

Exploring Vertical Brand Extensions: The Microsoft Case Study

Peter Remy Yosy Pasla¹; Soetam Rizky Wicaksono²;
Virania Agnes Setyowati³; Ellenora Gracia Soejanto⁴
Universitas Ma Chung

Address: Villa Puncak Tidar N-01 Malang, Jawa Timur

Author Correspondence: soetam.rizky@machung.ac.id

Abstract. *This article investigates the strategic deployment of vertical brand extensions by examining Microsoft's introduction of Visual Studio Code. This case reveals how well-defined extension strategies, when implemented during the maturity stage of the Product Life Cycle, can rejuvenate a brand, attract new customers, and differentiate the parent brand. This research is being done using secondary data analysis from some trusted primary sources. In this research, we use data from the Stack Overflow annual survey and Github top IDE index. The article also unravels the factors necessary for successful brand extension, emphasizing thorough market research, consistent brand messaging, quality maintenance, effective marketing, and competitor risk mitigation. There is also a debate on the impact of connecting vertical brand extensions to the core brand. This linkage can provide leverage for existing brand equity but may pose a risk of diluting the brand image. Overall, while vertical brand extensions have potential drawbacks, careful planning and execution can lead to increased market share and customer base expansion. This paper offers a unique focus on the application of vertical brand extensions via the case study of Microsoft's Visual Studio Code. It provides fresh insights into the benefits, risks, and critical considerations involved, using a real-world example of brand rejuvenation and market expansion strategies. This case reveals how well-defined extension strategies, when implemented during the maturity stage of the Product Life Cycle, can rejuvenate a brand, attract new customers, and differentiate the parent brand. The assessment of associated benefits and risks is crucial, with potential issues including negative spillover onto the parent brand and inconsistent brand image associations. However, with effective differentiation and an understanding of customer needs, the benefits of such a strategy can outweigh these risks.*

Keywords: Brand Extension, Product Life Cycle, Microsoft

INTRODUCTION

Microsoft as one of the biggest companies in the IT industry also has some flaws and failures in their product effort. For example the failure of Microsoft Zune, a device that wanted to beat the Apple iPod but flopped in its sales (Scherba, 2017). Another example is Windows Vista which also failed and was admitted by Microsoft itself because of its bugs and its progress development (Schneider & Hall, 2011). Thus, there are lessons learned from that phenomenon that made Microsoft try to repair its marketing campaign strategy.

Even though Microsoft still become a leader in most software market shares such as Operating systems (Windows) and Office applications (Office 365), however, they still struggle with their market share in IDE (Integrated Development Environment). While looking back at the year 2015 and before, IDE's market share was dominated by Notepad++ (Github, 2021). However, from 2015 until 2019, Microsoft hit back the IDE market share and became a leader with more than 30% of users, and if it combined their two similar products,

which are Visual Studio and Visual Studio Code, it became more than 50% of market share that occupied by them (Stack Overflow, 2019).

This success story not merely created another domination by Microsoft, but it became such a good strategy success tale which is very interesting to analyze. The changes from a “close and exclusive” source mindset of Microsoft’s product then become an “open and inclusive” mindset. This radical change creates their extension strategy to deny the decline phase in their IDE product life cycle (PLC). This extension strategy involved embracing open-source development and collaboration with developers outside of Microsoft, allowing for the creation of plugins and extensions that enhance the functionality of their IDEs.

Product life cycle contains four major stages, which are: (1) development, (2) growth, (3) maturity, and (4) decline (Shahmarichatghieh et al., 2015). Most big companies, especially in the tech field, are comforted when they reach the maturity stage. This condition can cost them big losses that can't lead them into the decline stage. For example, is the phenomenon of the fallen BBM (Blackberry Messenger), which closed its service in 2019 (Fauzan, 2019; Wicaksono & Setiawan, 2019), also the death of YM (Yahoo Messenger) in 2018 (Krishna, 2018). These lessons learned are merely becoming bad examples of how big company did not reveal their extension strategy to maintain their maturity position. On the other hand, Microsoft tries to keep its good market share with its extension strategy (in this article, we talk about IDE market share) using Visual Studio Code products.

