

## STEP-DOWN VERTICAL BRAND EXTENSIONS OF LUXURY AND PRESTIGE CAR BRANDS: EXPLORATORY RESULTS

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# **STEP-DOWN VERTICAL BRAND EXTENSIONS OF LUXURY AND PRESTIGE CAR BRANDS: EXPLORATORY RESULTS**

## **Abstract**

This exploratory study focuses on consumers' evaluation of vertical step-down price extensions of different magnitude and compares the effects of such extensions on the brand images of luxury and of prestige car brands. Initial results indicate that step-down extensions of luxury brands are evaluated less positively than the equivalent step-down extensions of prestige brands. However, at the brand level, the size of the discount does not make much difference in the overall evaluation of the extension. The results show a general decline of the two brands' images after the introduction of a step-down extension of any size, which supports the general belief that vertical downward brand extensions harm the parent brand. Prestige brands appear to be more sensitive to dilution effects resulting from the vertical extension than luxury brands.

Keywords: vertical brand extensions; luxury brands; brand image; feedback effects.

## **Introduction**

Extension is a popular growth strategy for both fast moving consumer goods (Ambler and Style, 1997) and luxury brands (Dall’Olmo Riley, Lomax and Blunden, 2004). The main premise of an extension strategy is the attempt to leverage the investment on the brand’s equity by launching new products that share the same brand name. Managers can opt to extend the brand within its current product category through a ‘line extension’ or into a completely new product category with a ‘category extension’ (Aaker and Keller, 1990).

In practice, line extensions are more frequent than category extensions or new brand launches. A study conducted by *Research International* shows that 18% of new product launches also involve the launch of a new brand, while 65% of new products are line extensions of an existing brand and 17% are category extensions (Les Echos, 2004). In contrast, academic research has focused mainly on category extensions (Nijssen, 1999) and line extensions are still an under-researched area. This imbalance between line and category extension research may be explained, in part, by the assumption that “*it is the level of fit between the core brand and the extension, and not the type of extension, which is the most important concern.*” (Grime, Diamantopoulos and Smith, 2002: 1417). Indeed, extant research has consistently identified perceived fit and brand associations as the main factors considered by consumers in the evaluation of brand extensions (Aaker and Keller, 1990; Völckner and Sattler, 2006), with feedback effects on the image of the extended brand (Loken and John, 1993; John, Loken and Joiner, 1998). Fit between the core brand and the extension has also been found to play an important role in the consumer evaluation of line extensions (Desai and Hoyer, 1993; Kim, Lavack and Smith, 2001), since fit perceptions can be formed through different cues, not only category membership (Lei, Dawar and Lemmink, 2008).

While the assumption of the crucial role of fit for either extension types finds overall support in the literature, it can erroneously lead to the conclusion that line extensions are always evaluated by consumers on the same criteria as category extensions and may lead to disregard other factors such as price. For example, line extensions often seek to target market segments that are willing to spend more or less money for a ‘premium’ or for a ‘basic’ version of the current product (Sullivan, 1990; Keller and Aaker, 1992). Within the vast literature on brand extensions, few researchers have studied the effect of price on consumers’ attitudes towards brand extensions (Taylor, 2002; Taylor and Bearden, 2002; Jun, MacInnis and Park, 2003). Yet, price may take on special relevance particularly in the case of a vertical line extension, whereby the brand is extended to a new product within the same category, but at a higher (upward or step-up) or lower (downward or step-down) price. For example, the decision to vertically extend a brand upward may have an impact on the price premium that consumers are willing to pay for the brand (Randall, Ulrich and Reibstein, 1998). On the other hand, in the case of a downward vertical extension, a lower price may be associated by consumers with lower quality, with the ensuing risk of brand image dilution. Furthermore, the type of brand (functional v. luxury) may have a compounding effect on the evaluation of a vertical brand extension (Kirmani, Sood and Bridges, 1999; Kim and Lavack, 1996 and Kim et al., 2001). We know very little, however, about whether different discount levels of vertical downward extensions are evaluated differently by consumers of different types of brands and the resulting effect on the parent brands’ images.

This paper addresses this gap in the literature and investigates the effect of downward (step-down) brand extensions of different magnitude on the evaluation of the extensions and on the brand images of car brands differing in perceived prestige.

