Evaluation of line extension: A study of new luxury brands

Hyane TRIGUEIRO
hyane.trigueiro@upmf-grenoble.fr

Doctoral Candidate in Management Studies
CERAG
Grenoble University II
150, rue de la Chimie
BP 47
38040 GRENOBLE cedex 9

Abstract
Today, we observe an increasing number of luxury brands present in non-luxury market sectors for which they were not initially intended. Luxury brands adopt a brand strategy called vertical line extension in order to win new territory in the battle for customers. One kind of vertical extension, the step down stretch, is characterised by a significant lowering in price and quality between the extension and the core brand, resulting in a potential shift in consumer perception of the brand concept. Consequently the objective of this study is to analyse the role of customer luxury perception to evaluate the acceptance of luxury brand line extensions. Additionally, we want to identify which variables are likely to influence the evaluation process of vertical line extensions.

Key-words: vertical line extension, luxury perception and evaluation processes
Introduction

A significant number of studies dedicated to brand strategies focus on brand extensions. However, studies which analyze line extensions are unusual, although this strategy represents an important part of the market. According to Les Echos (2004), 65% of all products launched in 2004 used a line extension strategy. This strategy consists of launching a new product in the same category as the core brand, but with a different price range, either higher (step up stretch) or lower (step down stretch) than the core brand (Aaker, 1997).

Possible explanations for the widespread use of this strategy by companies include the phenomenon of low-cost or hard discount (Kapferer, 2004), as well as the democratization of luxury (Danziger, 2005). Hard discounts are present in several sectors such as, for example, supermarkets with Carrefour Discount launched in May, 2009 or the mobile phone sector with Simplicime from SFR. A good illustration of the democratization of the luxury sector is the brand “Armani” that has developed six product lines, each one occupying a different price level. Studies in the United Kingdom use the word "Masstige" to classify some prestige brands that are sold for the mass market (Danziger, 2005).

In addition to line extension, our study is also concerned with transformations observed in the luxury sector which is increasingly "democratic". This modification is redefining the luxury market and the traditional vision of luxury with its ostentatious consumption and exclusivity is now changing (Wiedman, Hennigs and Siebels, 2007). Indeed, our main interest is in “the new luxury brands” also called “popular luxury” (Sicard, 2003), “masstige” (Danziger, 2005) or “diffusion brands” (Cheong and Phau, 2003) in the literature. The denominations vary, but the principle is the same: luxury is being democratized (Kapferer, 1998). The essential difference between new luxury items observed on the market and traditional luxury items is their lower price and greater accessibility.

The concept of luxury raises problems for managers as well as for researchers. The main difficulties around this concept are definition and measure. No consensus has been reached between authors on the dimensions which define a luxury brand (Vickers and Renand, 2003). The large numbers of dimensions that need to be taken into account in order to define this concept increase the difficulty. Furthermore, dimensions evolve over time. De Barnier, Rodina and Valette-Florance (2006) demonstrate a change in certain dimensions previously considered as essential for a luxury brand: "uniqueness" and "superfluousness" have lost
importance for consumers these days. On the other hand, dimensions, like "pleasure" or "hedonism" have become increasingly important when trying to understand consumer motivation at the moment they purchase a luxury item.

The literature review demonstrates that the variables used by consumers for evaluating a brand extension are not the same as those used for evaluating line extensions. There are also differences between the variables used to evaluate horizontal and vertical line extensions. Consequently, we wish to identify certain of these variables and to answer the following research question: Which variables are likely to influence the evaluation process of vertical line extensions?

Dubois, Laurent and Czellar (2001), in their exploratory study which attempts to analyze consumer attitudes towards luxury define three consumer types by their visions of luxury: the elitist, the democrat and the distant. De Barnier, Rodina and Valette-Florence (2006) demonstrate the evolution of certain dimensions previously considered as fundamental to defining luxury, like "exclusivity" which has lost importance. In our study, we also attempt to determine how luxury is perceived by today’s consumer.

Therefore, our research is positioned around the subjective nature of luxury because an object can be considered as luxurious by one individual, but commonplace by another. Our aim is to analyze the effect of consumer luxury perception on the evaluation of vertical line extensions, specifically the step down stretch, and to determine the main factors which influence evaluation of these line extensions.

