Value Creation for Luxury Brands through Brand Extensions: An Investigation of Forward and Reciprocal Effects

By Carmen-Maria Albrecht, Christof Backhaus, Hannes Gurzki and David M. Woisetschläger

Luxury brands such as Louis Vuitton, Gucci, or Chanel regularly expand beyond their core business and nowadays offer a wide range of products including accessories, perfumes, watches or jewelry, and even services. The use of brand extensions has become central to the business model of most luxury brands. While research on brand extensions for non-luxury brands has produced many insights into the process of brand extension evaluation from a consumer point of view, surprisingly little research has addressed the extendibility of luxury brands, although some authors even argue that the roots of brand extension practice stem from luxury goods. The current study contributes to the understanding of luxury brand extensions by simultaneously analyzing different dimensions of parent brand equity as well as extension category related factors and their impact on value creation for luxury brands. Results of a structural equation model (n=752) show that product-category fit is the main driver of the consumer’s attitude towards the extension, followed by the consumer’s involvement in the extension category, and the functional, hedonic, and prestige equity of the parent brand. Moreover, the evaluation of the extension influences the evaluation of the parent brand, indicating a positive reciprocal spillover effect for the parent brand.

1. Introduction

The use of brand extensions, that is, the use of an existing brand in a new product or service category, is an essential growth driver for luxury brands (Riley/Lomax/Blunden 2004). As the brand represents a substantial asset, particularly in the luxury segment, its extension to a wide range of products has become an integral part of the business model of most luxury brands (Kapferer 2008). Given the brand’s value generation potential one even argues that the roots of brand extension practice stem from luxury goods (Mazzarol 2003). Brands such as Louis Vuitton, Gucci, or Chanel have expanded beyond their core business and offer a wide range of products including fashion apparel, accessories, bags, watches or jewelry. Some manufacturers of luxury products — among them brands such as Bulgari or Versace — now even offer hotels and services under their brand (Bulgari 2012; Versace 2012). Although Armani began as a brand in the fashion industry, the offerings of Armani and its sub-brands nowadays range from books, flowers, furniture and chocolates to restaurants, bars, and spas (Armani...
2012). With the use of co-branding, other brands such as Prada or Hugo Boss have even offered mobile telephones (Hugo Boss 2009; Prada 2012).

Luxury brands are often characterized by their superior quality which is traditionally based on the concept of craftsmanship and thus by higher prices, by heritage, rarity, beauty, and extraordinariness, as well as symbolic meaning (e.g., Heine 2010a; Meghee/Spake 2012; Wiedmann/Hennig/Siebels 2009). A luxury brand can thus be regarded as “the most selective in its distribution; the most image-driven; the most extreme in its product quality [...] and the most expensive” (Kapferer/Bastien 2009, p. 313). The perceived degree of luxuriousness, however, varies, from brands of the upper range to brands of the lower range of luxury within the same product category (Vigneron/Johnson 2004). In the category of bags, for example, Louis Vuitton is generally perceived to be part of the upper range, whereas Coach is an example of a luxury brand in the lower range (The WorldHandbagReport 2012). Luxury brands are also referred to as prestige brands in the literature (e.g., Monga/Gürhan-Canli 2012; Monga/John 2010; Park/Milberg/Lawson 1991). The symbolic meaning of luxury brands mainly relies on their “aura” (KPMG 2006) and “dream value” (Dubois/Paternault 1995) which make luxury brands so appealing and desirable.

A main challenge for luxury brands (compared to non-luxury brands) is to preserve this “dream value” which can easily be destroyed through over-diffusion (Dubois/Paternault 1995). “Luxury brands must be desired by all, consumed only by the happy few” (Riley/Lomax/Blunden 2004, p. 42). Pierre Cardin – once a venerable brand – is one such example of over-diffusion. The brand name appeared on so many unrelated products, which finally led to the dilution of the brand (Financial Post 2008). Thus, the trade-off between accessibility and exclusivity has become a fundamental strategic challenge for luxury brands, which is particularly relevant in the context of brand extensions and growth strategies (Keller 2009) since brand extensions permit luxury brands to grow faster without being restricted to “organic internal growth” (Stankeviciute/Hoffmann 2011, p. 27).

Academic research on brand extensions in the luxury context (relative to the non-luxury context) is surprisingly rather sparse. Little research has addressed the extendibility of luxury brands. The non-academic literature, however, provides at least some examples of luxury brands that have launched brand extensions with and without success (see Appendix I for an overview of selected luxury brands and their extensions, with closeness to the luxury brand’s core and commercial success as two possible characteristics to describe the brands and their extensions).

