



## Luxury product to service brand extension and brand equity transfer

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### ABSTRACT

The aim of the present study is to establish a framework for the study of luxury brand extension and to discover whether the brand equity of the parent product brand can be transferred to the extended service brand. Despite many benefits achieved by implementing successful brand extension strategies in the luxury industry, there are several obstacles that negatively influence both the extended brand and the parent brand. Because a negative effect of the vertical brand extension was found in past studies, this study focused on the horizontal brand extension to evaluate and predict possible positive outcomes in the horizontal brand extension process. Thus, this study investigates the role of brand equity, especially when the luxury brand was used to introduce upscaled service brands, in relation to a theoretical framework of brand equity. Additionally, the difference in the purchase intention among demographic groups was examined as it might offer an opportunity for developing a new strategy.

### 1. Introduction

Branding is important in the hyper-competitive luxury industry because the brand is a significant factor that influences product or service loyalty (Lau and Lee, 1999). The effect of a strong brand is increasing and critical in the high-tech luxury industry. Specifically, luxury automobile brands have increased demand and market share in developing countries such as China and in South America. For instance, Mercedes-Benz, which is the fastest-growing luxury automobile brand in China, delivered 68,500 units in 2009 with a year-on-year growth of 77% (Kozicki, 2012). More recently, the luxury automobile industry in China has showed high sales. More specifically, for Audi, the unit sales increased from 227,938 units in 2010–578,931 units in 2014 (Smith, 2016). As a result, many luxury automobile brands developed various marketing strategies in order to improve their sales and profits in these emerging markets. In order to develop successful products and services, understanding their own brand as distinguishable from competitors is important. A number of powerful luxury brands have introduced new products over the years. Brand extension strategies provide a significant profit opportunity by capitalizing on the parent brand's equity (Dawar and Anderson, 1994). For example, Prada and Gucci started with shoes and successfully extended to luxury handbags in different consumer segments in the luxury fashion industry.

However, a luxury brand extension might not always bring success, due to various factors that influence consumer evaluation of the extended brand. Failures of the brand extension can have a negative

impact on parent brand equity, particularly for prestige brands (Lye et al., 2001; Shin et al., 2017). Past studies discovered and explored the negative impact of using vertical brand extension specifically, that the extended brands' less expensive introduction might cause cannibalization of its luxury parent brand (Reddy et al., 1994). This was found in luxury automobile brands; there was a negative impact by the vertical step-down brand extension on the parent brand. For example, when Cadillac introduced Cimarron, although there was no cannibalization, they watered down the prestige of the parent name (Kim et al., 2001). Because of the difficulty of creating and maintaining strong luxury automobile branding, implementing luxury brand extension strategies should be considered based on possible outcome (e.g., positive or negative). In order to take a prestige parent brand image and reduce the negative impact of the brand extension, some luxury brands have used horizontal brand extension instead of vertical brand extension strategies. Horizontal brand extension means using the existing brand name to introduce a new product in the same product line or to a different product category (Sheinin and Schmitt, 1994). Most recent research in brand extension has focused on product categories. However, the growth of middle-class consumers and their purchasing power has led to changes in both luxury product brands and luxury service brands. Therefore, in this study, the process of horizontal brand extension by luxury automobile brands to extended service brands was examined. This type of luxury brand extension needs to be identified in order to determine when it is appropriate to use brand extension strategy to launch a new service brand and when it is not. If there is a positive

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relationship between the parent product brand and overall perception of the extended service brand, a brand extension strategy with few possible risks, such as cannibalization or parent brand image, should be considered.

For the research background, brand equity was adopted to assess its extendibility and to develop brand extension strategy (Park and Srinivasan, 1994). Brand equity is thought to be more important for measuring the effectiveness of brand extension strategies (Ferguson et al., 2016). Brand awareness, brand association, perceived quality, and brand loyalty of the luxury automobile brands were used as antecedents of evaluation and consumer intention to purchase the extended rental service brand. Because most research has focused on vertical brand extension, there is a gap in understanding horizontal brand extension. Thus, this study has merits for future research in exploring luxury automobile brand extension to rental car service brands, which requires more understanding. In addition, this study also examined the possible differences in consumer intention to purchase extended service brands.

## 2. Relevant literature review and hypothesis development

### 2.1. Luxury automobile brand

In the past, luxury brands were often associated with high-income consumers, who are more willing to pay larger premiums than low or middle-income consumers are. However, due to the emergence of new technologies, luxury brands are getting higher visibility and are attracting more attention among consumers all over the world (Kapferer and Michaut, 2015). Now, luxury brands are characterized as one of the fastest-growing brand segments with high profit in current markets. For luxury automobile brands, unit sales have increased steadily in the global car market, which experienced a rise of 69% to 1.26 million vehicles in 2005 (Štrach and Everett, 2006). According to Berger (2001), luxury automobiles are vehicles with a very high price, sophisticated design, advanced technology, and symbolic elements beyond the basic need of automobile consumers. Since 1986, in order to survive in the competitive luxury automobile industry, luxury automobile brands have developed extended brands as a part of their overall market strategy. Consumers are able to co-create a luxury lifestyle without actually owning the luxury cars (Hatch and Schultz, 2010). For instance, Ferrari, a well-known luxury automobile brand, introduced a perfume by using their existing brand name, image, and reputation. This allowed them to enter the cosmetics industry. Likewise, several luxury automobile brands have presented accessible brands to obtain benefits by reaching the wider consumers.