2 Conceptual background and hypotheses

2.1 Line extension evaluation

As previously stated, line extensions are not evaluated using the same variables as brand extensions. This section will summarize the main variables that potentially influence the evaluation process of a step down line extension. It will also present the principle hypotheses designed to test our conceptual model.
2.2.1 Extension direction and brand concept

According to Kirmani, Sood and Bridges (1999), the direction of the extension determines the nature of the changes that arise between the core brand and the extension. Consequently in the context of line extension, the direction adopted by the line extension influences the perception of fit between the core brand and the extended brand.

However, the initial concept of the core brand also influences evaluation of a line extension (Kim, Lavack and Smith, 2001). In other words, a luxury brand, connected to concepts such as "status" or "exclusivity" will have a poor fit if the brand chooses, for example, a step down extension. As affirmed by Park, Milberg and Lawson (1991) consumers take coherence of the brand concept into account when they evaluate a brand extension. Furthermore, evaluation of the line extension is based on the coherence of the brand concept and the direction of the extension (Kirmani, Sood and Bridges, on 1999).

**H1:** Compared with function-oriented extension, a step down stretch for a prestige-oriented brand will be less favourably evaluated in terms of attitude and purchase intention.

2.2.2 Distancing techniques

Another variable that can potentially influence the evaluation of a line extension is the perceived distance between the concept of the extension and the core brand. This perceived distance can be manipulated by managers via distancing techniques to position the extension "closer to" or "further from" the core brand. For instance, a company can use "linguistic" techniques or "graphs" on product packaging or advertisements to control the perceived distance from the consumer (Kim and Lavack, 1996; Kim, Lavack and Smith, 1999). An example of this is the addition of either an identifier to the brand name (i.e. Armani *Exchange*), or a term of connection (i.e. Courtyard *by Marriot*).

When the consumer perceives a distance between the extension and the core brand, the risk of dilution for the brand image is lowered (Aaker, 1997; Michel and Salha, 2005). However, a large distance decreases the advantages that the extension can experience from close association with the brand equity (Kim and Lavack, 1996).
Kim, Lavack and Smith (1996) talk about typicality as another factor influencing line extension impact. Indeed, by using distancing techniques managers can vary the level of typicality between the extension and the core brand. The level of typicality will have an important role in the acceptance of a line extension, but depends upon other variables such as the direction of the extension and the brand concept (Kirmani, Sood and Bridges, 1999).

Using the categorization theory, we expect that the greater the distance between the core brand and the step down extension, the lower the fit and as a result, the weaker the transfer of brand identity from the core brand to the line extension. However, if the core brand and the extension are closely linked, the perceived quality and the attitudes experienced by consumers toward the core brand will be more easily transferred to the extension. Therefore, we hypothesize that:

**H2: Evaluation of a step down extension will be less favourable when the step down extension has a greater distance from the core brand, compared to when it is closer to the core brand.**

### 2.2.3 Luxury perception

Vigneron and Johnson’s (2004) study demonstrates that luxury brands are not perceived identically by consumers. They arrange brands on a continuum where certain dimensions have more weight in determining the degree of luxury of a certain brand over another. Dubois and Laurent (1994) analyse consumer attitudes towards luxury and also demonstrate that individuals do not consider luxury in the same way. In this second study high price is seen by some as an essential element in defining luxury, whereas it does not have the same importance for others.

Consequently, consumer luxury perceptions seem to affect the evaluation of a step down extension of a luxury brand. The individual who sees luxury as a means of social distinction or as a means to demonstrate his or her success will react differently from one who is uninterested in luxury. Furthermore, luxury perceptions are influenced by consumer motivation. Individuals who are motivated by ostentatious consumption will have a stronger tendency to see luxury as a means to reach this objective.