Against this background, the objective of the current research is to empirically assess the potential of luxury brands to create value through brand extensions from a consumer point of view. In order to do this, it is necessary to take into account both the effect of the parent brand on the extension (forward effect) and the estimated impact of the extension on the parent brand (reciprocal or backward effect), which represents a significant part of the value of most luxury brands (Stegemann 2006).

Previous research on luxury brands has not considered reciprocal effects (Park/Milberg/Lawson 1991). These backward effects, however, can be substantial and far outweigh the forward effects on the extension (Pina/Iversen/Martinez 2010) and are likely to be more severe for luxury brands (Hagtvedt/Patrick 2009). Thus, we will account for these effects.

The current study makes two main contributions to the fields of consumer research, luxury branding, and brand extensions. First, we extend previous studies on luxury brand extensions by providing a luxury brand specific model of consumer-based brand equity to analyze the impact of the extension decision on the value generation for the brand. This is insightful as previous research has shown that luxury brands are fundamentally different from non-luxury brands, which in the past have mainly been used in brand extension research (Lye/Venkateswarlu/Barrett 2001). Previous studies on luxury brand extensions have either replicated studies from different contexts without taking into account the specificities of luxury brands (e.g., Lye/Venkateswarlu/Barrett 2001; Roux 1995; Roux/Boush 1996) or have focused on particular dimensions of luxury (e.g., Hagtvedt/Patrick 2009). This is generally surprising since it has been found that prestige (i.e., luxury brands) are more extensible than functional brands (Monga/John 2010; Park/Milberg/Lawson 1991). We will propose a luxury specific model, in which we simultaneously analyze several dimensions that contribute to luxury brand equity from a consumer perspective in a comprehensive model. Each brand equity dimension thereby represents the specific benefits of the brand in that dimension.

Second, we provide additional insights into the nature of brand equity in the brand extension context by simultaneously assessing the impact of multiple dimensions of brand equity on brand extension success which is mostly represented by consumers’ evaluations towards the extension. Most previous research in the non-luxury context has focused only on single-dimensional measures of parent brand-related factors, such as parent brand quality (e.g., Aaker/Keller 1990), or the consumers’ brand conviction and experience with the parent brand (e.g., Völckner/Sattler 2006). While these are good measures of brand equity, they, however, do not provide insights into the importance of these dimensions in comparison to others, which we will address in our model.

The remainder of this manuscript proceeds as follows. We begin by reviewing the literature on brand extensions for both luxury and non-luxury brands to reveal the differences in prior research for these two contexts. Then a luxury brand specific model is developed and tested in an empirical study. Finally, the paper concludes with a dis-
Discussion of the research findings in terms of implications for luxury brand companies, limitations, and future research directions.

2. Literature Review

Previous research on brand extensions has mainly focused on non-luxury brands. Much empirical research has been devoted to understanding the factors that drive the success of brand extensions (e.g., Aaker/Keller 1990; Bhat/Reddy 2001; Völkner/Sattler 2006). In their extensive study, Völkner/Sattler (2006) empirically examined the relative importance of several factors which are linked to brand extension success. They grouped the factors influencing the brand extension evaluation and the reciprocal effect on the parent brand into six dimensions: (1) factors relating to the parent brand itself, (2) factors relating to the relationship between the parent brand and extension product, (3) characteristics of the extension category, (4) consumer characteristics, (5) marketing activities of the brand, and (6) other external factors. Völckner/Sattler (2006) found that perceived fit between the parent brand and the extension product is the most important factor in determining the success of the extension. While it seems that these findings can be generalized to a great extent across various settings, such as from laboratory findings to the real world, across different FMCG categories, from student to non-student samples, or between attitudinal and market-based measures, the type of parent brand, however, seems to moderate consumers’ reactions (e.g., Park/Lawson/Milberg 2006). Furthermore, the risk of image dilution by unsuccessful extensions is high, especially for brands with high consumer-based brand equity such as prestige brands (Chen/Chen 2000; Lye/Venkateswarlu/Barrett 2001). Moreover, there can be negative reciprocity effects even for high-fitting extensions (Park/McCarthy/Milberg 1993). Thus, a better understanding of ways to assess the brand equity of luxury brands has been emphasized as an area for further investigation (Chen/Chen 2000; Riley/Lomax/Blunden 2004). We take up this call for research by taking into account multiple brand related image dimensions, which are important to the creation of consumer-based brand equity for luxury brands. These dimensions are called brand equity dimensions and refer to the specific benefits of the brand in the respective dimension.