## **Literature Review**

This section presents the general literature on line extensions, then discusses the roles of brand type and of price in affecting consumers’ evaluations of brand extensions and of the brand image of the parent brand after the extension.

### *Line Extensions*

By means of line extensions, companies resort to an established brand name to market new products in the same product category (Aaker and Keller, 1990; Reddy, Holak and Bhat, 1994). Line extensions can be classified as either "vertical extensions" or "horizontal extensions", depending on whether the new product implies a different price-quality relationship or not (Sullivan, 1990; Keller and Aaker, 1992; Kim and Lavack, 1996; Kirmani, Sood and Briges, 1999). Horizontal extensions typically involve line stretching, with products that simply show a new functional characteristic, whereas with vertical extensions the brand aspires to enter into a new market segment through step-up (also called upward or upscale) or step-down (downward or downscale) changes in price and positioning (Michel and Salha, 2005). By means of upscale extensions, an improved version of the main product can be targeted to the premium sector of the market. On the other hand, downscale extensions often entail both a lower quality level and a lower price point that suits the necessities of the value market (Aaker, 1997; Kirmani *et al.*, 1999; Liu, 2002).

Line extensions are not without risks. Brands that are overstretched with unsuitable products can lead to the loss of brand meaning and may cannibalize the sales of other products in the brand portfolio (Kim and Lavack, 1996; Liu, 2002). The risk of brand image dilution is especially strong for vertical extensions (Aaker, 1997; Michel and Salha, 2005) and will occur when consumers find a dissonance between the quality of the parent brand and the quality of the extension (Kim *et al.*, 2001). If the company opts for a downward extension, the brand could be associated with low quality (Aaker, 1997; Randall *et al.*, 1998; Michel and Salha, 2005). As Randall *et al.* (1998) claim, maintaining brand associations related to prestige and exclusivity can be an impossible task, if the company launches vertical extensions targeted at the low-end of the market.

Regarding upscale extensions, Munthre, Bick and Abratt (2006) claim that this strategy may help revitalise a brand provided that credibility is guaranteed, the new product is adequately positioned, and the extension is neither first-to-market nor late-to-market. Although upward extensions can build positive brand associations (Randall *et al.*, 1998), consumers might be suspicious of formerly inexpensive brands that promise to deliver functional and emotional benefits in premium segments (Aaker, 1997; Speed, 1998).

As previously mentioned, when it comes to the extension evaluation processes, there is general agreement that the attitude toward a brand name is transferred to both category and line extensions through stimulus generalization processes that depend on the perceived fit between the new product and the brand (Till and Priluck, 2000). The brand extension literature shows that the higher the fit, the higher will be the transference of beliefs and attitudes from the brand to the extension, which improves both the extension attitude (Boush and Loken, 1991; Klink and Smith, 2001; Völckner and Sattler, 2006) and the extended brand's image (Loken and John, 1993; John, Loken, and Joiner, 1998). However, line extensions require developing a new identity that avoid the risk of cannibalisation and, in the case of vertical stretching, position the new product in the desirable price-quality level. This is the reason why many companies resort to second brand names or descriptors that reinforce or weaken the links with the parent brand (Kim and Lavack, 1996; Michel and Salha, 2005), as in the case of *Marriott Hotels* launching the step-down extension *Courtyard Inn by Marriott*.

Finally, consumers of products from the parent brand are more likely to respond positively to line extensions (Kirmani *et al.*, 1999). Although current customers can react negatively to extensions that erode the brand benefits (Kirmani *et al.*, 1999), a positive brand attitude should be beneficial for the extension success.