In order to develop a scale to measure consumer luxury perceptions, De Barnier, Faley and Valette-Florance (2008) tested three existing scales found in the literature: Kapferer (1998),
Dubois, Laurent and Czellar (2001), and Vigneron and Johnson (1999, 2004). These three scales were developed with different objectives. The first one identifies consumer motivations toward luxury. The second classifies consumers according to their attitude about luxury and the last measures the luxury level of different brands. De Barnier, Falcy and Valette-Florance (2008) propose a hybrid scale drawing together eleven dimensions (after statistical analyses) to empirically test the initial three scales. This scale has four dimensions of order 2: power, excellence, exclusivity and hedonism.

**H3: The more a consumers’ perception of luxury is biased toward “exclusivity”, the less favourable will be their evaluation of a step down stretch when undertaken by a prestige oriented brand.**

**Identification with Brand**

Brand plays an essential role for consumers as a means to express their personality and their social membership. Today, consumption is strongly influenced by the "symbolic" character of a brand because it allows expression of the real or the desired image of the consumer (Duguay, 2007). Indeed, in buying a specific brand the consumer looks for a means to express his ideals. According to Morgan (2000), identification with a given brand is more likely to occur when the brand’s values are shared by the consumer.

Symbolism is a consideration for all products having a well established brand image. However, luxury brands are even more concerned with this identity function (Bearden and Etzel, 1982). Consumers are willing to pay more in order to buy symbols rather than simple products. The main symbols evoked by luxury brands are status, wealth, power or membership in a social class, for example.

When a luxury brand launches a step down line extension, the central symbols of luxury, such as exclusivity or high price are modified. Consequently we expect brand identity to suffer as a result of negative extension evaluation.

**H4: Compared with a function-oriented brand, a step down stretch for a prestige-oriented brand will have greater negative effect on consumer identification with a brand.**
**Word of mouth**

One of the objectives of a line extension is to win over new clients. However, the opinion of current customers is also important for the firm, especially because their attitude toward the brand is already favourable. When a company introduces a new product using line extension, the company wants to successfully achieve a transfer of knowledge and trust on to the extension.

However, some studies show that customers with a high level of affection for a given brand may react differently than expected by marketers, particularly if the extension is disappointing. Sjödin (2006) used a socio-cultural perspective on purity and impurity based on Douglas (1966) to analyse the negative comments on an internet discussion forum concerning the introduction of a new utility vehicle from Porsche. The author shows that if the consumer does not see any coherence between the core brand and the extension they will make negative comments about the extension. In a second study, Sjödin (2008) identifies the antecedents of anger which influence consumers to spread negative word of mouth for an upsetting brand extension.

In addition, marketing studies have shown that satisfaction is a fundamental determinant of positive word of mouth. (Anderson 1998, Olivier 1993) Ranaweera and Prabhu (2003) demonstrate that increased customer satisfaction results in motivation to spread more positive word of mouth. In our study, however, we expect less favourable evaluation of step down line extensions. Current customers will not be satisfied with a new product launched on the market which is not coherent with the core brand concept, especially in the case of luxury brands. Consequently, they will be more motivated to spread negative word of mouth. Thus the next hypothesis is:

**H5: Compared with a function-oriented brand, the negative evaluation of a step down stretch for a prestige-oriented brand will increase the level of negative WOM.**

The effect of consumer luxury perceptions on the evaluation of a step down line extension is analyzed using hypotheses H1 through H5 (figure 1, below). These hypotheses enhance understanding of negative evaluations. The evaluation process is influenced by explanatory variables such as brand concept, extension direction, and the distancing techniques used, which are the variables that are manipulated in our study. Figure X illustrates our conceptual model:
The majority of previous studies investigating line extensions used samples made up of university students. Our research question takes into account luxury brands, and at first glance the use of a student based sample seems inappropriate. However, we are interested in brands which undertook step down line extensions, also called the "new luxury brands". These line extensions permit young consumers to purchase luxury items at more accessible prices. According to Cheong and Phau (2003), step down line extensions are aimed at young adults, classified in the existing literature as being between 18 and 25 years of age (O’Cass and Frost, 2002; Beaudoin, Moore and Goldsmith, 1998). Therefore, our sample will be students from this age bracket and data collection will be undertaken using an auto-administered questionnaire.

**Pre-test 1: Stimuli choice**

Most previous research concerning line extension used real examples of brand extensions and core brands (Kirmani, Sood and Bridges, 1999; Reddy, Holak, Bhat, 1994; Lomax and McWilliam, 2001; Nijssen, 1999; Kim and Lavack, 1996). Within the framework of our study, we shall also use existing brands. This choice is justified by the definition of line extension.

Truong et al., (2008) affirm that functional brands have rarely been used in studies on luxury brands. However, the authors assert that including them allows comparison between results
for various types of brands, and not exclusively between several luxury brands. Consequently, we are considering also taking into account downward stretches for functional brands.

Several luxury brands have used extension strategies to launch line extensions. We observe frequent use of this strategy in « prêt-à-porter »: Calvin Klein, Giorgio Armani, Kenzo, Jean Paul Gaultier and Hugo Boss have all used this approach. Functional brands also use this technique for brand extension. The objective of this pre-test is to select one very well known luxury brand and one very well known functional brand given the sample population being questioned.

**Pre-test 2 : Distancing techniques**

The objective of this pre-test is to find an identifier to add to or to connect with the name of the core brand (Example: Armani *Exchange* and *Exchange by* Armani).

**Pre-test 3 : Extension price**

Line extension is characterized by a significant change in price and quality. Consumers are expected to perceive a significant difference between the price of the core brand and the extension. This pre-test aims to determine the appropriate price of a line extension for the two brands being tested. Knowing the real market price, Kirmani, Sood and Bridges (1999) used a criterion of lowering the price by 40% for a downward extension and raising the price by 30% for an upward extension.

**Study design**

As a result of performing the above pre-tests we will have chosen two real brands: one having a prestigious orientation and the other one having a functional orientation. Furthermore, we will have an identifier that will allow use of the linguistic distancing techniques. Finally, estimation of appropriate prices for both the functional and the luxury brand should be possible.

Consequently, our study will have the following design: 2 brand concepts (prestige oriented vs. function oriented) x 2 distancing techniques (close vs. far). The following table synthesizes the study design:
Table 1: Study design

<table>
<thead>
<tr>
<th>Product category</th>
<th>« Prêt-à-porter »</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selected brand</td>
<td>Results from pre-test 1</td>
</tr>
<tr>
<td>Extension used</td>
<td>Real brand</td>
</tr>
<tr>
<td>Sample</td>
<td>Young customers between 18-25 years old</td>
</tr>
</tbody>
</table>
| Dependent variables | - Extension evaluation  
                      | - Identification with brand  
                      | - Word of mouth |
| Manipulated variables | - Brand concept (luxury and functional)  
                        | - Distancing techniques |

Conclusion

This study hopes to identify which variables are most likely to influence the evaluation process of line extensions and to outline theoretical and managerial implications. The literature review provides no consensus on this subject. Even if the line extension strategy is often used by companies, managers do not have a clear understanding of its impact. Our study aims to analyse the variables that influence customer line extension evaluations, especially for new luxury brands.

To achieve this objective we employ the categorisation theory that is used to explain brand extension evaluation because the scope of application of this theory has been enlarged to encompass line extension studies as well in recent times. This will permit us to clarify how line extension strategy is perceived by the consumer, and in particular the impact of the difference in price and quality between the core brand and the extension.

We also expect to show that luxury perception can explain why, for certain consumers, line extension is less favourably evaluated. As the perception of luxury continues to change we expect to find new and different groups of customers. By identifying them, we will be able to help managers optimize their efforts to market to these groups. One of the objectives of line extension is to acquire new customers, but managers have an interest in simultaneously protecting current customers in order to avoid losing them.
REFERENCES

Aaker D. A. (1997), Should you take your brand to where the action is?, *Harvard Business Review*, September-October, 135-143.


Danziger P. (2005), *Let them eat cake; Marketing luxury to the masses, as well as the classes*. Deerborn, Trade Publishing, Chicago.


Ranaweera, C. and Prabhu, J. (2003), On the relative importance of customer satisfaction and trust as determinants of customer retention and positive word of mouth, *Journal of Targeting, Measurement and Analysis for Marketing*, 12, 1, 82-90


Sicard M. C. (2003), Luxe, mensonges et marketing. Mais que font les marques de luxe ?, Paris, Pearson Éducation, France.