In this article, the author discusses the shift in Microsoft's market share in the IDE industry. Therefore, this article tries to present and discuss how Visual Studio Code (VS Code) becomes an extension strategy for Microsoft in keeping its position in the IDE market share, and also keeping its position in the maturity stage of PLC. The result of this discussion should give us a generic prescription on how to maintain position in the maturity stage, especially for tech products. While innovation is merely not enough in its effort, the company also should create an extension strategy for its good. In conclusion, the article highlights Microsoft's successful transition from a closed and exclusive mindset to an open and inclusive one to maintain its market share and position in the maturity stage of the IDE market.

LITERATURE REVIEW

The product life cycle which is believed a cycle or fluctuation of product sales from its beginning of creation until its extinction also becomes a macro perspective of sales change during product existence (Shahmarichatghieh et al., 2015). PLC which contains four major

stages commonly fails not in the growth stage, on the contrary, it falls in the maturity stage because most companies (especially in the IT industry) are not fully aware of what should they do in this stage (Wicaksono, 2021; Wicaksono & Setiawan, 2019). Companies often struggle to navigate the maturity stage of the product life cycle, which can lead to significant losses and even decline.

Maturity in this context can be defined as a state of being complete or perfect (some said it is about readiness) (Kärkkäinen & Silventoinen, 2016). However, maturity itself also can imply to state of what needs to be achieved or also can be defined when the sales reach its peak revenue (Laudon & Laudon, 2018; productlifecyclestages.com, 2015; Shahmarichatghieh et al., 2015). Thus, some companies tried to cut their production cost and their promotional intensity because they felt that market share was already in a better state. Because of this settlement feeling and ignoring their marketing strategy, many companies failed to maintain the maturity stage. Therefore, it is crucial for companies to not only focus on innovation and product development but also have a well-defined extension strategy in place to sustain their position in the maturity stage of the product life cycle (Sychrová, 2012; Zhang et al., 2013).

To successfully navigate the maturity stage of the product life cycle, especially for tech products, companies need to go beyond just innovation and product development. They must also focus on creating an extension strategy that allows them to continue capturing market share and sustaining their position in the marketplace (Dekkers & Forselius, 2007; Vezzetti et al., 2014). By embracing an open and inclusive mindset, companies can adapt to changing customer needs, explore new markets, and form strategic partnerships.

There are two types of brand extension which are named horizontal and vertical brand extension (Saleem et al., 2014). Horizontal brand extension can be defined as an extension brand from its parent with the same category but having a new product (Alavinasab et al., 2017; Saleem et al., 2014). Vertical brand extension is extending a prior brand with a different price or quality level from its parent (Kushwaha, 2012). In this article, we consider that the VS Code case is using vertical brand extension. This assumption based upon the fact that VS Code has most of the features from Visual Studio with a lack of visual design capabilities, but it has unique features for some programming languages which does not being supported in Visual Studio. To sustain their position in the maturity stage of the product life cycle, companies should not only focus on innovation and product development but also have a well-defined extension strategy in place.

METHOD

This research is being done using secondary data analysis from some trusted primary sources. The main reason behind this chosen option research method is merely its efficiency and better-trusted sources rather than creating a survey which will take longer time and narrower scope. In this research, we use data from the Stack Overflow annual survey and Github top IDE index. The main reason for choosing these data is because of its broad scope in doing their survey.

For example, Github itself declares that it already creating a better algorithm to create a logarithmic scale worldwide along the year to have PYPL (Popularity of Programming Language) index (Github, 2021). On the other hand, Stack Overflow as one of the biggest Q&A websites in the internet also creates a large scale of the survey every year. It claimed that they already surveyed more than 55 thousand respondents worldwide to get their summary data (Stack Overflow, 2019). Thus, both sources can be trusted and reliable becoming data sources for this research on brand extension strategies.

RESULT AND DISCUSSION

The Importance of Vertical Brand Extensions in the Maturity Stage

The importance of vertical brand extensions in the maturity stage lies in their potential to sustain a company's position and drive growth. For example, Microsoft which is known for its flagship product Visual Studio, utilized vertical brand extension to introduce VS Code. VS Code, a vertical brand extension of Visual Studio, caters to the needs of developers with unique features for specific programming languages that were not supported in Visual Studio. Thus, it changed the point of view that Microsoft is limited to Visual Studio only for its programming software. Moreover, by implementing a well-defined extension strategy, companies can tap into new customer segments and create a quality/prestige differential (Muzellec & Lambkin, 2009).

