
ABSTRACT

The phenomenon of “masstige brands” has led many luxury brands to launch downward extensions, which come with the risk of diluting the parent brand. The goal of this study is to test the extent to which downward line extensions may impact a French luxury parent brand’s evaluation by U.S. consumers through the role of branding strategies, extension authenticity, and fit. Based on an ANOVA design, our results show that different branding strategies, such as direct, sub-branded, and/or independent/standalone line extensions, have different impacts on the level of dilution of the luxury parent brand. Specifically, an independent/standalone brand scores better for a downward extension than for a horizontal extension. The findings also reveal that extension authenticity and fit play a key role in the process. Theoretical and managerial implications are provided.

Keywords: luxury brands, downward extensions, spillover effect, extension authenticity, extension fit, branding strategies

The global personal luxury goods market exceeded US281 billion in revenue (at retail equivalent value) in 2015, following a third consecutive year of modest growth, with the U.S. at US79 billion accounting for 28.8% (Bain & Co., 2016). In addition, the luxury branding industry has become highly competitive in last decade (Ko, Phau, & Aiello, 2016). Because of changing economic factors, luxury firms no longer benefit from a favorable market and free-spending consumers. This situation has prompted the emergence of “masstige” brands, or luxury products that target the masses (Kapferer & Bastien, 2012). The progressive “democratization” of luxury and the ever-growing imitation of luxury-specific strategies by mass product manufacturers have implicitly initiated a potential erosion of the notion of “luxury” and its mystique.

Luxury is slowly becoming commonplace, and many luxury brand manufacturers have been tempted to tap into this luxury “mass market” as a means of increasing sales. One way for luxury manufacturers to achieve this goal is to launch downward line extensions to impact consumer categorization (Keaveney et al., 2012), which comes with the risk of diluting the parent brand (Magnoni & Roux, 2012). Thus, luxury executives have expressed legitimate concerns for their brand reputation, and have looked at options to attenuate this threatening risk factor. In this line of thinking, academic researchers have demonstrated an increasing interest in luxury marketing, which includes mass marketing of luxury goods and status.
consumption behavior in general (Truong, McColl, & Kitchen, 2009). Ultimately, the scope of this study is to investigate different factors that could attenuate the hazard and impact downward line extensions may have on a luxury parent brand, especially when sold in a different country. The main factor that has been identified in this study is the types of branding strategies that can be used when launching downward extensions.

For example, a key branding option that can be selected is a sub-brand (Tsai et al., 2014; Rahman & Areni, 2014). One of the best examples of a sub-brand has been “Courtyard” by Marriott or Vaio by Sony. In the non-luxury literature, the goal of a sub-brand is to entice in consumer’s mind a subtyping effect which in classic theory create a series of distinct brand associations (Weber & Crocker, 1983) isolating it from the main object (e.g. parent brand) linked to the sub-brand. The main question that remains is to which extent a sub-branded extension induces this sub-typing effect in a luxury brand context?

Another branding strategy is to create an independent/standalone line extension without reference to the parent brand (Aaker & Joachimsthaler, 2000; Rahman & Areni, 2014). An example of this is the product line “Clinique” launched by Estée Lauder. In this case, the reason behind the launch of “Clinique” was to avoid taking advantage of the equity associated with its parent brand to reduce potential negative spillovers on the Estée Lauder brand in the case of failure (He et al., 2016). However, specific effects of branding strategies have received limited attention in the brand/line extension literature (Milberg, Park, & McCarthy, 1997; Tsai et al., 2014; He, Qimei, Tam, & Lee, 2016) and most of the findings relates to non-luxury brands. Therefore, it has become imperative to investigate the contrasting effects of different types of branding strategies versus downward line extension and their impact on the reciprocal evaluation of a luxury parent brand.