3. Hypotheses Development

Based on Vershofen’s (1959) benefit theory, one can differentiate between a basic or functional benefit that a product provides to the consumer and socio-psychological benefits that include all other benefits that are not vital to the actual function of a product. It has been found that, beyond their functional benefits, luxury brands are generally better suited for delivering the subjective intangible benefits to consumers than their non-luxury counterparts (Vigneron/Johnson 1999). Existing frameworks in the luxury brand marketing context propose that luxury brands provide, for example, conspicuousness, uniqueness, quality, hedonic value and extended self-value (Vigneron/Johnson 1999; 2004), financial, functional, individual, and social values (Wiedmann/Hennigs/Siebels 2009), or functional, prestige, uniqueness, self-expressive, and hedonic benefits (Valtin 2005) to the consumers. Drawing on these frameworks and the general idea of Vershofen’s benefit taxonomy, we focus on the following benefit dimensions of a luxury brand, which we call brand equity dimensions: functional, hedonic, prestige, affiliation, and uniqueness equity. Besides these parent brand related factors, we also integrate product-category fit, and the consumers’ involvement in the extension category as major drivers of the extension evaluation into our model. The extension evaluation, in turn, is expected to have a reciprocal spillover effect on the parent brand (see Fig. 1).

3.1. Brand Equity Dimensions

Functional brand equity refers to the consumer’s perception of how well the brand will fulfill utilitarian needs,
such as the assurance of product quality, and thus minimize the product-related purchase risk (Sheth/Newman/Gross 1991). While a basic functional benefit is expected for luxury brands, it also refers to excellence and unique functional features which might only be recognized and appreciated by perfectionist connoisseur consumers who possess the necessary knowledge to value and use these features (Wiedmann/Hennigs/Siebels 2009). Functional brand equity has been shown to have a positive impact on the brand’s extendibility (Río/Vázquez/Iglesias 2001). Moreover, functional equity might impact both the overall extension evaluation of the brand and, specifically, the consumers’ perception of the functional benefits of the extension. Previous studies have shown a positive effect of brand quality on extension evaluation (Bottomley/Holden 2001; Volckner/Satt-ter 2006). While brand quality seems to be more important for functional brand concepts, it has been shown to have a significant effect on the extendibility of luxury or prestige brands (Lye/Venkaterwar/Barrett 2001; Roux 1995). Keller/Aaker (1992) suggest that it might be brand quality rather than luxuriousness or symbolism that allows high quality brands to stretch further than low quality brands. Thus, we propose:

**H1**: Brand functional equity positively influences the consumer’s attitude towards the brand extension.

The hedonic equity of the brand influences the consumer’s perception of the brand to provide pleasure, to create affect, and to deliver emotional benefits (Hagtvedt/Patrick 2009). It has been proposed to be the major driver of the extendibility of luxury brands (Hagtvedt/Patrick 2009). Yeung/Wyer Jr. (2005) argue that a brand name which elicits affective reactions can extend even into categories that are dissimilar to the brand’s core products. For prestige brands, Bhat/Reddy (2001) show that the parent brand affect positively influences the attitude towards the extension. Thus, for luxury brands, which possess hedonic brand equity, the evaluation might be based on an affect transfer and leads to a positive attitude towards the extension (Hem/Iversen 2003; Yeung/Wyer Jr. 2005). Thus, we propose:

**H2**: Brand hedonic equity positively influences the consumer’s attitude towards the brand extension.

Brand prestige equity is linked to the consumer’s perception of the status the brand conveys, thereby allowing him or her to demonstrate his or her achievements and position him- or herself within a certain social class (Wiedmann/Hennigs/Siebels 2009). Thus, prestige equity refers more generally to demonstrative status consumption. This could imply a motivation to dissociate oneself with a particular social class or affiliate oneself with a certain social class.

Previous brand extension studies have shown a positive relationship between the status function of a brand and its extendibility (Río/Vázquez/Iglesias 2001). The conspicuousness of a brand corresponds to the consumer’s underlying need for status and social self-construction (Wiedmann/Hennigs/Siebels 2009). As a result, brand extensions can be displayed in a wider range of consumption activities. In the public consumption of luxury, in particular, the conspicuous value of the brand is strong as it acts as a social marker of status (Bearden/Etzel 1982). Thus, particularly in publicly visible extension categories, the effect of the brand’s prestige on the extension should be strong. Moreover, in the case of private luxuries, it can be expected that the brand’s prestige also has a positive effect on extension evaluation if the exclusivity is maintained (Kim/Lavack/Smith 2001; Kirmani/Sood/Bridges 1999). Thus, we propose:

**H3**: Brand prestige equity positively influences the consumer’s attitude towards the brand extension.

Brand affiliation equity is the consumer’s perception of the brand to associate him- or herself with a particular brand community or reference group. It is thus more specific than the overall motive of social class and might yield different results for the extension evaluation. Previ-
ous studies have shown a positive effect of social identification on the willingness to accept brand extensions (Rito/Vázquez/Iglesias 2001). With the brand acting as a “symbolic sign of group membership” (Wiedmann/Hennigs/Siebels 2009, p. 633), the consumer can actively reinforce his or her belonging in the reference group. For luxury brands, affiliation equity should therefore positively influence the extension evaluation, since a brand extension provides the consumer with a wider range of opportunities to interact with his or her brand community. Thus, we propose:

H2: Brand affiliation equity positively influences the consumer’s attitude towards the brand extension.

3.3. Involvement in the Extension Category

Besides the factors that relate to the parent brand and the fit between the parent brand and the extension, the extension category itself might influence the evaluation of a brand extension. In particular, we propose that the consumer’s involvement in the extension category as an expression of overall interest and liking for a category has a positive effect on the evaluation of the extension. At first sight, this seems contradicting to the insights by research on involvement. The predominant view is that involvement negatively impacts the size of the consideration set (Divine 1995), which has also been empirically supported (e.g., Belonaz/Javalgi 1989). The explanation for the negative relationship is that “highly involved consumers have narrower latitudes of acceptance and thus find fewer brands worthy of consideration” (Divine 1995, p. 317). However, there are studies that found a positive relationship between involvement and the consideration set size (e.g., Divine 1995; Gronhaug 1974). These studies argue that involvement motivates the consumer to consider more purchase alternatives, since they are less motivated to simplify the evaluation and decision making process by reducing and limiting the number of alternatives to consider (Divine 1995). We go along with this reasoning.

Previous brand extension studies have mainly focused on the analysis of category involvement as a moderating variable for parent brand related factors or fit by assessing its impact on the cognitive resources that the consumer invests in the information processing (Dens/De Pelsmacker 2010; Maoz/Tybout 2002). However, like the dimensions discussed for the parent brand, product categories as a whole can create personal meaning or provide emotional value and therefore have a differential impact on brand extension evaluation (Laurent/Kapferer 1985). If the consumer has a more positive attitude for a category, he or she might be able to not only better relate the parent brand launching the extension to his or her previous knowledge, but also like the extension more because of the intrinsic product category specific characteristics, which might even complement and alter the perceived brand equity in the new category (Czellar 2003). Thus, we propose:

H3: A consumer’s involvement in the extension category positively influences the consumer’s attitude towards the brand extension.

3.4. Spillover Effect from the Brand Extension to the Parent Brand

Previous studies have shown that successful extensions can have a positive effect on the parent brand and even lead to more favorable evaluations of additional extensions (Balachander/Ghose 2003; Keller/Aaker 1992; Lane/Jacobson 1997). In addition, extension failures have been shown to have negative effects on parent brand equity, particularly for prestige brands (Chen/Chen 2000; Lye/Venkateswarlu/Barrett 2001). Hence, the consumer’s attitude towards the extension should be posi-
positively related to his or her attitude towards the parent brand. Thus, we propose:

$$H_8: \text{The consumer's attitude towards the extension positively influences his or her attitude towards the parent brand.}$$

4. Method and Results

4.1. Data Collection and Sample

The proposed model was tested via an online consumer survey. The survey design employed six real brands (Louis Vuitton, Hermès, Gucci, Dolce & Gabbana, Hugo Boss, Burberry) and two hypothetical extensions (Hotel services, Interior design). The two extension categories were chosen since they represent industry sectors into which other luxury brands had successfully extended. Therefore, they were regarded as generally appropriate for a luxury concept. Moreover, the hotel and interior design sectors are economically interesting sectors within the luxury market and thus provide a clear rationale for an extension strategy (Bellaiche/Mei-Pochtler/Hanisch 2010). Since the purpose of this study was to determine which components of brand equity influence extendibility into these categories and how they change brand equity, we chose realistic luxury concepts. The brands were selected on the basis of differing degrees of luxuriousness and different perceived main competences. The selection was supported by the opinions of brand managers in the luxury goods segment.