### 2.2. Brand extension

Keller et al. (2014) identified brand extension as the use of an established brand name for the introduction of new products or services. Brand extension is regarded as a fundamental business strategy (Albrecht et al., 2013). The success rate of brand extension is about 80% compared to 35% for launching new products (Roll, 2005). Brand extension is categorized in two dimensions: vertical extension and horizontal extension. Vertical brand extension refers to the launching of new products or services in the same product/service category as the parent brand but at a different price or quality point (Keller and Aaker, 1992). Horizontal brand extension refers to using of a parent brand name to introduce a new product or service in a different category from the parent brand (Kim et al., 2001). Utilizing brand extension strategy is the key driver for the growth of luxury brands (Riley et al., 2004). One of the main advantages of luxury brand extension is taking advantages from the parent brand, by using consumers' trust of the parent brand (Sharon, 2011). However, disadvantages of implementing brand extension strategy also exist.

Vertical brand extension, which introduces cheaper extended

brands, has potential risks of diluting the original image and cannibalization with the parent brand in luxury brands. Compared to vertical brand extension, horizontal brand extension, which expands the brand into different categories, is viewed as the way to reduce or eliminate possible negative consequences. Thus, the current research focused on horizontal brand extension by using a luxury automobile brand and suggesting an extended service into a rental car brand. As most luxury brand extension studies have researched product-to-product categories (Bellaiche et al., 2010), this study provides in-depth understanding about a service-to-product brand extension in the luxury automobile brand area.

### 2.3. Brand equity

Brand equity was used as the theoretical framework. This study examined the roles of different brand-related attributes of parent product brand in the evaluation of the extended service brand. In marketing literature, brand equity theory provides an understanding of how the brand can add value to a product or service (Keller, 1993). Also, in brand extension studies, brand equity has been discussed as the important factor in many previous brand extension studies (Dacin and Smith, 1994; Ferguson et al., 2016; Rangaswamy et al., 1993). Brand equity refers to all the added value that the brand offers consumers. Keller (1993) identified conceptual dimensions of brand equity from the consumer psychology perspective as brand awareness and brand association. After Aaker (1991) defined brand equity within a consumer-based perspective and developed the construct including brand awareness, brand associations, perceived value, and brand loyalty, many researchers have used and adopted brand equity to understand consumer behavior. For instance, Yoo and Donthu (2001) suggested that brand equity is the combination of the cognitive dimensions (brand association, brand awareness, and perceived quality) and behavioral intention dimension (brand loyalty). The significant influence of brand equity on consumer preferences and purchase intentions was also found in past studies (Cobb-Walgreen et al., 1995). Similarly, in the luxury automobile industry, the brand equity construct was utilized to measure the relationship with consumer loyalty, satisfaction, and purchase intention (Tolba and Hassan, 2009). However, there is a lack of research on the transfer of brand equity in the process of developing a service brand by using the parent product brand. Thus, this study attempted to discover whether the brand equity of parent brand can be transferred to the extended service brand by using the luxury automobile brand extension.

#### 2.3.1. Brand loyalty

In the recent highly competitive luxury industry, many luxury brands have focused on advertising, promotions, or other marketing efforts to increase brand loyalty. Brand loyalty refers to consumers' repurchase rate of the same brand; it is based on consumers' previous use and purchase experience of the product, which can be regarded as consumer attitudes about a brand (Deighton et al., 1994). Brand loyalty includes two types of factors: behavior factors and attitude factors. Behavior loyalty simply refers to consumers' repurchase behavior, and attitude loyalty refers to consumers' psychological commitment to a brand (Aaker, 1991; Prus and Brandt, 1995). Baldinger and Rubinson (1996) suggested that brand loyalty is critical because it influences consumer brand preferences while consumers are actually purchasing and using a product; they are not easily switching to other brands. Even though consumer loyalty toward a brand is the final destination of brand management (Chi et al., 2009), there is inconsistency in the literature examining the role of brand loyalty. Some researchers used brand loyalty as one of the antecedents, which influence consumer satisfaction, whereas others examined the mediating effect of brand loyalty on consumer behavior. In addition, the indirect impact of brand loyalty on the relationship between brand association and consumer purchase intention was found (Chi et al., 2009). In this study, brand

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