Business Horizons (2009) **52**, 187—197

Available online at www.sciencedirect.com
ScienceDirect

KELLEY SCHOOL OF BUSINESS
INDIANA UNIVERSITY
www.elsevier.com/locate/bushor

How far can luxury brands travel? Avoiding the pitfalls of luxury brand extension

Mergen Reddy [a], **Nic Terblanche** [b], **Leyland Pitt** [c,*], **Michael Parent** [c]

[a] *Capgemini Consulting, P.O. Box 785827, Sandton, 2146, South Africa*
[b] *Stellenbosch University, Private Bag X1, Matieland, 7602, South Africa*
[c] *Segal Graduate School of Business, Simon Fraser University, 500 Granville Street, Vancouver, BC V6C 1W6, Canada*

KEYWORDS
Luxury brands;
Brand extensions;
Degree of adjacency;
Premium adjacency matrix

Abstract Brand extensions are always tempting to marketers, and in the case of luxury brands the allure is particularly strong. While the path to luxury brand success may be partly paved with extensions, there are even more examples of brand extension disasters that litter the way. Brand extensions continue to be among the most researched and studied phenomena in marketing. When it comes to luxury brands, however, the factors that lead to successful extension have received far less attention. In this article, we consider the notion of perceived premium degree of the brand as a function of its category, and what we term the *degree of adjacency* between its product categories. Building on our research, which found that a luxury brand's perceived premium degree has a different impact on profitability depending on whether or not the brand is spread across adjacent product categories, we demonstrate when luxury brand extensions work—and when they fail. Perhaps most importantly, we herein introduce the premium adjacency matrix as a tool for luxury brand managers to consider in formulating extension strategies.
© 2008 Kelley School of Business, Indiana University. All rights reserved.

1. The temptation of luxury brand extension

While there are almost as many opinions on fine wines as there are wines and wine critics, most would agree that Château Margaux, the famous Bordeaux first growth, is up there with the very best. It is a wine of which author William Styron (1992) wrote, in the novel *Sophie's Choice*, "when you live a good life like a saint and die, that must be what they make you to drink in paradise" (p. 151). It would be a marketer's dream to extend the Château Margaux brand. It could perhaps be broadened to less rare, more readily available early drinking wines. Or, partnerships with wineries in other countries

* Corresponding author.
E-mail addresses: mereddy@deloitte.co.za (M. Reddy), nst@sun.ac.za (N. Terblanche), lpitt@sfu.ca (L. Pitt), mparent@sfu.ca (M. Parent).

0007-6813/$ — see front matter © 2008 Kelley School of Business, Indiana University. All rights reserved.
doi:10.1016/j.bushor.2008.11.001

could be formed. It might even be extended to other beverages, or to a range of gourmet food products. It could even encompass hospitality offerings or a selection of durable luxury goods.

So far, though, Château Margaux has resisted the temptation to extend the legendary brand to anything other than great wines—and only three, at that (Deighton et al., 2006). In contrast, first growth competitors such as Château Haut-Brion and Château Mouton-Rothschild have extended their brands in a number of ways. Haut-Brion markets a wine called Clarendelle at around $20 a bottle. Mouton-Rothschild, through alliance with Mondavi in California, produces and markets Opus One for about $250 a bottle; partnered with Viña Concha y Toro in Chile, it produces and markets Almaviva for around $75 a bottle. While these are premium priced wines, they never reach the heady price levels of first growths; for example, a 2000 Château Margaux will sell for approximately $900 per bottle. Mouton-Rothschild also mass markets red and white wines, at a price point less than $20 per bottle, under the Mouton Cadet label. Even the legendary Château Pétrus has a brand of merlot associated with it which sells for under $20 a bottle.

While estimates of its size vary from forecaster to forecaster based on their assessment of segments and customer behavior, and also on the classification schema used, the simple truth is that the international market for luxury brands is immense (Allen, 2007; Cohen, 2007). Its size has been further accelerated in recent years as the number of affluent consumers in countries such as China and India increase, as those nations exhibit stellar economic growth. In the developed world, the rich are indeed getting richer. Rising stock prices, increased disposable incomes, consumer confidence, and a double-digit upsurge in international travel have proven to be a boon to luxury brands. Unfortunately, all of this has not made the management of luxury brands any easier. What Nueno and Quelch (1998) pointed out a decade ago is just as true today: Growth in luxury brands has raised the competitive wagers that need to be made. Managers of luxury brands can be led into temptation by growing consumer affluence, making it difficult to resist the pull that could be so easily acquiesced to by endless brand extensions.

So, is it possible to answer the most important questions facing luxury brand managers? Might it be possible to predict which brand extension alternatives might be successful, and which might not? Is it feasible to foresee which extension strategies will be profitable, and which will not? Based on our research and experience, we believe the answer is yes.

2. Extensions can work, but just how far can a luxury brand travel?

Brand extensions are one of the most heavily-researched and influential areas in marketing (Czellar, 2003). The considerable attention given by marketing scholars to issues regarding brand extensions, and their findings in general, support the conclusions of our research and the recommendations that we will make here; for instance, Völckner and Sattler (2006) found that fit between the parent brand and an extension product is the most important driver of brand extension success. From a luxury branding perspective, however, much of the extant research does have particular limitations. First, the majority of brand extension research has focused on non-luxury brands. For example, while Keller and Sood's (2003) research found brands to be far less vulnerable to the vagaries of extension than generally feared, the brand environments considered were those of beverages and health and beauty aids.

Second, in many of the studies considering the impact of brand extensions, the main dependent variable has been the impact on quality perceptions of the parent brand. Keller and Sood (2003) found that these were unaffected when the proposed extension was in a dissimilar product category. While this is mildly reassuring, in the case of luxury brands we contend that there is probably a more fundamental and compelling outcome criterion: profitability.

Third, the settings for much of the research on brand extensions are far removed from the real context of luxury brands. For example, noting that the most successful extensions involve brands that are associated with benefits that are valued in the extension category, Meyvis and Janiszewski (2004) proposed that brand extension success also depends on the accessibility of benefit associations. Accessibility, in turn, depends on the amount of interference from competing brand associations (e.g., category associations). They argue that broad brands (i.e., brands offering a portfolio of diverse products) will tend to have more accessible benefit associations than narrow brands (i.e., brands offering a portfolio of similar products). It is therefore easier for broad brands to extend than narrow brands, even when the narrow brands are more similar to the extension category. While these findings make welcome sense, and are heartening, this research was not carried out in a luxury brands context or with the target customers of luxury brands.

Similarly, contrasting the commonly advanced rationale for the proliferation of brand extensions that a firm's motivation was to leverage the equity

متن کامل مقاله ← دریافت فوری

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات