concern the essence of the brand; that is, to function as a recognized symbol in order to facilitate choice and to gain time. The following three functions reduce the perceived risk. The last three have a more pleasurable side to them*.“ (Kapferer, 2012, p. 22).

Figure 1: The functions of the brand for the consumer

Function	Consumer benefit
Identification	To be clearly seen, to quickly identify the sought-after products, to structure the shelf perception.
Practicality	To allow savings of time and energy through identical repurchasing and loyalty.
Guarantee	To be sure of finding the same quality no matter where or when you buy the product or service.
Optimization	To be sure of buying the best product in its category, the best performer for a particular purpose.
Badge	To have confirmation of your self-image or the social image that you present to others.
Continuity	Satisfaction created by a relationship of familiarity and intimacy with the brand that you have been consuming for years.
Hedonistic excitement	Enchantment linked to the attractiveness of the brand, to its logo, to its communication and its experiential rewards.
Ethical	Satisfaction linked to the responsible behaviour of the brand in its relationship with society (sustainable development, CSR, employment, citizenship, advertising which doesn't shock).

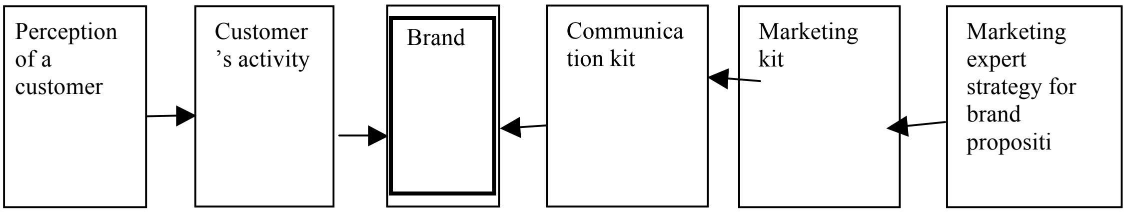
Source: Kapferer, 2012. p. 23

For practical planning purposes, it should be assumed that brand is a relationship that has a number of measured variables, including perceived quality of the branded product, customer experience associated with the use of this brand, and psychological and social rewards that add product value. For every brand, each of these variables contain a set of attributes possible for being studied and measured, which is performed by marketing experts when designing and maintaining a brand and its market positioning compared to other brands.

According to the concept of integrated marketing communications, a brand is the baseline for cultivating relations between marketing experts and customers.

Besides the opportunity to focus efforts on customer needs (operational, psychological and social), this approach also provides a way of communication to express and vocalize this relationship. In terms of sociology, this area is defined with the customer's activity to be intertwined with communicational and marketing kits developed by marketing experts. Thus, a brand is a sort of "*commitment for psychological relationship and interdependence existing between the consumer and the marketing expert*." (Kapferer, 2012, p. 30).

Figure 2: Brand as a baseline for cultivating relationship between customer and marketing expert



Source: Dibb, 2007, p. 274

The brand essence is transferred by a unique language that has visual and verbal components (branding symbols, names, trademarks, colors and graphics are included in the communication kit). It has a social value and is being adjusted by the marketing expert in order to be aligned with the customer's social needs when those needs become obvious. Based on the psychological point of view, it represents the customer's personal cognitive experience.

2.3 Consumer Behavior and Consumer Perception Theories: Brand Choe

Customers' behavior is the decision-making process of customers for making product purchases based on price and personal budget, i.e. own cash income. It is well-known that customers' income is having direct and straightforward effect on demand when prices influence directly the quantity of goods sold (Youjae, 2014, p. 98). This influence is traced in specific consumer behavior that entrepreneurs take into account when developing their pricing policy. The entrepreneur should understand clearly the realistic impact of price increase level on high quality products and its highest possible peak. Or vise versa, minimum price decrease is possible in order to keep the same revenue volume, if demand for those products decreases accordingly. The answers to these and alike questions are also linked with customer behavior examination. Customers' behavior and the choice they make are very individual. Each customer is guided by own preferences, attitude to fashion, product design and other personal preferences. It is only possible to segment customers by social and demographic factors: age distribution, gender distribution, occupation details, lifestyle, etc.

2.3.1 Specifics of individual preferences

It is quite challenging to meet everyone's preferences as well due to customers' crosstalk effect. For example, sometimes, there is an "imitation effect" representing customer behavior with the intention to purchase only because other people made those purchases. Also, there is a "snob effect" representing the intention to buy based on "controversy or despite what others do prefer." Such effect as the "demonstration of exclusivity" has been discovered as well, representing customers' intention to stress and demonstrate the purchase of an expensive product that besides justifying the need also makes an impression (Blackwell, 2006, p. 233). Most preferences do not relate to pricing factors and cannot be taken into account within customer demand analysis. For example, the customer always prefers to have the same total price for more products rather than for less products; high-quality products are more preferable compared to low-quality or outdated products; environment-friendly products are also more preferable at the same price and the same terms. Customer preferences can be divided into certain customer groups (goods for teenagers, kids, men's and women's); product lines (winter and summer, industrial, consumer goods, tangible and intangible, etc.) (Robinson, 2004, p. 141). However, in all those cases, specific fundamental details would be required in order to identify the correct baseline for price changes within specific product groups and customer segments.

2.3.2 Customer preferences and income

Customer preferences can be grouped into commodity assortment kits of different types containing most required products that are regularly purchased almost by all customer segments within relatively short periods of time (for example, every week, month, quarter or year).

Let's assume there are several such commodity kits with products X (clothes) and Y (food). They differ only by content, i.e. the difference is in the combination of the same goods which makes these sets meet customers' requirements of different types. However, in this case, the offered options and product kits should have the "same baseline" in order to ensure it is realistic to purchase them at market prices. It is obvious that the "baseline" is the customer's approximately estimated income within a certain period of time. The income (for example, 10 monetary units) is the general demand factor as well as a hypothetical distribution of customer preferences for product groups such as clothing and foods (Robinson, 2004, p. 154).

Based on supply and demand, sales prices can be set, and customer income is one of the factors which may be measured as much realistically as possible. However, this does not mean that the customer will spend his or her funds right in the way it is represented in a table or as projected by the entrepreneur who is managing prices.