In addition, one of the main factor associated to luxury brands and its consumers is the concept of authenticity (Beverland & Luxton, 2005; Beverland, 2005; Beverland, 2006; Cheah, Zainol, & Phau, 2016; Hitzler & Müller-Stewens, 2017). Crises in the economic world have changed attitudes and behaviors of luxury consumption and true luxury customers are looking for authenticity, purpose, and sustainability. Furthermore, if a luxury brand originates from a country such as France, but is distributed in the U.S. (Kapferer & Laurent, 2016), it becomes important to understand to what extent extension authenticity (Spiggle, Nguyen, & Caravella, 2012; Newman & Dhar, 2014; Moulard, Raggio, & Garrettson-Folse, 2016) may affect reciprocally spillover on a luxury parent brand sold in a different country of manufacture when a downward extension is launched. Previous studies have found that authenticity can be perceived as too commercial due to creative activities (Holt 2202), not
adapting to the true luxury consumers (Beverland, 2006), as linked to emotional attachment (Morhart et al., 2015), help pursue personal goals (Beverland & Farrelli, 2010), or relevant to brand identity, status and equity (Guevremont & Grohmann, 2016). In the luxury literature, authenticity have been investigated in terms of country-of-ingredients and brand attachment (Cheah, Zainol & Phau, 2016), the impact of integrated communications on authenticity (Beverland & Luxton, 2005), or antecedents of authenticity (Beverland, 2006).

Another important factor is the fit of the extension which has been long suggested to be key in assessing extensions (Aaker & Keller, 1990; Bottomley & Holden, 2001; Lau & Phau, 2007; Shen, Bei, & Chu, 2011; Huang, Yanli, & Wyer, 2017). The current study brings a novel view of authenticity and fit as it investigates these two factors from a branding strategies, vertical extension and reciprocal spillover effect point-of-view in a luxury context.

In short, and despite key theoretical and managerial implications, the current luxury literature does not provide enough empirical evidence to conclude about the effects those previously described factors may have on luxury parent brands. This study aims at closing those gaps in the literature by providing key answers to these important questions related to the dynamics behind consumer perceptions of “masstige” brands and the reciprocal impact on their parent brand. In short, the outcome of this study will help researcher better focus when investigating the phenomenon of downward extensions of luxury brands by expanding knowledge related to branding strategies, extension authenticity and fit as it relates to reciprocal spillover evaluation of parent brands.

In the upcoming sections, the extant literature is investigated, providing context of the study, research background and hypothesis development. The research method and analysis of the data are then described, followed by a discussion of the findings. The paper closes with theoretical and managerial implications, as well as limitations and directions for further research.

**CONTEXT OF THE STUDY VERSUS LUXURY BRANDS**

This study tests the consumer perceptions of a French luxury brand sold in the U.S. In the current literature, studies on county-of-origin effects have mainly measured the extent to which a product being distributed/manufactured in a specific country impacts preference. Research suggests that the perceived value of luxury appears to remain the same across countries, due to international standardized marketing strategies that lead to strong synergistic effects (Hennigs et al., 2012). Other studies have compared the same product category and
brands (i.e., cars) in multi-attribute evaluations, factoring in the country where they are manufactured (Johansson, Douglas, & Nonaka, 1985), country-of-origin versus consumer expertise (Maheswaran, 1994), the effect of product and non-product associations versus the affect towards the country-of-origin on evaluations (Chen, Mathur, & Maheswaran, 2014), or brand authenticity versus distribution location (Newman & Dhar, 2014). Newman & Dhar (2014) found that even when brand, retail value, and product appearance are invariant across conditions, differences in manufacturing location lead consumers to assign higher value to products manufactured in the company’s original factory.

Research also suggests that a product’s country-of-origin may have an affective meaning for consumers due to non-product-related exposure to the country and unrelated product stereotypes (Batra et al., 2000; Maheswaran & Chen, 2006; Newman & Dhar, 2014). Newman & Dhar (2014) found that products from a company’s original manufacturing location are perceived as containing the essence of the brand, where this belief in transferred essence leads consumers to view products from the original factory as more authentic than identical products made elsewhere.

Given that the U.S. is the largest personal luxury goods market by proportion (28.8% - Bain & Company, 2016), a better understanding of American luxury consumers is warranted. In this study, this notion is applied to luxury brands made in France and sold in the U.S. One country-of-origin study, which tested French consumers’ perception of American brands, can be found in the literature, but it was not done in the context of luxury brands (Russell, Russell, & Klein, 2011). Another study on attitude toward luxury, based on 20 countries, can be found in the literature (Dubois, Czellar, & Laurent, 2005). Although American consumers are part of the sample, and French brands, among others, were included in the study, there are no breakdowns allowing any conclusion of how Americans specifically perceived French luxury brands.