At the beginning of the online survey, each participant was asked to answer some questions about their involvement in luxury brands and their attitude towards luxury brands in general. Then each participant was randomly assigned one of the six luxury brands that were chosen for the current research. More precisely, the official brand logo was shown (Table 1). As a first step, participants had to indicate whether or not they knew the brand at least by sight (“Yes, I know the brand.” vs. “No, I do not know the brand.”). Only when the participants indicated that they knew the brand, were they presented with the next questions. When they indicated that they did not know the brand, they were randomly presented with one of the remaining five luxury brand logos of the study and had to indicate again, if they knew or did not know the brand. This procedure was repeated until the participants unanimously declared to know the brand. In the rare case in which the participants were not familiar with any one of the six brands, the survey ended and the participants were thanked for their willingness to take part in it. After ensuring that the participants generally knew the focal luxury brand, they were asked to display their level of brand knowledge as a next step by answering three knowledge items on a 7-point-Likert scale (e.g., “I know a lot about <Parent Brand>.”). This procedure is common in prior research (e.g., Heine 2010b). By this means it was possible to exclude respondents that did not fulfill a predefined minimum requirement (i.e., an average score of at least 3.0 on a 7-point Likert scale on three knowledge items of one of the brands) from the survey. Moreover, the respondents were asked to rate the degree of luxuriousness of the focal brand (“<Parent Brand> is a luxury brand”; e.g., Mandel/Petrova/Cialdini 2006; Monga/John 2010). Additionally, based on prior research in the luxury brand context (Valtin 2005), we collected information on the fact whether our respondents currently own products of the focal brand and/or owned products of the brand in the past. Then brand equity dimensions were assessed. Subsequently, one of the two extension stimuli (Hotel services or Interior design, see Fig. 2)

![Figure 2: Example of stimulus](https://doi.org/10.15358/0344-1369_2013_2_91)
for an illustrative example) was presented as a short newspaper article. After exposure to the stimuli, the respondents were asked to indicate parent brand attitude in order to assess the hypothesized effect potentially induced by extension. Finally, participants answered a standard set of socio-demographic questions.

The initial sample contained 823 responses. Four respondents who did not provide demographic data and another 67 who did not possess the required minimum level of parent brand knowledge were excluded from the analysis. Thus, the final dataset comprised a total of 752 cases. The participants were roughly equally distributed across the various scenarios (Tab. 2). Details on the sample composition are given in Tab. 3. It is noteworthy that the majority of participants in our sample has a net income of more than 40,000 EUR at their disposal, with 14.3 % earning more than 80,000 EUR and 8.4 % even more than 120,000 EUR. As the results in Tab. 4 show, our respondents all consider the selected brands of this study to be luxury brands, but associate different degrees of luxuriousness with them (and thus confirm the opinions of brand managers in the luxury goods segment on which our selection was based). The results further show that 38 % of our respondents currently own and 42 % owned products of the selected luxury brands. Based on these results and the fact that the group of luxury consumers “is notoriously hard to access and difficult to persuade to participate in any survey” (Heine 2010a, p. 132), the sample of this research seems appropriate for the luxury context.

4.2. Measures and Measurement Properties

Conceptualization and items for measuring the brand equity dimensions were developed drawing on prior research in the brand equity and luxury brand equity literature. We adapted scales from the literature wherever possible and modified them to fit the needs of the current research, using multi-item 7-point Likert scales with anchors of 1 (=strongly disagree) and 7 (=strongly agree). Specifically, the functional dimension was represented by three items based on Valtin (2005) and Völckner/Sattler (2006). The hedonic dimension was assessed by three items based on Wiedmann/Hennigs/Siebels (2009) and Valtin (2005). To capture the prestige dimension, three items based on Heine/Trommsdorff (2010) and Valtin (2005) were employed. The affiliation dimension was based on Keller (2001). The uniqueness dimension was measured with two items adapted from Heine/Trommsdorff (2010) and Valtin (2005). Product-category fit was captured based on Keller/Aaker (1992), Roux (1995), Völckner/Sattler (2006) and Martínez/Pina (2010). In addition, category involvement was
## Table 5: Reliability and validity