Customers may spend the same amounts of money on food and clothing having different preferences within those products types (options B and C). Other would buy clothes and services in a way helping save some money (option A) and minimize costs as much as possible. The third type of customers cannot align their income volume with the required spending and most probably will use loans to cover additional purchases they need (option D) (Lipsey, 2002, p. 159).

Tactical marketing is always looking for such moments, or the so-called "touchpoints" where customers may be influenced. „*Tactical marketing is always a proactive effort. When tactical marketing is considered, a brand is looking for specific and incremental support from a given retailer.*“ (Percy, 2014, p. 157).

Figure 3: Tactical marketing

Source: Tactical marketing, 2016

Based on this model, customers are making their choice having a number of potential brands to choose from. Marketing activities decrease the quantity of brands by directing customers to choose one of the brands and to make a purchase (Benioff, 2016, p. 59). Due to the rapid expansion of product options and development of digital information channels, well-informed customers today cannot cover all the touchpoints and key factors.

2.3.3 How do customers make decisions?

Every day, people are forming their brand impressions being exposed to touchpoints such as advertising, news, conversations with family and friends, product usage experience. Before a customer starts shopping actively, most of these effects have no results. But what happens when there is a call to action for a purchase? All of the received impressions are becoming crucial as they form the initially considered options within that limited number of brands the customer takes into account for a purchase.

The logic of a funnel suggests that customers systematically narrow the initial set of brands by assessing options, making a decision and completing the purchase. Then the post-sales phase is coming which is a period of product testing that finally determines loyalty to the brand and the future likelihood of repeated purchases. In accordance with this approach, marketers are trained to use "pushing" marketing funnel at each phase in order to influence customer behavior. However, McKinsey’s qualitative and quantitative research made in industries such as automotive, skin care, insurance, retail electronics and mobile communications shows that today something completely different is going on (Benioff, 2016, p. 69).

In fact, the decision-making process is cyclical and has four main phases representing potential battlefields where marketing experts can win or lose. Those phases are: initial consideration; active evaluation of potential purchase, purchase finalization (when the customer chooses a preferred brand), and the post-purchase period (when the customer experiences that brand). Of course, the funnel model helps solve many marketing tasks as it provides an opportunity to understand brand power at various stages versus competition. Also, it highlights the bottlenecks and allows focusing efforts on various aspects (Blackwell, 2006, p. 277). However, there are three areas of profound changes in the customer decision-making process that require a new approach to brand development. Those changes are the following: customer has initially considered brands, the customer's influence is growing, and there are two different types of loyalty.

2.3.4 Choosing a brand

Imagine that one of the customers has decided to purchase a car. Just like any other customer, he will be able to list the initially considered brand for a potential buying. According to McKinsey's study, customers say that media environment fragmentation with a large number of advertising messages and the rapidly increasing number of products actually forces customers at the beginning to consciously reduce the number of brands considered for a potential purchase. Facing plenty products to choose and receive numerous communications, customers tend to return to a limited list of brands that they have, and maintain it when going through the overwhelming advertising flow. Consequently, it is obvious that brands included into the initial list of choice are having three times more chances for a purchase compared to brands outside that list.

However, there are still some chances for brands outside that list. Despite the "funnel" model, the list of brands admitted to the second stage of consideration may be increased when customers are looking for information and examine products categories. The number of brands that can be added on the final stages of consideration may be different in several industries. All of those changes in customer behavior create opportunities for marketing experts for adding a touchpoint in those moments when the brand may have an influence. Thus, the position of brands from the initial list of consideration is becoming vulnerable.

2.3.5 Powerful customer

The fact that the customer's contact towards the marketer is becoming more important compared to the marketer's contact towards the customer is the second fundamental change. Marketing is driven by companies having an aim to "push" products to the customers by traditional advertising, direct marketing, sponsorship, etc. At each point of contact, according to the "funnel" model, every touchpoint where the customer reduces the list of brands, marketers will try to influence his choice (Smith, 2016, p. 158).

Nowadays, marketing is becoming even more important due to the fact that more and more customers are taking control over the purchase process and are actively "pulling out" the information required. McKinsey’s study shows that two thirds of the total touchpoints are actions initiated by the customer within the active phase of assessment (Benioff, 2016, p. 80). Those touchpoints may include review of information in the Internet, friends and family recommendations, as well as interaction with the store staff. In the remaining one-third of touchpoints, the marketing strategy is implemented. For sure, traditional marketing is still important, however changes in decision-making means that marketers need to go away from aggressive "pushing" to informing and learning how to maintain the influence in touchpoints driven by the customer such as recommendations and rumors, Internet websites with information and feedback.

The experience of US automotive manufacturing companies clearly shows why marketers need to use these touchpoints in a very smart way. For a long time, companies such as Chrysler and General Motors have focused more on using commissions, discounts and promotional campaigns at dealerships in order to win deals on the active phase of evaluation and purchase (Benioff, 2016, p. 80). Those companies are fighting the wrong battlefield. The real challenge for them is actually the initial consideration phase on which companies such as Toyota and Honda dominate with their brands and quality. The positive experience of Asian automotive manufacturing companies making their customers loyal generates positive recommendations that increase the probability of getting those brands to the initial consideration phase. No initiative for purchase motivation done by US manufacturers can skip this cycle.

However, it should be noted that the concept of the purchase funnel cannot be applied equally to all products and all industries. This is due to the fact that the customer’s decision-making process may be significantly different in the automotive industry and, for instance, in the industry of coffee where Starbucks operates. Namely, testing this theory on the case of Starbucks, it can be stated that the decision-making process when choosing a coffee drink is much shorter in contrast to when buying a car, which is due to major differences in the prices for a car and for a cup of coffee. As a result, the number of touchpoints becomes smaller. Therefore, policies under the funnel model for reducing gradually the number of touchpoints might be not very effective in the coffee industry (Banasiewicz, 2013, p. 277).

2.3.6 Two types of loyalty

When a customer has made a decision for a purchase, the marketer's job is just starting as a post-purchase experience, and will eventually determine the customer's opinion over future decisions. This is the point for the next cycle to begin. For example, more than 60% of skin care customers use the Internet after purchase to find more information about the purchased product. If to use the "funnel" concept, it is challenging to imagine the type of touchpoint for a case like that (Butscher, 2002, p. 50).