### *Type of brand*

Kirmani *et al.* (1999) found both positive and negative evaluations of vertical extensions, depending on the type of consumer (user vs. non-user), on the extension's

direction (up vs. downward), and on the type of brand (functional vs. luxury). Their results show that users of luxury brands evaluate upward extensions more favourably, and downward extensions less favourably than non-users. Furthermore, users of functional brands evaluate both upward and downward extensions more favourably than non-users. Finally, they suggest the use of a sub-branding strategy for downward extensions of luxury brands, in order to prevent parent brand dilution. These results emphasise the importance of differentiating between functional and luxury brands. More evidence for potentially negative effects of vertical brand extensions on the evaluation of the parent brand is provided by Kim and Lavack's (1996) results showing that downward extensions of luxury brands are more damaging than downward extensions of functional brands. In a subsequent study, Kim et al. (2001) indicated that, regardless of the type of brands (functional vs. luxury) and regardless of the direction of extension (up vs. downward), the introduction of vertical brand extensions has a negative impact on the parent brand. A possible explanation for this result might be the phenomenon of a vertical brand extension itself: the reduction in price and quality (for downward extensions). Distancing techniques seem to be effective in reducing the dilution of the core brand image, particularly in the case of a step-down extension of a luxury-oriented brand. However, the opposite result is shown with regards to the consumer evaluation of the step-down extension of luxury-oriented and of functional-oriented brands. The apparent trade-off of distancing in the case of step-down extensions suggests that use of this technique should depend upon the strategic goals of the company: whether maintenance of the core brand or the long-term success of the vertical extension is considered to be more important to the future profitability of the firm.

Finally, according to the literature, at the same price point, consumers will prefer products launched by companies that own higher quality products in the brand portfolio (Randall et al., 1998). Focusing on vertical extensions of mobile phone brands, Liu (2002) found that brand concept is the main factor that triggers the consumers' choice, followed by the extension attributes.

#### *Price*

The price of the extension will also have an impact on the perceived quality of the new product, regardless of the final impact on the consumers' purchasing behaviour. The literature reveals that price has a positive effect on the choice of downward extension and a negative effect for upward stretches (Liu, 2002). According to Michel and Salha (2005), the main factors determining vertical extension evaluation will be the brand concept and the congruency between the extension and the price level of the brand.

Moreover, Kirmani *et al.* (1999) conducted research into the degree of discount of vertical brand extensions and its effect on the parent brand. By comparing the effect between functional and luxury brands, they found that introducing a vertical brand extension with 40% discount on the initial price leads to more negative evaluations for the luxury brand than for the functional brand. Besides the question of whether extensions of functional and luxury brands are evaluated differently, this study leads to the question of whether different discount levels of vertical brand extensions are evaluated differently by consumers and therefore have different feedback effects on the evaluation of the parent brand's image.

#### **Aims of research**

The review of the literature has revealed the paucity of research on line extensions in general and on vertical extensions in particular. While a couple of studies have identified potential differences between consumers' evaluation of vertical brand extensions of functional and of luxury brands, recent research has suggested that a simple dichotomy between 'functional' and 'luxury' brands may be inadequate, since 'luxury' brands vary on a continuum of perceived prestige and price (Truong, McColl and Kitchen, 2009). Furthermore, we know little about the effect of downward brand extensions of different magnitude on the

evaluation of the extensions and even less on interaction effects between type of brand and discount levels. Therefore, this research investigates the differences in consumers' evaluations of vertical (step-down) brand extensions between brands differing in perceived prestige (as defined below) and between different discount levels. The effects of the type of brand and of the discount level on the brands' images are also considered.

### **Research Design**

The car market was considered as an appropriate setting for the study, for comparability with previous studies (Kim *et al.* 2001 examined vertical extensions of luxury and functional car brands) and also because of the range of brands at different price and 'prestige' level.

Firstly, a pre-test was conducted, with the aim of choosing two car brands at the upper end of the car market, but differing in perceived prestige level and price ranges. A convenience sample of 21 postgraduate students at a UK Business School was used for this pre-test. Respondents assessed their familiarity with and their perceived prestige of ten car brands, with two 7-point Likert scales (1=totally unfamiliar/ 7= very familiar; 1=not very prestigious/ 7=very prestigious). The list of ten brands was compiled on the basis of car magazines and their reported classification of cars at the upper end of the market, mainly based on price ranges above the median. As a result of this pre-test, two brands, Audi and Porsche were selected for the study, since they did not show significant differences in terms of familiarity (sig. =0.853), but were significantly different in terms of perceived prestige (sig. = 0.015). As expected, Porsche scored higher than Audi on the prestige question. Based on the differences in perceived prestige and price ranges between Porsche and Audi and following upon Truong *et al.*'s (2009) classification of luxury brand types, in the rest of this paper we refer to Porsche as a 'luxury' brand and to Audi as a 'prestige' brand.