<table>
<thead>
<tr>
<th>Scale/Item</th>
<th>Alpha</th>
<th>CR</th>
<th>AVE</th>
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</thead>
<tbody>
<tr>
<td><strong>PARENT BRAND EQUITY DIMENSIONS (pre-extension)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Functional Equity <em>(Valtin 2005; Völckner/Sattler 2006)</em></td>
<td>.95</td>
<td>.96</td>
<td>.90</td>
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<tr>
<td>- &lt;Parent Brand&gt; provides excellent functionality and performance.</td>
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<tr>
<td>- &lt;Parent Brand&gt; has a high quality.</td>
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<tr>
<td>- &lt;Parent Brand&gt; is reliable.</td>
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<td></td>
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<tr>
<td>Hedonic Equity <em>(Wiedmann/Hennigs/Seichts 2009)</em></td>
<td>.96</td>
<td>.95</td>
<td>.86</td>
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<tr>
<td>- &lt;Parent Brand&gt; is a way of rewarding myself.</td>
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<tr>
<td>- &lt;Parent Brand&gt; gives me pleasure.</td>
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<tr>
<td>- &lt;Parent Brand&gt; gives me a good feeling.</td>
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<tr>
<td>Prestige Equity <em>(Heine/Trommsdorff 2010; Valtin 2005)</em></td>
<td>.95</td>
<td>.95</td>
<td>.86</td>
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<tr>
<td>- &lt;Parent Brand&gt; helps me to demonstrate my achievements to myself and others.</td>
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<tr>
<td>- &lt;Parent Brand&gt; helps me to make a good impression on others.</td>
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<tr>
<td>With &lt;Parent Brand&gt; I can convey social status.</td>
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<tr>
<td>Affiliation Equity <em>(Keller 2001)</em></td>
<td>.94</td>
<td>.94</td>
<td>.85</td>
</tr>
<tr>
<td>- I can relate to other people who use &lt;Parent Brand&gt;.</td>
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<tr>
<td>- I feel like I almost belong to a club with other users of &lt;Parent Brand&gt;.</td>
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<tr>
<td>- &lt;Parent Brand&gt; is used by people like me.</td>
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<tr>
<td>Uniqueness Equity <em>(Heine/Trommsdorff 2010; Valtin 2005)</em></td>
<td>.82</td>
<td>.83</td>
<td>.71</td>
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<tr>
<td>- &lt;Parent Brand&gt; provides me with an opportunity to stand out.</td>
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<tr>
<td>- &lt;Parent Brand&gt; is something special that few other people have or like.</td>
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## EXTENSION-RELATED ATTITUDES

| Attitude Towards Extension *(Völckner/Sattler 2006)* | .97   | .97 | .91 |
| I like <Parent Brand> <Extension>. |
| - <Parent Brand> <Extension> is attractive. |
| - <Parent Brand> <Extension> is appealing. |
| Product-Category Fit *(Keller/Aaker 1992; Roux 1995; Völckner/Sattler 2006)* | .96   | .96 | .89 |
| - <Extension category> fits well with <Parent Brand>. |
| - <Extension category> is a logical extension for <Parent Brand>. |
| - <Extension category> should be offered by <Parent Brand>. |

## CONSUMER CHARACTERISTICS (control variable)

| Category Involvement *(Kopalle/Lehmann 2001; Laurent/Kapferer 1985)* | .93   | .93 | .82 |
| - I attach great importance to <Extension category>. |
| - <Extension category> interests me a lot. |
| - <Extension category> matters a lot to me. |

## Attitude Towards Luxury Brands *(Valtin 2005; Völckner/Sattler 2006)*

| Attitude Towards Luxury Brands | .95   | .95 | .86 |
| I like Luxury brands. |
| - Luxury brands are attractive. |
| - Luxury brands are appealing. |

## PARENT BRAND EQUITY (post-extension)

| Attitude Towards Parent Brand *(Valtin 2005; Völckner/Sattler 2006)* | .97   | .97 | .91 |
| I like <Parent Brand>. |
| - <Parent Brand> is attractive. |

*7-point Likert scales anchored at 1 = not at all and 7 = to an extreme extent.*

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**Albrecht/Backhaus/Gurzki/Woisetschläger, Value Creation for Luxury Brands through Brand Extensions**

Assessed with three items from Kopalle/Lehmann (2001) and Laurent/Kapferer (1985).

Attitude towards the extension was measured as the overall liking and appeal of the extension, similar to the brand attitude used by Völckner/Sattler (2006). Reciprocal effects of the parent brand image were conceptualized as overall attitude towards the brand, based on Völckner/Sattler (2006).

To account for potential biases arising from the different stimuli used in the study, dummy variables were created for five of the brands and one of the extensions. For similar reasons, involvement in luxury brands measured with a three-item scale based on Völckner/Sattler (2006) and brand ownership measured with one item were included in the model. Moreover, attitude towards luxury brands was measured by three items based on Valtin (2005) and Völckner/Sattler (2006). An overview of the scales used in the study is given in Tab. 5.