The need for after-sales support is not a new tool for enhancing loyalty and the likelihood of repeated sales. However, the ways of being loyal are becoming even more different in today's complex world with growing competition. There are active loyal customers who are continuously using a brand and recommend it to others. And the others are more passive customers who may either be lazy or be shocked by too many choices, and may remain with the brand but will have limited credibility in it. Passive customers are open to competitors' offers that will for sure inform of serious reasons to switch to their brand.

"*There are two different types of customer loyalty programs: limited and open. A limited loyalty program cannot be joined by just anybody. The customer must go through a formal procedure in order to become a member. Open loyalty programs can be joined by anybody, and usually do not have such a formal application process.*" (Butscher, 2002, p. 50).

Figure 4: Loyalty program

Limited loyalty programme	Open loyalty programme
• Membership fee helps cover costs.	• A wider number of customers can be reached.
• Membership prerequisite helps channel membership/focus on target groups.	• Database more complete.
• Limited access makes membership more valuable.	• Potential customers and competitors' customers can be reached more easily.
• Clearly defined membership structure makes communication more effective.	• Completeness of database could, after further analysis, lead to segmentation and segment-specific communication.
• Membership prerequisite keeps number of members, and thus cost, down.	• Larger number of members helps to reach critical mass, which makes loyalty programme become more cost-effective sooner.
• Database includes only members with an above-average interest in the product.	
• Membership payments raise expectations, so the loyalty programme management is constantly forced to improve value.	

Source: Butscher, 2002, p. 51

2.4 *Brand Management and its Functions*

Brand management is a process of complete trademark management, organizational and functional branding embodiment (Temporal, 2013, p. 15).

Brand management is a set of measures that are multi-structured, sound, verified and controlled in order to create a brand image, develop packaging design, advertising materials, sales promotion campaigns, i.e. to use of all marketing tools to influence a customer (Temporal, 2013, p. 16). Managing a brand is finding the most efficient way of spending resources in order to achieve targeted product positioning and trademark perception in the eyes of the customer. The goal of brand management is to create long-term relationships with the customers.

The targets of brand management are the following:

- Brand creation;
- Brand maintenance.

Brand management is a process of complete trademark management where marketing is only a part of it, however an important part. Brand management marketing baseline (Temporal, 2013, p. 25):

- brand idea development;
- brand details planning;
- market and brand research;
- brand-tracking;
- brand united product manufacturing planning and control;
- sales planning and management;
- marketing campaigns planning and organization;
- brand profitability control;
- marketing management is syncing of all company's departments and employees involved in different activities that influence brand development.

Brand management efficiency is estimated based on real financial data of branded products that are under management. Brand management is the management of goods and consumers (Harsh, 2006, p. 45). The governing principle of brand management when separate brands are allocated into independent marketing objects has become a widely used tool for promoting products to customers. Brand management is becoming more management of customers rather than management of products, and is expected to be performed with high social responsibility and focus on the market, including market research, customer service and service quality management.

2.5 Brand Extension: Key Theoretical Aspects

The most successful brand marketing managers are thinking from time to time of using the existing brand equity when offering to customers new types of packaging or other goods under the popular brand. Some manufacturers are trying to bring to the market a wide range of goods under one brand ("umbrella brand") (Harsh, 2006, p. 51). But despite who is trying to do it, brand expansion and the umbrella brand approach will likely be unsuccessful. In the first case, when the product line is widened with other types of goods, a decrease of successful brand market share cannot be avoided, and in the second case (synchronous presentation of different brands to the market), it will become just another example of such attempts possible failures. When presenting a new types of packages of a popular product by an available way to do it, there may be two typical mistakes. Later in this thesis, we will consider possible frustration of the idea of brand expanding.

A brand extension can be defined as "*any effort to extend a successful brand name to launch new or modified products or lines.*" (Yeshin, 2006, p. 128). Brand extension is seen as an important management tool in multinational corporations as of today, particularly when speaking of those companies which face high risks of new product failures, or which want to maximize the effectiveness of their business activities by benefiting from the synergic effect in the use of available assets. "*The leverage of a strong brand name can substantially reduce the risk of introducing a new product by providing the consumers the familiarity of and the knowledge about an existing brand.*" (Panda, 2006, p. 7).

Another definition of brand extension assumes that this concept stands for "*the use of well-recognized brand names to enter new product categories or classes.*" (Pizam, 2008, p. 91). A key precondition for the effective use of brand extension is when customer choose products not based on their consumption parameters, but rather based on their loyalty to a particular brand and based on the beliefs in such a brand's advantages over its competitors (Pizam, 2008, p. 91).

It is necessary to distinguish between the two types of brand extension.

The first extension type is "internal", i.e. the number of different types of same product packages; the second extension type is "external", i.e. product groups containing several products under one brand.

There is a lot of issues with internal brand extension. Can a taste of soft drinks be considered as "internal" or "external" brand extension? Research results present a variety of flavors in this product group which is a measure of an "external" brand extension, while other groups with defined flavor combinations can be considered as an "internal" extension. And what about various types of packaging (but not sizes)? Are they "internal" or "external" extensions? There is no general rule either for product groups or for particular brands within one product group. In order to avoid mistakes, it would be better to take into account that a new flavor or a new package type proposition is an "external" extension, while the package size of a popular brand would be an "internal extension" (Kapferer, 2002, p. 120).

"Internal" brand extension is determined only by product group and country of distribution, there are no principal limitations for another package size release. However, when releasing a new package, the brand manager should take into account two specific points of customer behavior (Blackwell, 2006, p. 240):

1. The first feature is that the "fair price" for the new-sized package should be determined by a special investigation and not only the common sense. The general the rule is that the cost of differently sized packages should not be proportional either to the goods volume or to the actual production cost.
2. The second feature is that the new packaging should not be advertised, as there is a tight link between the customer's perception of a specific product and the "right" package volume. There is a risk to lose customer loyalty to the product in case that tight link would be destroyed. "External" brand extension would be a useless idea, and in the worst case, it would be simply dangerous and risky. "External" brand extension is not possible as a matter of fact.

In general, "external" brand extension is based on the assumption that the brand's credibility will be spread on another product included to that product group. This assumption is generally correct, however in this case the manufacturer can count on only around 10% of customers who use the main product and approximately the same number of consumers who will use only the "extended" product brands, with a condition that the new product has very good usability and features. At the same time, 20% of customers will have relatively low loyalty to the new product, i.e. it is very challenging to forecast the possible distribution of the "expanded" product line (Blackwell, 2006, p. 245).