Two questionnaires ('A' and 'B') were then constructed. The purpose of questionnaire 'A' was to measure the 'initial' (pre-extension) image of the two car brands. Two versions of questionnaire 'A' were administered (one for each brand), measuring the 'initial' image of the brands in terms of status and conspicuousness (see Appendix 1). According to Truong, Simmons, McColl and Kitchen (2008), status and conspicuousness are two distinct dimensions of brand luxury (see also Vigneron and Johnson, 2004). Status indicates perceived quality, luxury and class; brands high in 'status' may be purchased as self-reward or to signal wealth (Shermach, 1997; O'Cass and Frost, 2004). On the other hand, conspicuousness relates mainly to external aspects such as the public display of wealth (Amaldoss and Jain, 2005). Four versions of questionnaire 'B' were used to measure the perceived fit of a 25% and of a 50% hypothetical vertical step-down extension with each of the two chosen brands, on the basis of the following information: *AUDI (PORSCHE) is considering the introduction of a new soft top car model, at a price of £XX,XXX. This new model would be the first in a new line priced 25% (50%) below the current price range of £YY,YYY to £ZZZ,ZZZ.*

In each version of questionnaire 'B', the attitude towards the extension, its perceived value, the likelihood of purchasing it and the brand image after the extension were also measured (same status and conspicuousness measure as in questionnaire 'A'). Both questionnaires 'A' and 'B' also included measures of 'customer expertise with cars', 'brand familiarity', 'parent brand market position', 'general parent brand attitude', 'attitude to purchasing luxury products' and demographic information. Seven-point scales were used throughout. See Appendix 1 for a summary of the measures used in the questionnaires and their source. Checks of internal consistency were carried out for all measures and met the required benchmarks.

#### *Sampling and data collection*

All questionnaires were administered in Greater London, via a non-random convenience sampling method. The sample characteristics of each questionnaire were as follows: an equal split between male and female; 75% aged 18 to 44, 25% 45+; an equal split between four income groups. Sixty responses for each brand were collected for questionnaire 'A'; 30 responses were collected for each of the four versions of questionnaire 'B', for a total of 120 cases for questionnaire 'A' and 120 cases for questionnaire 'B'.

## **Results**

Once the data had been collected, the researchers verified that both brands obtained a familiarity score above the median (4) in all questionnaires and that Porsche and Audi were significantly different in the perceived prestige, status and conspicuousness measures. As a result, Porsche and Audi were confirmed as a 'luxury' and as a 'prestige' brand, respectively.

### *Evaluation of the extensions*

Firstly, a between-groups Analysis of Variance was carried out to explore whether there were any differences in the general attitude (EXTATT) towards the vertical extension of the luxury and of the prestige car and different step-down extension levels (25% and 50%). The overall result indicated a significant difference between the four conditions (Audi25%, Audi 50%, Porsche 25%, Porsche 50%;  $F=6.970$ ,  $p=0.000$ ). Post-hoc comparisons using the Scheffe's Post Hoc Test showed that, for each brand, the two step-down extensions were evaluated similarly, no matter whether the discount was 25% or 50% (EXTATT Porsche25%=4.4267 EXTATT Porsche50%=3.9615  $p=0.557$ ; EXTATT Audi25%=5.1728 EXTATT Audi50%=5.1379  $p=1.000$ ). This indicates that, at the brand level, the size of the discount does not make much difference in the overall evaluation of the extension. However, for Porsche, both step-down extensions were evaluated less positively than Audi's extensions, although only Porsche's 50% EXTATT was significantly different from Audi's 25% and 50% EXTATT. This suggests that the type of brand (luxury v. prestige) has an impact on the evaluation of step-down extensions: step-down extensions of luxury brands are evaluated less positively than equivalent step-down extensions of prestige brands.