Concerning measurement reliability and validity, it can be noted that the coefficient alpha is greater than .7 for all examined constructs, a threshold generally proposed in the literature (Nunnally 1978). Also, composite reliabilities (CR) are larger than .6 for all constructs (Bagoski/H 1988). Discriminant validity was assessed using the criterion proposed by Fornell/Larcker (1981). The criterion was met since the average variance extracted (AVE) by each construct exceeded the squared correlations between all pairs of constructs. Therefore, reliability and validity of the constructs in this study are within acceptable boundaries and the proposed links in the conceptual model can be tested (see also Tab. 6). To diagnose for a potential common method bias (Podsakoff et al. 2003), model fit statistics resulting from a single factor model...
Table 6: Correlation matrix of model constructs

<table>
<thead>
<tr>
<th>Construct</th>
<th>Functional Equity</th>
<th>Hedonic Equity</th>
<th>Prestige Equity</th>
<th>Affiliation Equity</th>
<th>Uniqueness Equity</th>
<th>Product-Category Fit</th>
<th>Attitude Towards Parent Brand (post-extension)</th>
<th>Attitude Towards Luxury Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitude Towards</td>
<td></td>
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<td></td>
<td></td>
<td>0.68</td>
<td>0.41</td>
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<tr>
<td>Extension</td>
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<td></td>
<td></td>
<td></td>
<td>-0.81</td>
<td>0.34</td>
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<tr>
<td>Involvement Luxury Brands</td>
<td>0.62</td>
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<tr>
<td>Attitude Towards</td>
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Table 7: Analysis results

were compared with model fit results yielded by a competing model reflecting all relevant constructs individually (Homburg/Müller/Klarmann 2011). Results indicated that a common method bias does not seem to be a significant issue in the present study ($\Delta \chi^2(\text{d.f.} = 52) = 9473.11, p < .0001$).

4.3. Model results

At first, the global fit indices of the conceptual model (CFI = .943; TLI = .935; RMSEA = .055; SRMR = .077) indicate a good fit. Results of SEM show that attitude towards the extension is significantly influenced by functional brand equity ($\gamma = .120 (t = 1.659, p < .10)$), product-category fit ($\gamma = .408 (t = 11.750, p < .01)$), and category involvement ($\gamma = .242 (t = 6.103, p < .01)$). More so, the five drivers explain 61.8% of the variation of the construct. However, contrary to hypotheses H4 and H5, affiliation equity ($\gamma = .020 (t = 1.843, p > .10)$) and uniqueness equity ($\gamma = .012 (t = 0.285, p > .10)$) do not seem to be relevant drivers of attitude towards the extension.

Similarly, besides the type of extension category ($\gamma = .09 (t = 1.843, p > .10)$), none of the control variables included in the model emerged as a significant predictor of the dependent construct. With respect to $H_8$, results show that attitude towards the extension exerts a significant positive impact on attitude towards parent brand ($\beta = .239 (t = 7.319, p < .01)$) even after controlling for
all of the initially assessed parent brand equity dimensions (see also Tab. 7).¹

5. Discussion, Implications and Future Research

At first, results indicate that the predominant driver of luxury brand extension success is the fit between the parent brand and the extension category. While the importance of fit as a driver of extension success has been emphasized in the literature on brand extensions in general (Roux 1995; Voßknecht/Sattler 2006), the identified effect size of $\gamma = .408$ ($t = 11.750$, $p < .01$) leads to the assumption that extension success hardly can be reached if extension fit is not or only partially given.

With respect to parent brand equity, results reveal that the distinct dimensions of brand equity are of differential importance in explaining extension success in the context of luxury brands. Significant effects thereby could be found in case of three of the investigated five dimensions, namely functional, hedonic and prestige equity.

Notably, the most important brand equity dimension driving extension success is represented by hedonic equity. While the positive effect of hedonic equity is consistent with previous studies investigating the hedonic potential of luxury brands (Hagtvedt/Patrick 2009; Yeung/Wyer Jr. 2005), the relative importance shows that it is not functional but hedonic equity that allows luxury brands to stretch further (Keller/Aaker 1992).

Extension success of luxury brands is also influenced by the parent brand’s functional equity. While functional equity has been shown to have an impact on brand extension evaluation for non-luxury brands (Roux 1995; Voßknecht/Sattler 2006), it also contributes to extension success of luxury brands. It could be assumed that the provision of high quality core offerings is a precondition in the context of luxury brands and thus functional equity might not be relevant when expanding into new product or services categories. However, also the function of a brand in the context of luxury goods as a risk-reducing device and the reliability for its core products enables the brand to extend beyond its original scope.

The third significant determinant of luxury brand extension success is represented by the dimension of prestige equity. This dimension, in particular, is a brand equity facet which distinguishes luxury brands from non-luxury brands (Lye/Nenkateswarlu/Barrett 2001; Valtin 2005). Taking into account that there is substantial within-group variance when comparing prestige equity of different luxury brands, extension strategies work best in case of high prestige equity while luxury brands with a comparably low level of prestige equity might encounter problems when stretching their brands to offer foreign category products or services.

