Abstract: “Extendibility of Brand Names: A Financial Perspective”

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New product introductions by family brands cause stock price movements in the parent brand. The family brand is successfully stretched into various categories, however the nature of the category plays an important role in determining the magnitude of the spillover in the financial market. Particularly, typicality of the category for the brand determines how seriously consumers and investors take any action that comes from the brand in this category. Using insights from categorization theory, the authors hypothesize that 1) the more typical is the parent category for the brand, 2) the more typical is the category for the extending brand, the more of a reciprocal effect there is back from the new product introductions. Further, the study incorporates the dynamics of the brand typicality by means of an innovative metric that takes into consideration the time-variant status of the brand concept considering the categories it has stretched into at that particular point in time. The authors use the Virgin Family Brand case and event study methodology to empirically test their hypotheses. The results have the implication that managers of family brands should pay particular attention to the typicality of the category of the brand when predicting abnormal returns caused by an event such as a new product introduction. This work contributes to the literature on the financial view of brand equity as well as to the literature brand dilution/enhancement effects following a brand extension. Our work also contributes to managers’ understanding of the financial consequences of their brand extensions, and to what degree brand dilution is a threat.

Keywords: branding, brand extension, family branding, marketing-finance interface, event study