In case of brand extension mistakes, the loss of confidence to the main product of the brand will be soon and inevitable, as a satisfied customer shares positive feedback with 2-3 acquaintances, while an unsatisfied customer will share negative feedback with 8-10 acquaintances.

In addition, "external" brand expansion will most probably lead to irrelevant purchases by customers. The branding practice itself is developed based on the assumption that the manufacturer will be able to "clearly set" the generic concept of brand name (for example, all copiers are called "xerox") in the customers' minds, which will be a result of marketing communication (Harsh, 2006, p. 55).

Successful brands are very good in that, and their customers start to purchase a specific package "automatically". In case another product with the same name is introduced to the customer, there may be a risk of irrelevant purchase by the customer.

In addition to this, it is also worth noting the brand architecture theory. Brand architecture stands for the way in which companies organize their operation in the market with their brands. There are two commonly recognized forms of brand architecture, namely branded house and house of brands. The branded house architecture implies that a single brand umbrella is used for all of a company's products. On the contrary, the house of brands architecture means that brands belonging to a single company have different names and are marketed in different ways (Bakker, 2015, p. 12). This information is important to take into account for investigating brand extension, as companies have to choose their brand architecture model when implementing any brand extension deal.

Despite of product qualities and features, a mismatch between the expected and the received qualities will happen, and will lead to the destruction of the tight link between the product and the brand that existed before.

The customer’s behavior based on "automated" choice will be replaced with a very suspicious attitude to that brand, as negative emotions are several times stronger than positive ones, and this is what the manufacturer will get as a result.

A two-year analysis made for the actual consumption of eight product groups made within 548 households showed a very low level of repeated purchases for a trademark of a “wide range”, and a high loyalty for a "narrow" trademark.

Despite the benefits and advantages of brand extension, this process also assumes significant risks. Any failure on the part of a company to perform an effective brand extension measure might bring great damage to its image in the target market, and thus might affect substantially its overall business prospects. Therefore, in order to succeed in their brand extension, companies need to run a thorough analysis of the target market, to evaluate customer preferences, and to test the actual opportunities for the new products to succeed within the framework of brand extension. The success of a brand extension campaign is preconditioned largely by customer behavior, and namely by customer associations. “*Positive associations have the potential to facilitate the formation of positive favorable attitudes toward the brand. Negative associations are neither transferred nor created by the brand extension.*” (Panda, 2006, p. 7).

Prior to resorting to brand extension, companies need to evaluate the intrinsic value of the category. This necessitates a reliable analysis of the underlying strengths, weaknesses, opportunities and threats, so as to avoid possible negative consequences. The companies running brand extension need to avoid any measures which might bring imbalance to their business and which do not actually show any reliable opportunities to achieve benefits for their business by extending to new products or segments (Kapferer, 2008, p. 340).

Among particular types of brand extension which are widespread in commercial practice as of today, it is possible to mention the following (Yeshin, 2006, p. 128):

1. The same product takes a new form, for instance, when a food product preserves its distinctive flavor and is offered in another shape. An example is Mars Chocolate Bar which has taken the form of ice cream;

2. A distinctive component of a product is used to create a new item or a new category. An example is Kraft Foods’ brand extension of its Philadelphia cheese flavor into the company’s Philadelphia salad dressing;

3. Companion products. An example can be Sony's remote controls for TV sets equipped with Sony batteries;

4. Same customer franchise. An example can be companies which spread their franchise onto insurance policies, books, etc., thus ensuring the coverage of different market under the same brand name through franchising mechanisms;

5. Expertise. This type of brand extension stand for measures where a company undertakes with the aim of using its knowledge in a particular business segment or sector to manufacture new products. For instance, an example may be Canon which used its expertise in optics for manufacturing photocopiers;

6. Unique feature owned by the brand. An example can be Dyson which uses its unique vacuum engines in cleaners, airblades, etc.;

7. Designer image or status. In this case, the company uses its designer image and reputation for extending its brand. An example can be Saab which manufactures automobiles and aircraft.

Therefore, as can be seen from the information outlined above, brand extension is an important business tool which can be used by companies with the aim of achieving greater presence in the target markets or entering into new markets. Taking into account those facts, in the practical part of the thesis, the case study of Starbucks will be investigated in detail.

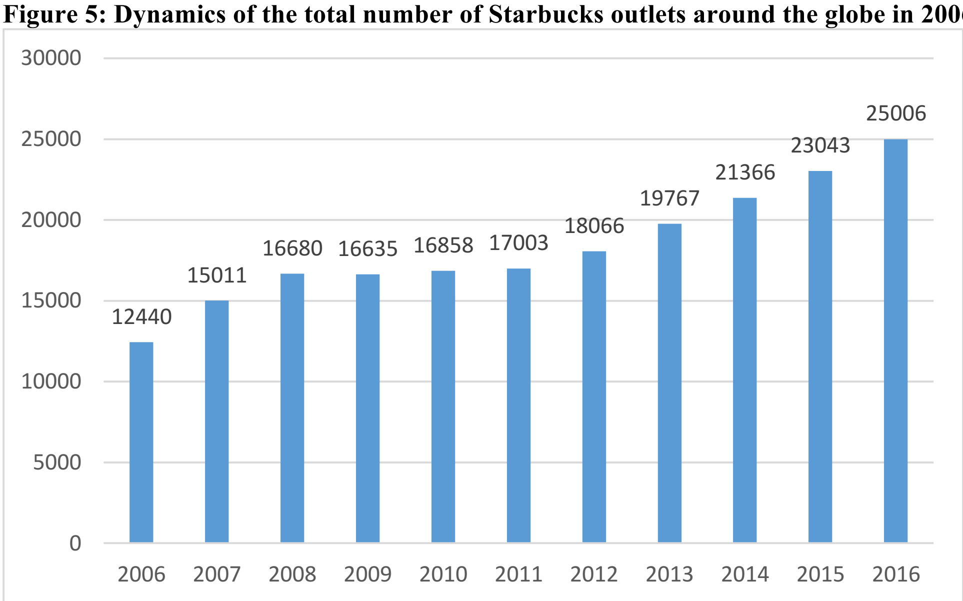
3 Practical Part

3.1 General Overview of Starbucks

Starbucks Corporation is an American multinational corporation specialized in the production of coffee and sales of coffee drinks via an international network of Starbucks restaurants. The company was founded back in 1971, and is currently headquartered in Seattle, Washington. The company's worldwide coffee shop chain includes over 25,000 outlets, and the total number of employees working for Starbucks around the globe amounts to 238,000 persons.