Affiliational and uniqueness equity do not significantly contribute to extension success in terms of attitude towards the extension. However, looking at the drivers of attitude towards the parent brand after having introduced the extension stimuli, a significant effect of uniqueness equity as a control variable can be witnessed ($\gamma = .082$ ($t = 2.071$, $p < .05$)). Uniqueness equity therefore should not be ignored as an important facet when stretching luxury brands to new categories: In fact, it is not prestige but uniqueness equity that contributes to parent brand attitude after extension exposure.

With respect to the role of the extension itself as a potential driver of parent brand equity and the stated reciprocal effect, results show that the consumer’s evaluation of the extension does indeed impact the perception of the parent brand. Given the observed magnitude of the effect and taking into consideration that initial brand attitude was controlled for in the study design, consumer’s attitudes towards luxury brands are heavily influenced by extension attitudes.² This leads to various implications for luxury brand managers. First, luxury brand managers should strategically assess and plan potential extension venues based on the success factors from our studies. This includes first and foremost an analysis of fit between extension category and parent brand, for example, by using established methodologies such as focus groups for product concept generation and evaluation. In addition, the parent brand’s capabilities in terms of functional, hedonic, prestige, and uniqueness equity should be assessed and managed, for example by highlighting these dimensions in the communication activities for the brand extension. By this means, extensions that are beneficial both for the extension itself but also for the parent brand can be implemented and dilutive spillover effects can be avoided.

Moreover, after having made a strategic decision based on the brand’s equity dimensions and capabilities as well as the fit to potential extension categories, operational success factors need to be considered. While our study focused on the strategic consumer-related dimensions, we believe that in the practical application of brand extensions further success factors would need to be consid-

¹ To test for effects of unobservable consumer heterogeneity, we estimated several latent class structural equation models in MPLUS 7. A two-class solution was derived from the analysis, in which the relationship between attitude towards the extension and attitude towards the parent brand is stronger for the first class of approx. 60 % of the sample ($b=48$, $p<.01$) and insignificant for the second class ($b=0.8$, $p>.1$). However, our post-hoc analysis of class-differences based on observable segment characteristics such as age, gender, and income only shows differences in income, which is slightly higher in the second class.

² To rule out the potential explanatory effect stemming from attitude towards the parent brand before the extension was introduced to the participants of our study, we ran a second model acknowledging the potentially confounding role of ‘attitude towards the parent brand’ (pre-extension). Results revealed a significant and positive effect, however, the effect originating from ‘attitude towards extension’ on ‘attitude towards parent brand (post-extension)’ remained significant and positive as well. We thank an anonymous reviewer for this advice.

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100 MARKETING · ZFP · Heft 2 · 2. Quartal 2013
ered to evaluate the commercial success of the extension. Key important drivers include market size, cannibalization degree with existing products and target groups, marketing expenditures, trade expenditures, control of distribution, partnering options or production costs (Völcker/ Sattler 2006).

As with all empirical studies, our model faces several limitations, which can be seen as avenues for further research. First, the model is limited to a few – yet central – strategic variables to explain extension success of luxury brands. In future research projects, the explanatory role of additional variables such as consumer characteristics could be assessed and the observed forward and backward effects should be analyzed in a real-life, longitudinally designed representative study including behavioral data. Furthermore, the investigation of moderator variables seems worthwhile, especially concerning the spillover link between attitude towards the extension and attitude towards the parent brand. Results of our latent class analysis show that this link is stronger in the first class of approx. 60% of the sample and insignificant in the second class. Future research should attempt to find explanatory variables for the observed consumer heterogeneity. In addition, the interplay and differential contribution to brand extension success between strategic variables (e.g., brand equity, fit) and operational variables (e.g., marketing expenditures, trade expenditures) could be analyzed to provide luxury companies further guidance on how to prioritize their resources, once the extension opportunities are evaluated. Finally, the predominant role of perceived product category fit seems to be a fruitful avenue for further research in the context of luxury brand extensions. Given that category fit implicitly entails the facet of transferability, referring to the perceived credibility a company possesses in terms of having the competence to produce and bring to market a product or service in the extension category (Aaker/Keller 1990), the role of psychological fit should be further evaluated. Specifically, the differential role of transferability and psychological fit, determined by the credibility of the connection a brand is able to evoke in an originally non-similar extension category (Broniarczyk/Alba 1994).

The appendix of this article can be downloaded on www.marketing-zfp.de, Appendices.

References


BWL – die praxisorientierte Einführung.


Von Prof. Dr. Marcus Oehlrich, Mannheim und Bad Homburg.

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