Finally, one cross-cultural research study (Kapferer & Laurent, 2016) found significant differences among consumers of seven different countries regarding perceptions of minimum prices for luxury products. The results show that American consumers perceived a lesser price for luxury watches than French consumers. In contrast, American consumers may recognize the value of a French luxury brand, but evaluate it less positively due to specific cultural perceptions of luxury brands versus American-made products (Dubois & Paternault, 1995).

However, no empirical test can be found in the literature pertaining to how U.S. consumers may react to a downward line extension of a French luxury brand versus the type
of branding strategies used, and the resulting reciprocal spillover effect on the parent brand. This paper attempts to close this gap in the luxury literature. The next section addresses the research background and development of hypotheses.

RESEARCH BACKGROUND AND HYPOTHESIS DEVELOPMENT

Reciprocal Effect, Downward Line Extensions and Branding Strategies
In a study on affective cues and brand extension evaluation, Nan (2006) concludes that, as the level of perceived congruity between the parent and the extension decreases, piecemeal processing is encouraged, and thus the attitude toward the extension through advertising increases. However, a limitation of that study is that the author did not consider the possible reciprocal spillover effect on the parent brand that could lead to dilution. In contrast, a stream of research has investigated the extent to which an extension affects the equity of the parent brand (Keller & Sood, 2003), where one tactic in extending a brand is to avoid “diluting” the parent brand’s equity, which can lead to negative effects (Milberg, Park, & McCarthy, 1997; Keller & Sood, 2003; Ng, 2010; Boisvert, 2012; Knapp, Hennig-Thurau, & Mathys, 2014). This is particularly true when the extension’s associations are considered inconsistent with the parent brand’s meaning and primary equity (Milberg, Park, & McCarthy, 1997; Roedder-John, Loken, & Joiner, 1998; Pullig, Simmons, & Netemeyer, 2006). However, other research suggests that parent brand dilution can also be caused by successful extensions (Sheinin, 2000).

In the case of vertical line extensions, the strategic goal is to create a contrast with the parent brand, using a quality differential positioning with a fundamental goal of targeting and attracting a new segment of customers. The inherent problem with this tactic is that the new extension has the potential to reciprocally spillover on the parent brand negatively by ostracizing the current customer base, especially for downward extensions (Kirmani, Sood, & Bridges, 1999; Kim, Lavack, & Smith, 2001; Boisvert, 2012; Pina, Dall'Olm Riley, & Lomax, 2013). According to prior research, the risk of “diluting” the parent brand’s equity occurs when the associations created for the new extension are inherently inconsistent (Milberg, Park, & McCarthy, 1997; Roedder-John, Loken, & Joiner, 1998; Pullig, Simmons, & Netemeyer, 2006).

The core brand dilution caused by line extensions can be explained by categorization and schema theories (Loken & Roedder-John, 1993; Milberg, Park, & McCarthy, 1997; Gürhan-Canli & Maheswaran, 1998). Two models underlie the phenomenon: sub-typing and
bookkeeping models (Weber & Crocker, 1983). According to Magnoni & Roux (2012), the bookkeeping model proposes that an inconsistent extension integrates with and modifies the existing schema (that is, the core brand). Here, consumers analyze all information about the extension, and the more inconsistent the extension is with the core brand, the more the core brand will be altered.

Although brand extensions, in general, might provide a way to increase brand awareness and brand familiarity, they can also damage a luxury brand image. Hagtvedt & Patrick (2009) emphasize the importance of understanding the drivers and limits of luxury brand extensions to avoid overextension, which could result in image dilution. More specifically, the authors noted that inefficient management of a luxury brand (such as inconsistent brand cues) results in a decrease in hedonic potential and diminished brand extension evaluation, and subsequently, the core brand evaluation.