The main products offered by Starbucks to its customers include coffee and tea. The company offers a wide variety of coffee types, and focuses on satisfying all customers' demand based on their coffee preferences. The company's coffee shops currently operate in North America, Europe, Asia, Africa, South America, and Oceania. The global leader in terms of the number of Starbucks coffee shops is the United States: over 11,000 outlets; followed by China (over 1,800), and Canada (over 1,400) (Starbucks, 2016).

Figure 5: Dynamics of the total number of Starbucks outlets around the globe in 2006-2016



Source: Statista.com, 2016

As illustrated by Figure 5 above, the recent dynamics have been positive for Starbucks in terms of the company's growing network of coffee shops around the globe. Namely, as of 2016, Starbucks operates 25,006 coffee shops all over the world, which means that the company's international network grew more than twice in the recent 10 years. This illustrates the growing demand for the company's products, and thus the brand's exclusive popularity.

The company's financial condition is good as well, and in 2016, it was able to further improve it considerably. Thus, Starbucks' operating profit in 2016 made up USD 4.2 billion, which was 16% more compared to the previous year. This was achieved mainly thanks to the North American geographic segment, the target segment for Starbucks, where aggregate sales grew by 11% (Starbucks, 2016).

One of Starbucks' main success factors is the company's renowned brand and its customers' brand loyalty. Taking into account this fact, in the next chapter of the thesis, we are going to investigate Starbucks' case of brand extension and the results which it brought to the company.

3.2 Brand Extension: Starbucks Case Study

When investigating the brand extension case of Starbucks, it is worth noting that the company's brand is overall very popular around the globe. This is achieved thanks to the company's marketing strategies implemented on the international level, and thanks to its ability to attract customers around the globe with its brand products. Therefore, it is worth investigating those marketing strategies more in detail in order to understand how Starbucks succeeds in its market activities, and how the company is able to remain one of the global leaders in its target segments.

Starbucks uses a strategy of wide differentiation for its products around the globe across all marketing mix elements:

1. Product

Despite using a basic range of coffee drinks in all countries where it operates, Starbucks also adapts the product range offered to the particular country and to its population's coffee taste preferences. Thus, for instance, in Japan, Starbucks has introduced its green matcha latte coffee, as well as frappucinos and cookie crumble with white pudding, which is due to the fact that among Japanese customers, it is widely popular to drink tea or coffee with solid parts mixed inside. In France, Starbucks has introduced its Vienesse coffee (in fact, hot chocolate mixed with cream), which is due to the French customers' taste for chocolate; and has also introduced several unique pastries and meals such as red fruit cake, brioches, and "foie gras" sandwiches (Flanagan, 2014). In China, Starbucks offers a wide range of drinks based on green tea, and also offers traditional desserts widely popular among the Chinese customers (Marketing China, 2016).

2. Price

In terms of its pricing policies, it can be stated that Starbucks positions itself as a premium-segment network of coffee shops, and therefore the prices offered to customers are high. However, the prices for Starbucks products still do differ significantly depending on the particular geographic segment where the company's local store operates: lower prices apply in countries with lower income per capita, and where the prices for local products used by Starbucks are lower (Starbucks, 2016).

3. Place

The locations of Starbucks look differently in different countries around the globe. Despite preserving the brand colors of Starbucks, they are still designed on an individual basis, in order to attract maximum customer interest in the respective state where the company operates. Also, the music played in the coffee shops differs depending on their geographic location. Finally, the company's coffee shops have different levels of technological equipment depending on the needs of the local population (availability of mobile and contactless card payments in the US, etc.) (Starbucks, 2016).

4. Promotion

As of today, Starbucks' advertising and promotion strategies focus largely on the use of new technologies and popular communications, and namely mobile marketing and social media marketing. Starbucks invests largely in the development of its own mobile application through which customers may receive personalized messages regarding the introduction of new products in Starbucks coffee shops, local promo events at their locations, and so on. This allows maximizing the effectiveness of Starbucks' targeted approach to customer communications in terms of marketing. At the same time, Starbucks is very active in online social networks, and has its accounts on Facebook, Twitter, Instagram, Youtube, and a number of smaller online social media resources. It should be noted here that the company operates different account for different target countries, and as a result, adopts a diversified and personalized approach to the communication with its customers depending on their belonging to a particular culture. At the same time, Starbucks also widely uses traditional advertising methods such as TV or print media advertising. In such ads, the company preserves its brand colors, but adapts the content of its advertising with the aim of reaching best the target customers in different countries and locations. Overall, it can be stated that the advertising and promotion activities run by Starbucks around the globe contribute greatly to the company's positive brand image and its popularity among the international target audience (Starbucks, 2016).

5. People

As stated earlier in this thesis, the total number of Starbucks' staff makes up 238,000 employees. For the company, employees play an important role in the effective and uninterrupted satisfaction of supply. Thus, the corporation provides development programs, and organizes regular trainings for its employees. The duration and intervals at which different programs are organized depend on the particular position. The main aim of such programs is to raise the level of the employees' skills and knowledge (Starbucks, 2016).

Also, in line with its social responsibility programs, Starbucks cut the total work hours of its employees in 2016. After a major negative feedback on the part of the staff for whom this meant reduced salaries, the corporation increased all wages 5 to 15%, which illustrates that Starbucks aims to motivate its employees (BBC, 2016b).

6. Physical evidence

As for the physical evidence, Starbucks aims to create a positive atmosphere in all of its outlets, even though such outlets may be garnished in different ways in different countries. The company uses a unified dress code for its employees, and its Dress Code Lookbook where the company's policies regarding the uniform and the look of its employees are published. The staff's clothing is in the company's brand colors, and is set to evoke the customers' positive emotions and instant recognition of the brand (Starbucks, 2016).

7. Process

As Starbucks is a large multinational corporation, it has a great workflow, and aims to use to the largest extent automation and computerization. At the same time, the corporation uses audits of its own activities and the activities of its suppliers so as to achieve the sustainable development of its business and to prove its commitment to society (Starbucks, 2016).

Taking into account the information above on how Starbucks is able to build up its exclusive international brand value, it is worth now proceeding directly to the Starbucks case of brand extension.