On the other hand, neglecting a well-defined extension strategy can lead to negative spillover effects on the parent brand and alienate the current customer base. Therefore, it is crucial for companies to carefully consider the potential risks and benefits of vertical brand extensions during the maturity stage (Munteanu, 2015).

Using the aforementioned sources on brand revitalization and vertical brand extensions, it is evident that implementing a well-defined extension strategy in the maturity stage can be a strategic approach with significant potential for growth and success. Therefore, companies need to conduct thorough research and analysis before implementing vertical

brand extensions to minimize the risk of negative spillover and maximize the potential for attracting new customer segments while maintaining brand equity and customer loyalty.

Key Findings from Research on Vertical Brand Extensions Strategy

As Microsoft launched Visual Studio Code which created new rivalry with other development tools like Sublime, Atom, and Notepad++, this vertical brand extension created a quality/prestige differential that targeted new customer segments. However, it is important to note that vertical brand extensions also have the potential to negatively impact the parent brand and alienate the current customer base (Alavinasab et al., 2017; Saleem et al., 2014). Therefore, companies should carefully consider the potential risks and benefits of vertical brand extensions before implementing them. In this case, Microsoft successfully implemented a well-defined extension strategy with Visual Studio Code, catering to the needs of developers and expanding their customer base.

Visual Studio Code itself remains free for whole users, especially for software developers, which provides added value and attracts new customers while maintaining the prestige and equity of the parent brand, Microsoft. Overall, the key takeaway from the sources is that implementing a well-defined extension strategy can be beneficial for companies seeking to tap into new customer segments and create differentiation from the parent brand.

In the Product Life Cycle, this action is categorized as a brand revitalization strategy, which means that companies are actively seeking to rejuvenate their brand and maintain relevance in the market (Cutrona et al., 2016; Wicaksono, 2021). By implementing vertical brand extensions during the maturity stage, companies can effectively rejuvenate their brand and tap into new customer segments. For example, when Apple launched the iPhone SE, a more affordable version of its flagship iPhone, it allowed them to reach a new segment of customers who may not have been able to afford the higher-priced models. However, this kind of action should be approached with caution, as it carries the risk of diluting the equity of the parent brand if the associations created for the new extension are inconsistent with the existing brand image .

Assessing Risks and Benefits of Vertical Brand Extensions

Assessing the risks and benefits of vertical brand extensions is crucial for companies considering this strategy (Muzellec & Lambkin, 2009). In this case, when Microsoft launched Visual Studio Code, they carefully evaluated the potential risks and benefits. Some of the risks are that the extension could spill over negatively on the parent brand, alienating current customers. Another risk is that the associations created for the new extension may be

inconsistent with the existing brand image, potentially diluting the equity of the parent brand, because Microsoft is already well-known for its proprietary software and enterprise solutions. This risk could potentially result in a loss of credibility and trust from existing customers.

Overall, the benefits of implementing a well-defined vertical brand extension strategy outweigh the risks (Kushwaha, 2012). By effectively differentiating the new extension from the parent brand, companies can attract new customers while maintaining the prestige and equity of the parent brand, Microsoft. Visual Studio Code can create new segments which demand a more accessible and user-friendly coding platform, without negatively impacting the existing customer base. More software developer, especially new ones, changed their opinion about Microsoft's image. This could lead to an increase in market share and revenue for the company.

Implementing vertical brand extensions during the maturity stage can effectively rejuvenate a brand and tap into new customer segments. This is a major lesson for other company which teach us whether the company already become very big and dominating the market, it is still important to adapt and innovate to meet the changing needs and preferences of consumers. In conclusion, while there are risks associated with vertical brand extensions, such as diluting the equity of the parent brand or alienating existing customers, the benefits, such as attracting new customers and increasing market share, make it a worthwhile strategy for companies to consider.

