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Abhay Shah

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Product Line Extension: Does Upward Line Extension Hurt or Benefit Competitive Advantage? The Case of Honda's Acura, Nissan's Infiniti, and Toyota's Lexus Brands

Abhay Shah

Colorado State University – Pueblo

ABSTRACT

Caldieraro, Kao, and Cunha Jr. (2015) report that when a company extends its product line (and brand name) upwards to premium products, it hurts the company's overall demand, market share, and competitive advantage. However, evidence from the auto industry contradicts their findings. The three most successful line extensions in the luxury segment in the auto industry are Honda's Acura, Toyota's Lexus, and Nissan's Infiniti. Line extensions are categorized as follows: extensions where a firm extends its brand horizontally (similar quality) or vertically (upward or downward) using the current brand name, and line extensions, where a firm extends its product line horizontally or vertically (upward or downward) using a different brand name. This study investigates upward line extensions of three companies – Toyota (Lexus), Nissan (Infiniti), and Honda (Acura). The study proposes that if a company pursues upward or downward line extension strategy, it can gain a big competitive advantage in the marketplace only if the line extension is systematic and the marketing mix is consistent with its target market. The firm will have to use a different brand name, different product offerings, different pricing, different distribution, and different promotion. The following propositions are proposed for upward line extension:

- P1a:** Upward line extension into a luxury segment will increase a *firm's revenue* if the company picks and *markets to a segment (different from its current segment)* that is compatible to its new product (brand) offering.
- P1b:** Upward line extension into a luxury segment will increase a *firm's profits* if the company picks and *markets to a segment (different from its current segment)* that is compatible to its new product offering.

The profile of the target market of Acura, Infiniti and Lexus were very different from the profile of the target market of Honda, Nissan and Toyota when the three auto manufacturers were manufacturing and marketing cars to the lower to middle price segment. The target market profile for Acura, Infiniti, and Lexus were the younger, higher income professionals, upwardly mobile, and higher educated people.

- P2a:** A company's *revenue (market share)* will increase if it extends its product line upwards to a luxury segment *using a new brand name that is different from its current (parent) brand name.*
- P2b:** A company's *profits* will increase if it extends its product line upwards to a luxury segment *using a brand name that is different from its current (parent) brand name.*

Acura's unit sales increased from 52,869 in its debut year of 1985 to 177,165 in 2015. Infiniti's unit sales from 88,351 in 2000 (unit sales for its debut year, 1989 were not available) to 133,498 in 2015. Lexus' unit sales increased from 16,302 in its debut year of 1989 to 344,601 in 2015.

Acura's, market share increased from 0 in 1985 to 8.4% in 2015. Infiniti's market share increased from zero in 1998 to 6.3% in 2015. Finally, Lexus' market share increased from zero in 1998 to 16.4% in 2015.

P3a: A company's sales (market share) will increase if it extends its product line upwards to a luxury segment charging a higher price than its current brand.

P3b: A company's profitability will increase if it extends its product line upwards to a luxury segment charging a higher price than its current brand.

Average price of Honda, Nissan and Toyota before they ventured into the luxury segment was around \$20,000. The average price of their luxury fleet was around \$50,000.

P4a: A company's market revenue (share) will increase if it extends its product line upwards to a luxury segment using a different distribution system than its current (parent) brand name.

P4b: A company's profits will increase if it extends its product line upwards to a luxury segment using a different distribution system than its current (parent) brand name.

When Honda, Nissan and Toyota ventured into the luxury segment, they did not use the same distribution/dealerships that they used for their lower to mid-priced segment. Their new dealers were very exclusive to their Acura, Infiniti and Lexus brand of cars.

P5a: A company's market revenue (share) will increase if it extends its product line upwards to a luxury segment using a different promotion (advertising) than its current (parent) brand name.

P5b: A company's profits will increase if it extends its product line upwards to a luxury segment using a promotion (advertising) than its current (parent) brand name.

Acura, Infiniti, & Lexus' advertising were completely different than the advertising of the parent companies. The new ads targeted the wealthier and upwardly mobile segments while the original ads targeted the lower to mid-priced segments.

ABOUT THE AUTHOR

Abhay Shah received his Ph.D. in Marketing from Oklahoma State University. He is currently Faculty Chair and Professor of Marketing at Colorado State University – Pueblo. He has published over twenty refereed journal articles and a number of conference proceedings. His last journal publication was in the Journal of Applied Marketing Theory in December 2016.