### *Feedback effect on brand image*

The second objective of this paper was to investigate the effect of step down extensions of different sizes on the evaluation of the luxury and of the prestige parent brand. In other words, the aim was to compare the variation in the brand image of the two brands (IMAV = final brand image – initial brand image). Since questionnaire 'A' had been used to measure the image of the two brands before the extension, it was necessary to check the comparability of questionnaires 'A' and 'B' samples in terms of the respondents' 'expertise', 'brand familiarity', 'parent brand market position', 'parent brand attitude' and 'attitude to luxury' common measures. Despite the efforts to ensure as much similarity as possible between samples, there was a significant difference between questionnaires 'A' and 'B' in the 'parent brand attitude' means for both Audi and Porsche and in the 'attitude to luxury' measure. The former difference was of particular concern, in terms of the objective of comparing the image variation after the extension. Therefore it was decided to conduct this part of the analysis on a homogeneous sub-sample of respondents with mean values for the 'parent brand attitude' measure between 5 and 7. Although this resulted in slightly smaller sample sizes (see Appendix 2) it would have ensured a more reliable comparison between the initial and the post-extension brand image. Indeed, an ANOVA test within the sub-sample showed that the 'parent brand attitudes' in questionnaires 'A' and 'B' were not significantly different (Audi Sig. 0.479; Porsche Sig. 0.898).

The results of the IMAV test are shown in Table 1 below, for the status and conspicuousness measures of brand image combined.

**Table 1 here**

The results reported in Table 1 indicate that for the prestige brand Audi, a step-down extension of 25% has a much larger effect on brand image (-0.86; corresponding to a 16% dilution in brand image) than for the luxury brand Porsche (-0.20; = -4%). This result is somewhat counter-intuitive, on the basis of Kim and Lavack's (1996) and Kirmani *et al.*'s (1999) findings of greater negative feedback effects of vertical step-down extensions on luxury brands, compared with functional brands. Although our study compares a luxury with a prestige brand, we would have expected the brand image of the former to be affected more negatively than the brand image of the latter. Rather puzzling is also the finding that for the prestige brand Audi, a step-down extension of 50% has a much smaller negative effect on brand image than the smaller discount (an IMAV at 50% for Audi is almost equal to IMAV at 25% for Porsche). For the luxury brand Porsche, results are more in line with expectations, with a slightly greater negative IMAV associated with a larger step-down extension.

We then considered the two brand image components of status and of conspicuousness, as reported in Table 2 below.

### **Table 2 here**

For both brands, conspicuousness is more negatively affected by the 25% step-down extension than by the 50% step-down extension but, in line with the overall results shown in Table 1, Audi's conspicuousness is affected to a much greater extent than Porsche's. Furthermore, while Porsche's status is hardly affected by the 25% step-down extension, Audi's status is severely affected (-0.73; corresponding to a 14% dilution in status). In contrast, a 50% step-down extension affects the two brands in similar manner (in percentage terms), with status showing a slightly larger dilution.

### **Conclusions**

This study has started to address a gap in the literature, investigating the effects of step-down brand extensions of different magnitude on the evaluation of the extensions and on the brand images of 'luxury' and of 'prestige' car brands. The results of this exploratory research, limited to two brands and one product category and a small sample, suggest that step-down extensions of luxury brands are evaluated less positively than equivalent step-down extensions of prestige brands. However, for each individual brand, the size of the discount does not make much difference in the overall evaluation of the extension. For both Audi and Porsche, step-down extensions of 25% are evaluated similarly to step-down extensions of 50%. The logical assumption that the 50% discounted extension would be evaluated worse than the 25% discounted extension could not be supported.

Findings concerning the effect of the extensions on the images of the two brands were also not always in line with expectations. The results showed a general decline of the two brands' images after the introduction of a step-down extension, which supports the general belief that vertical downward brand extensions may harm the parent brand. However, the expected outcome that Porsche would suffer more from an extension than Audi could not be supported. For a 25% step-down extension, the image of the prestige brand Audi was diluted to a much greater extent than the brand image of the luxury brand Porsche, both in terms of the brand's status and of its conspicuousness. Possibly, a prestige brand like Audi has 'less room to play' and would find it harder to maintain its perceived status and conspicuousness at a lower price, running the risk of being considered on the same level of a functional equivalent. It would appear that a prestige brand like Audi is likely to lose its position and its image risks being diluted more quickly than a luxury brand like Porsche, which is positioned higher up on the scale. Paradoxically a lower discount (25%) appears to affect the perceived status, conspicuousness and image of the prestige brand Audi to a much greater extent than a discount twice as large. Possibly a 50% step-down extension is associated with the price of a model in a different range, e.g. a 'mini', rather than with a discounted version.