The company started preparing to its brand extension beforehand, understanding that it could benefit from the steadily growing popularity of its coffee shops around the globe by extending the product range offered to customers beyond coffee drinks. Thus, in 2011, the company changed its brand logo by removing the inscription "Coffee" from it. Obviously, this meant that the company planned to initiate its involvement in other product segments beyond coffee. In an interview given in 2011, Howard Schultz, the Starbucks chairman, president and chief executive, stated the following: "*Even though we have been and always will be a coffee company and retailer, it's possible that we'll have other products with our name on it but no coffee in it.*" (Charles, 2011).

Already in 2012, Starbucks indeed started extending the product range offered to customers. Thus, in addition to its coffee drinks, the company started selling brand alcohol through its retail outlets, and namely Starbucks wine and beer. Initially, this brand extension had been tested on one coffee shop in Seattle, and had gathered controversial feedback. However, after the successful results achieved in that local store, the company started using the same strategy in other stores in the US and abroad.

Additionally, Starbucks ran a number of other brand extensions into rather more non-profile segments of its business activities. Thus, the company used its brand for running sales of own toys, kitchenware, and even for publishing a brand magazine at one time. Also, in the segment of entertainment, the company launched its subsidiary Starbucks Entertainment and its Hear Music label which even cooperated with Paul McCartney (Heberlein, 2016).

However, in this chapter, we would like to focus more on one case of Starbucks' extension to its non-profile segment, and namely ice cream.

Starbucks’ brand extension to ice cream initially occurred in 1995 when the company entered into a strategic partnership with one of the most popular ice cream manufacturers in the United States: Dreyer's. Starbucks saw the joint venture with Dreyer’s for the production of ice cream as a great method to raise its brand value, and to subsequently popularize Starbucks in its target market in the US. As Starbucks Chairman Howard Schultz noted, “*Our entry into the premium ice-cream category is a natural extension of our brand-building strategy and represents a significant step toward our goal of becoming the most recognized and respected brand of coffee in the world.*” (Heberlein, 2016).

Thus, as can be seen from the paragraph above, the goals followed by Starbucks within its brand extension were the same as described in the theoretical part of this thesis paper: on the one hand, the company wanted to maximize the effectiveness of its brand by using its popularity for covering a new product segment, and on the other hand, it also pursued the goal of maximizing brand popularity by covering a wider target audience. Thus, certain business synergy was pursued by Starbucks within this brand extension deal.

This partnership between Starbucks and Dreyer's led to the emergence of a new ice cream product, with a unique Starbucks coffee flavor. The package of the ice cream featured a large Starbucks brand logo on the front side, which design was developed by a professional third-party design company for the purpose of maximizing customer interest. The design featured playful and bright elements in order to make the ice cream stand out visually among its competitors, and the focus was put on the worldwide famous brand colors and logo of Starbucks. Also, it should be noted that the pricing strategy for the ice cream was preserved similarly to the coffee products offered by Starbucks: it was sold as a premium price segment ice cream product. Starbucks also invested greatly in the advertising of its new ice cream product, and it gained wide recognition thanks to the extensive use of TV and street advertising.

Here, we should also recall the brand architecture theory described in the theoretical part of the thesis. Starbucks used the branded house architecture for its extension to the ice cream market, benefiting from its worldwide known brand and transposing it onto the new ice cream product.

Already within 3 months after the introduction of the brand ice cream to the market, the product became the most largely sold ice cream in the top-premium category in the United States. It also won the American Marketing Association's Best Product award as a market newcomer. The great popularity of the new ice cream was due not only to its unique flavor and effective marketing, but also to the great popularity of Starbucks brand and the use of Starbucks brand elements in design and sales promotion.

Thanks to its initial success in the market, Starbucks ice cream started thereafter being used in the company's cold drinks, as it provided them with a unique taste and merged the brand's different products into a single whole, creating a unique type of synergy. In addition, in partnership with Dreyer's, Starbucks thereafter started expanding the product range of its ice cream, and offered its low-fat version to the customers, as well as new versions with different types of flavors (Heckler Associates, 2016).

The cooperation between Starbucks and Dreyer's for the production of ice cream lasted until the year 2008. By that time, the two companies were unable to agree upon the subsequent terms of their cooperation. As a result, they discontinued their mutual ice cream line, and Starbucks started searching for a new counterparty, as its ice cream business was successful. The corporation chose American multinational company Unilever as its new ice cream business partner. After numerous experiments with recipes and extensive marketing campaigns, Starbucks understood that the new ice cream was unsuccessful, and lost to its predecessor in terms of customer demand and popularity in the target market. As a result, by 2013, Starbucks stopped its cooperation with Unilever, and Starbucks ice cream stopped being offered to customers (Starbucks Melody, 2013).

Thus, as we can see from the above case study, Starbucks' initial brand extension to the market of ice cream had been very effective, but in the long run, the company had to give up and exit it. On the initial stage, Starbucks used its brand popularity among customers for maximizing the demand for its ice cream product, and the latter in its turn contributed to the subsequently growing popularity of Starbucks' brand. However, the main problem in this case was that Starbucks was largely dependent on its partner – Dreyer's company. As Starbucks had not been an ice cream manufacturer initially, when their partnership with Dreyer's stopped, the company was unable to develop its own recipes and become a full-fledged manufacturer of ice cream, nor was it able to find a quality replacement for Dreyer's, and in the long run, its ice cream business was closed.

In the next chapter of the thesis, we are going to investigate in brief 3 successful and 3 unsuccessful brand extension cases on the examples of other companies in order to subsequently compare them with the Starbucks case and make our conclusions.

3.3 Evaluation of 3 Successful and 3 Unsuccessful Brand Extension Cases

First, let's investigate 3 successful brand extension cases chosen among worldwide known companies:

1. Duracell – Duracell Powermat wireless chargers

Duracell is a worldwide renowned manufacturer of batteries and accumulators, the market leader on the international scale. Understanding the current trends in the market, Duracell started developing a unique wireless charger for powerful mobile phones back in 2007. Modern smartphones are characterized by their low battery capacity, and therefore often required being recharged on-the-go. Benefiting from its expertise in the market of batteries and accumulators, in 2013, Duracell developed a portable charger working on a remote basis via WiFi. The only thing a smartphone owner needs to do is to push Powermat's button, and the charging of his or her smartphone starts, regardless of where he or she is located physically. The user can continue using his or her smartphone in the process of charging, and there are no wires or cables. The invention of Duracell become very popular rapidly, particularly among the owners of premium-segment smartphones, as the average cost of the charger varied around USD 130. Thanks to this popularity, Duracell even arranged a deal with Starbucks, and as of today, Duracell Powermat WiFi chargers can be found in most Starbucks coffee shops in the US (Bradley, 2014).