Factors to Consider in Implementing Vertical Brand Extensions

Some factors to consider in implementing vertical brand extensions include: (1) carefully evaluating the potential risks and benefits ensuring that the new extension is differentiated from the parent brand targeting and attracting (Agarwal & Narain Bajpai, 2015), (2) identifying and understanding the needs and preferences of the target customer segment conducting thorough market research to assess the demand and potential success of the new extension maintaining consistent messaging and brand identity across both the parent brand and the new extension to avoid confusion and ensure a cohesive brand experience (ŞERBAN, 2011), (3) ensuring that the quality and prestige of the parent brand are maintained in the new extension implementing effective marketing and promotional strategies to create awareness and generate excitement for the new extension monitoring and evaluating consumer feedback and perceptions of the parent brand and new extension, making adjustments as needed (Luxin et al., 2007), and (4) monitoring the competition and staying updated on industry trends to stay ahead of the game and ensure continued success with the vertical brand extension (He & Li, 2010).

Implementing vertical brand extensions requires careful evaluation of the potential risks and benefits, ensuring differentiation from the parent brand while targeting and attracting the desired customer segment. Implementing vertical brand extensions also involves thorough market research, maintaining consistent messaging and brand identity, preserving the quality and prestige of the parent brand, implementing effective marketing strategies, monitoring consumer feedback and perceptions, and staying updated on industry trends.

Company also assesses the potential danger from its competitor, such as potential imitation or retaliation, and develops strategies to mitigate these risks. The mitigation could be in the form of intellectual property protection, strategic partnerships, or strong brand positioning that sets the company apart from competitors. Microsoft, in this case, has already established itself as a strong brand in the technology industry, which gives it an advantage when launching vertical brand extensions. Microsoft also utilizes strong marketing and promotional strategies to create awareness and generate excitement for their new extensions. However, it is important for companies like Microsoft to continuously monitor consumer perceptions and feedback of both the parent brand and the new extensions. This is implemented by updating Visual Studio Code with new features and enhancements, actively engaging with users through social media platforms, and collecting user feedback to improve the overall experience.

Overall, successfully implementing vertical brand extensions requires a comprehensive approach that includes careful evaluation, differentiation from the parent brand, thorough market research, consistent messaging and brand identity, preservation of quality, effective marketing strategies, monitoring consumer feedback, staying updated on industry trends, and assessing and mitigating potential risks from competitors.

Effects of Linking Vertical Brand Extensions with the Core Brand

In this case, Visual Studio Code which is linked to its core brand, Visual Studio, has benefits such as leveraging the equity and credibility of the parent brand. It includes the existing customer base, brand recognition, and trust built over time. This can help generate consumer acceptance and attract new customers to the vertical brand extension. However, it is also important to consider the potential negative impact on consumer perceptions of the core brand. Linking the vertical brand extension with the core brand may create a risk of diluting the core brand image if the new extension is inconsistent with the associations.

The core brand, in this case, can easily face negative consumer perceptions due to the introduction of a vertical brand extension. However, it also can gain benefits such as

increased brand awareness and market penetration. This effect already become evident in the findings of Kim et al, where the introduction of a vertical brand extension resulted in negative consumer evaluations of the parent brand. As a result, strategies such as distancing techniques may be needed to minimize the negative impact and preserve the overall brand image.

In brief, the effect and factor in this vertical brand extension can be seen in the following table:

Table 1. Effect and Factor

Effect	Factor
Leveraging equity and credibility of parent brand	Existing customer base
	Brand recognition
	Trust built over time
	Consumer acceptance
Dilution of core brand image	Attraction of new customers
	Inconsistency with brand associations
Increased brand awareness and market penetration	Negative consumer perceptions
	Improved brand visibility
	Expansion into new market segments
	Increased customer base
	Market share growth

CONCLUSION

In conclusion, implementing a vertical brand extension, like Visual Studio Code in this case, can have both positive and negative effects on the core brand. On one hand, it can leverage the equity and credibility of the parent brand, attracting new customers and generating consumer acceptance for the extension. On the other hand, it can potentially dilute the core brand image and lead to negative consumer perceptions.

To ensure a successful vertical brand extension, it is important to carefully evaluate the potential risks and benefits, differentiate the extension from the parent brand, conduct thorough market research, maintain consistent messaging and brand identity, preserve product quality, employ effective marketing strategies, monitor consumer feedback, and continuously adapt and refine the extension based on consumer reactions.

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