How businesses can maximize revenue when introducing new products

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Companies should use existing brand names and add new, sub-brand names to maximize revenue when introducing new products to market, according to a new study from the University at Buffalo School of Management.

Forthcoming in *Management Science*, the study notes a proliferation of new products in the consumer packaged-goods market each year. For example, U.S. manufacturers introduced more than 150,000 new products in 2010 alone. Of these, more than 90 percent were extensions of existing brand-name products.

"These new products can be line extensions, like when Pepsi introduces another type of soda, such as Pepsi Lime, or brand extensions, like when a toothpaste brand such as Crest introduces a mouthwash product," says study co-author Debabrata Talukdar, PhD, professor of marketing in the UB School of Management.

"Given the significant investment and high failure rates of product-extension launches, deeper insight into the impact of these brand-development strategies can be very valuable," Talukdar adds.

The study analyzed 155 new product extensions introduced to 20 markets across the U.S. Researchers investigated the market performance of the new products and the effects that introducing them to the market had on their parent brands.

"We found that brand extensions generate positive overall revenues," says study co-author Ram Bezawada, PhD, associate professor of marketing in the UB School of Management. "In addition, sub-branding, where a new brand name is used to help consumers distinguish from the parent brand, such as Gillette Mach3, generates greater revenues for a typical brand extension."

Past studies have investigated the effects of introducing new product extensions, but have not evaluated the aggregate market impact of these effects across different brand-development strategies or accounted for the strategic decision to introduce the extension. The scope and analysis approach of this study provide more general insights for manufacturers to better introduce and manage new product extensions.

Bezawada and Talukdar collaborated on the study with Vijay Ganesh

Hariharan, assistant professor of marketing in the Department of Business Economics at the Erasmus School of Economics.

Provided by University at Buffalo