2. Snickers – ice cream bars

Snickers is a worldwide known brand of chocolate candy bars. Having become one of the global leaders in the candy bar segment, in 1989, Snickers developed and launched its own ice cream bars under the same brand. In fact, Snickers ice cream bars tasted very similarly to Snickers candy bars, but were sold in the frozen form (Lazarus 1989).

Thanks to this, the company's ice cream bars have rapidly become popular among the target audience, as their flavor, look and packaging were easily recognizable, and contributed even more to the subsequent popularization of Snickers brand (Brandextension.org, 2016).

3. Jack Daniels – meat marinades and sauces

Jack Daniel's is the world's most sold whiskey brand. The company positions itself as a manufacturer of authentic whiskey drink which is popular on the mid-upper price segment. One of the company's key success factors is the popularity of whiskey in the American culture, and the great loyalty to Jack Daniel's among the US customers. Benefiting from its brand popularity, in 2001, Jack Daniels launched its own line of brand marinades and sauces for meat. The ingredients used in the sauce include the same used in the whiskey recipe, and the use of the same brand quickly made them popular among both individuals and culinary establishments in the United States and around the world (Schlesinger, 2011).

Now, having investigated 3 successful brand extension cases, let's focus on 3 unsuccessful ones and their problems:

1. Colgate – Colgate Kitchen Entrees

Colgate is one of the world's most popular brands of toothpaste. Based on the large popularity of its brand, the company wished to run its brand extension in 1982, when the market of instant meals started rapidly growing. That year, the company launched its line of frozen products entitled Colgate Kitchen Entrees. Colgate run massive marketing campaigns. The idea behind them was that customers should eat Colgate frozen meals, and then brush their teeth with Colgate toothpaste. However, in practice, the idea was a commercial disaster. The use of the same toothpaste brand name for selling meals was not understood by the customers, as they believed Colgate to be the manufacturer of toothpaste, and not of food products. As a result, within a year, the company ceased its brand extension, and focused on the target toothpaste market (Bouty, 2015).

2. Cosmopolitan – yoghurts

Cosmopolitan is one of the world's most popular women's magazines. In 1999, Cosmopolitan undertook to run a brand extension aimed at benefiting from the brand's popularity among women. The company started manufacturing its own yoghurts for women, and even made attempts to produce its own light cheese. Very rapidly, the idea proved itself to be unsuccessful, as customers did not see any linkage between Cosmopolitan's target activities, nor did they believe that Cosmopolitan had sufficient expertise for launching its own food production lines. The company was forced to abolish its new business direction (Brook, 2004).

3. Evian – water bras

Evian is one of the world's major manufacturers of bottled mineral water. In 2005, Evian launched its new product – a water bra, which in fact was aimed to be a vest cooling its wearer. The idea was to fill the bra with water, so that it would protect the wearer against heat. The product was largely unpopular among the audience, as it could not compete with thermal lingerie, and was not convenient in use. This brand extension failed very quickly (Travis White Communications, 2013).

Thus, as we can see from the above information, the companies which were successful in their brand extension were in fact sticking to spin-offs from their target market, still adjacent to it. On the contrary, companies which failed tried to penetrate into totally new markets. This highlights the findings which we have already outlined in the theoretical part of the thesis: indeed, for an effective brand extension, great expertise and popularity in the target market is required; when there is no effective marketing, brand extension may bring negative results, even despite the brand's overall popularity in other markets.

Taking into consideration those facts, in the next chapter of the thesis, the case of Starbucks' brand extension will be compared with the successful and unsuccessful brand extensions outlined above.

3.4 Comparison of Starbucks Case against the Analyzed Brand Extensions

An intrinsic characteristic of the Starbucks brand extension case is the fact that the deal with Dreyer's had initially been successful, and had provided Starbucks with great benefits, but thereafter failed in the long run. So, here, we should understand two groups of tendencies: on the one hand, why it had been successful on the initial stage, and other hand, why it failed thereafter.

Starbucks wanted to extend its brand onto a market adjacent to its traditional ones: ice cream market in addition to the coffee market. Of course, without the required expertise and establishment in the ice cream market, Starbucks was unable to enter this new segment on its own. The decision to enter into a strategic partnership with a renowned ice cream manufacturer was logical and correct. As we can see on the examples of Colgate or Evian, when entering an unknown market without the required knowledge, this may lead to major negative consequences in the long run.

The partnership with Dreyer’s gave its synergy: on the one hand, customers get their favorite Dreyer’s ice cream with great flavor and overall consumption parameters. On the one hand, this ice cream now had a unique Starbucks coffee flavor and resembled much of Starbucks brand thanks to the unique design. Being a leader in the coffee market, Starbucks offered a coffee-flavored ice cream in partnership with one of the ice cream market leaders, and this brought great results.

In fact, this is very similar to how Jack Daniels or Snickers operated in the course of brand extension: Starbucks put its uniqueness into a new product, and preserved its easily recognizable flavor in ice cream, without moving away from the overall coffee-related concept. As a result, the company was able to maximize the popularity of the new ice cream product, as it rapidly became popular among both ice cream and coffee consumers. Moreover, an important aspect was Starbucks’ effective promotion and advertising. As already stated earlier in the theoretical part of this thesis, within the course of brand extension, those activities became essential for companies, as they are aimed to bring to the customer information on the brand’s new directions of activities and why they are great. The case of Colgate proves us how the lack of effective marketing may bring to a financial disaster with brand extension.

However, if Starbucks’ product had been so popular on the initial stage in the market, why did it fail in the long run? Here, we should understand that, in contrast to the aforesaid companies such as Colgate or Cosmopolitan, Starbucks did not try to plunge into a new market on its own, being deprived of any guarantees of success: on the contrary, the company united its efforts with Dreyer’s, and this was indeed correct, as it allowed rapidly gaining popularity in the target ice cream market and withstanding the fierce competition in it on the part of other companies. However, this deal also imposed significant threats on Starbucks: the company was totally dependent on its partner, as the coffee corporation itself did not have any equipment, and most importantly, technologies for becoming successful in the ice cream market. As a result, when the two companies became unable to further cooperate in the market, their alliance collapsed, and the production of Starbucks ice cream ultimately discontinued.