**Table 1 – Brand Image before and after the Extension and Brand Image Variation**

<b>BRAND IMAGE</b>	<b>Audi</b>	<b>Porsche</b>
Before Extension	5.19	5.60
After Extension (25%)	4.34	5.40
After Extension (50%)	4.94	5.26
<i><b>IMAV (25%)</b></i>	<i>-0.86 (-16%)</i>	<i>-0.20 (-4%)</i>
<i><b>IMAV (50%)</b></i>	<i>-0.25 (-5%)</i>	<i>-0.34 (-6%)</i>

**Table 2 – Status and Conspicuousness variation**

<b>BRAND IMAGE</b>	<b>Audi's Status</b>	<b>Audi's Conspicuousness</b>	<b>Porsche's Status</b>	<b>Porsche's Conspicuousness</b>
Before Extension	5.12	5.26	5.46	5.73
After Extension (25%)	4.39	4.28	5.52	5.27
After Extension (50%)	4.83	5.05	5.09	5.42
<b><i>IMAV (25%)</i></b>	<i>-0.73 (-14%)</i>	<i>-0.98 (-19%)</i>	<i>0.06 (+1%)</i>	<i>-0.46 (-8%)</i>
<b><i>IMAV (50%)</i></b>	<i>-0.29 (-6%)</i>	<i>-0.21 (-4%)</i>	<i>-0.37 (-7%)</i>	<i>-0.31 (-5%)</i>

**Appendix 1**  
**Measures**

Measure	Questionnaire 'A'	Questionnaire 'B'	Source
Customer Expertise	Exp1 – Knowledge about cars in general Exp2 – Inexperienced / Experienced Exp3 – Uninformed / Informed		Mishra et al. (1993)
Brand Familiarity	Fam – Not familiar / Familiar		Milberg et al. (1997)
Parent Brand Market Position	Pos1 – Budget /Luxury Pos2 – Functional /Prestige		Lei et al. (2008)
Parent Brand Attitude	Att1 – Unfavourable / Favourable Att2 – Dislike / Like Att3 - Unappealing / Appealing		Musante (2007)
Perceived Fit of Extension		Fit1 – Bad Fit / Good Fit Fit2 – Not logical / Very logical Fit3 – Not appropriate / Very Appropriate	Keller and Aaker (1992)
General Extension Attitude EXTATT		Extatt1 – Unfavourable / Favourable Extatt2 – Dislike / Like Extatt3 – Unappealing / Appealing	Musante (2007); Kirmani et al. (1999)
Perceived Value of Extension		Pval1 – Good value for money Pval2 – Good buy Pval3 – Comparative Value	Taylor and Bearden (2002); Lei et al. (2008)
Market Position of Extension		Extpos1 – Budget / Luxury Extpos2 – Functional/ Prestige	Lei et al. (2008)
Purchase Intention		PInt1 – Unlikely / Likely PInt2- Would not consider it/ Would consider it PInt3 – Not probable/ Very probable	O’Cass and Grace (2004); Lafferty (2007)
Brand Image Status  Brand Image Conspicuousness	BISta1 – Can indicate a person’s social status BISta2 – Symbol of achievement BISta3 – Symbol of wealth BIcon4 – Symbol of prestige BIcon5 – Attracts attention BIcon6 – Can be used to impress other people		Truong et al. (2008)
Attitude to Luxury	Lux1 – I almost never buy luxury products Lux2 – Today everyone should have access to luxury goods		Stegemann et al. (2007)

**Appendix 2**  
**Sample Sizes**

	<b>WHOLE SAMPLE</b>		<b>SUB-SAMPLE</b>	
	<b>Valid Cases</b>		<b>Mean parent brand attitude &gt; 5</b>	
	<b>Audi</b>	<b>Porsche</b>	<b>Audi</b>	<b>Porsche</b>
<b>Questionnaire 'A'</b>	59	58	54	46
<b>Questionnaire 'B' (25%)</b>	26	25	17	11
<b>Questionnaire 'B' (50%)</b>	29	26	21	15

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