If we analyze the successful cases of Duracell, Jack Daniel's, and Snickers, we can point out that the three companies were totally independent in their activities after brand extension, as they ran it on a market which they were very familiar with. This provided them with the greatest opportunities for success, and also minimized their risks which were inherent of Starbucks. Those companies were totally free in the choice of their brand product strategies in the market after brand extension, and thus had the best opportunities to succeed. On the contrary, Starbucks was unable to develop its own ice cream technologies (as it was not the company's target segment in the market), and therefore, after the partnership with Dreyer's had ended, Starbucks had to close its ice cram direction.

Thus, as we can see from the information above, there were inherent advantages and shortcomings in Starbucks' brand extension. Based on the comparison with other successful and unsuccessful brand extension cases, a conclusion can be drawn that Starbucks' brand extension was initially subject to significant risks of failing, as the company was closely tied with a third party, being itself deprived of any expertise in the ice cream market.

Taking into account the aforementioned facts, in the next chapter of the thesis, suggestions and recommendations for brand extension deals will be provided based on Starbucks' case study.

3.5 Suggestions and Recommendations

Based on the information outlined above, it can be stated definitely that a major precondition for a successful brand extension deal is for the company to penetrate into a market it is well familiar with, and into a market where it has substantial expertise and brand popularity. For instance, in the investigated case of Duracell, the company penetrated into the market of chargers which is very close to the market of batteries, and therefore it had great preconditions for success. In the case of Colgate, the situation was quite different: the toothpaste manufacturer penetrated into the market of food products to which it was not accustomed, and in the long run failed.

In the case of Starbucks, the market was new, and thus risky, but still it was at the same time adjacent to the market of coffee drinks where the company was holding leading positions. However, instead of investing in the development of its own technologies, the company preferred the quicker and more reliable expansion in partnership with Dreyer’s. Here, we can point out another recommendation for companies running their brand extension: when success is highly probable, it is better to try expanding business on one’s own, without forming alliance with other companies: they raise uncertainty, and also the risks of the subsequent failure due to the lack of common agreement, which occurred in the case with Starbucks.

The third recommendation is the fact that companies should never stop investing in their development in the new target segment after brand extension. Starbucks’ partnership with Dreyer’s lasted for over 13 years, and the coffee manufacturer had enough time to create its own technologies and to become ready to the exist of Dreyer’s from their business. However, Starbucks did not pay any sufficient attention to its new business direction, and preferred staying on the parity conditions with Dreyer’s which existed back then. As a result, when their partnership ended, Starbucks was unable to remedy the situation and to preserve its business. In the long run, it failed and was closed.

Based on this, a final recommendation can be provided to companies aiming to run their brand extension. When creating a new business direction, it is worth paying great attention to its development. It will never develop on its own, only thanks to the brand’s popularity on the target market segment. Otherwise, it is not worth initiating any brand extension, as it might not only become fruitless in the long run, but also bring major damage to the brand’s current high image.

If companies act in line with the above recommendations when running their brand extension deals, they will be likely to succeed with them in the long-term perspective.

4 Conclusion

Today's business environment is characterized by a high degree of competition and its steadily growing intensity. In order to succeed against the background of such fierce competition, companies need to achieve their best results across a wide range of different fields and indicators, namely they need to procure an effective business model, a unique selling proposition, offer high-quality products, deliver innovations, and so on. The implementation of those measures is crucial for achieving market success, as well as the application of effective marketing measures and effective communication with the customers.

Multinational companies concentrate large resources, and therefore can benefit from significant economies of scale. Moreover, possessing up-to-date technologies and vast financial funds, multinational corporations tend to steadily expand their business, extending it onto new geographic and product segments, covering new target audiences, and in the long run generating new sales.

One of the most prominent tools which large corporations can use as of today with the aim of achieving the best synergic effect throughout their business efforts on the global scale is brand extension. Brand extension stands for using the power and reputation of an existing brand spreading into onto new products or product lines.

Brand extension is a hard process which assumes significant risks: if a company performing brand extension fails to foresee effectively the possible effects which it will achieve, this might bring major damage to the brand, thus impairing its positions in the target market. However, if all risks are taken into consideration effectively and brand extension is done in a reliable manner, it is likely to provide the company with an access to new markets, growing customer base, and better opportunities of further market growth.

The case of Starbucks' brand extension from the market of coffee to the market of ice cream is illustrative in terms of how a multinational corporation may succeed when running brand extension, but also of how it may fail in the long run due to making important errors.

Starbucks' cooperation with one of the US' leading manufacturer of ice cream Dreyers' started in 1995, when Starbucks' coffee flavor was transferred onto the ice cream manufactured by Dreyers'. The new product sold under Starbucks' brand rapidly gained its leading market shares. However, by 2008, when the two corporations were unable to come upon an agreement as regards the continuation of their cooperation, the production of Starbucks ice cream stopped. Starbucks' efforts to revive the ice cream line through the cooperation with other ice cream manufacturers yielded no results.

As the findings of this research prove, the initial success of the ice cream line had been due to Starbucks' positive brand image, and to the effective use of Starbucks' main distinctive product component, i.e. coffee flavor. However, Starbucks' major drawback was the fact that it did not create its own production lines, remaining dependent on Dreyers' production facilities and ice cream recipes. If Starbucks had initially relied on its own production capacities and financial resources when expanding its brand to the ice cream market, the company would have faced major difficulties due to lack of knowledge and expertise in the market, but would have benefited in the long run thanks to its independence from third parties.

Based on the case of Starbucks, it can be stated that for completing an effective brand extension deal, companies need to adhere to several key principles: first of all, they should expand to a market which they are sufficiently familiar with and where they can succeed with a great degree of confidence; second, companies should aim to rely on their own resources and technologies so as to avoid dependence on third parties; third, investment in brand extension should be continuous: new business does not guarantee its development on its own.

If companies running a brand extension comply with the key principles outlined above, the probability of success of their deals will be likely to rise, thus ensuring growth prospects for the business in the long run.

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