These negative reciprocal spillover effects are more likely to occur in a strong manner for luxury brands, and thus deserve attention (Albrecht et al., 2013). However, limited research can be found in the luxury literature regarding reciprocal spillover effects of line extensions on the parent brand (Albrecht et al., 2013) led by downward extensions (Magnoni & Roux, 2012; Dall'Olmo-Riley, Pina, & Bravo, 2013; Goetz, Fassnacht, & Rumpf, 2014). More specifically, based on an analysis of variance, Goetz, Fassnacht, & Rumpf (2014) found that a prestige brand concept can be weakened in terms of positive social comparison effect and purchase intention after a far downward line extension. Similar results are suggested by Dall'Olmo Riley, Pina, & Bravo (2013). In both cases, distancing techniques, such as magnitude of price discount, were used but branding strategies were not. This limitation is addressed in the current study.

The use of vertical line extensions has been a prevalent growth strategy for fast moving consumer goods (Ambler & Styles, 1997) but also for luxury brands (Reddy et al., 2009; Dall'Olmo Riley, Pina, & Bravo, 2015). The main objective of a line extension is to leverage the equity of the core brand by launching new products sharing the same brand name. Furthermore, the brand concept (functional versus luxury) seems to have a compounding effect on the evaluation of a vertical line extension (Kirmani, Sood, & Bridges, 1999; Kim, Lavack, & Smith, 2001). Recent research, however, suggests that a simple dichotomy between functionality and luxury may not be adequate, since luxury brands vary on a continuum of prestige and price (Reddy et al., 2009; Truong, McColl, & Kitchen, 2009). In the case of a downward line extension, consumers may equate a lower price tag with lower quality, leading to brand image dilution.
The choice of branding strategy is likely to be a key factor in the development of any line extension, but specific effects of the branding strategy have received limited attention in the brand/line extension literature (Milberg, Park, & McCarthy, 1997; Tsai et al., 2014; He, Qimei, Tam, & Lee, 2016). Sood & Keller (2012) stated that branding strategies deserve greater attention in the study of parent brand spillover effects. In a study on extendibility of luxury brands, Veg-Sala & Roux (2012) reported in their research implications that, because of the potential damage an extension can cause to a luxury brand, the latter could develop a branding strategy by creating an independent/standalone brand, a sub-brand, or an umbrella brand. The current study intends to close this gap in the literature, since the effect of branding strategy will be tested at varying levels for each type of extension.

First, a direct branding strategy is defined as a new extension that is strongly linked to the parent brand’s name, colors, and/or symbols, which appears in a prominent position in the brand name (Milberg, Park, & McCarthhy, 1997; Tsai et al., 2014). Tsai et al. (2014) specifically found that the brand in the initial position of a brand label is perceived by consumers as more closely associated with and more responsible for the extension product (of the core brand) than the other brand in the alliance. A direct branding strategy may entice a bookkeeping effect, which posits that most of the information about the parent brand in the extension will be considered during evaluation of the extension (Rumelhart & Norman, 1978; Weber & Crocker, 1983). For a line extension of a luxury brand, the reciprocal spillover effect on the parent brand equity structure should be strong and a downward extension should be rated less positively than a horizontal extension. We thus propose and test the following hypothesis:

**H1:** A direct branded downward line extension will reciprocally impact attitude toward a French luxury brand less positively than a direct branded horizontal extension by U.S. consumers.

Second, a sub-brand is said to have a filtering effect on negative associations for dissimilar extensions, thus improving the evaluation of the extension (Milberg, Park, & McCarthy, 1997; Sood & Keller, 2012). The use of a sub-branding strategy is claimed to create a “distance” between the extension and the parent brand (Milberg, Park, & McCarthy, 1997; Kim et al., 2001). This is consistent with the sub-typing effects, where individuals automatically categorize those uncharacteristic target objects using a distinct set of beliefs.
(Taylor, 1981; Sujan & Bettman, 1989; Rahman & Areni, 2014) while keeping some characteristics of the parent brand (Kirmani, Sood, & Bridges, 1999).

According to Sood & Keller (2012), in a non-luxury context, whereas family branding consistently resulted in similar extensions being appraised more favorably by consumers than dissimilar extensions, sub-branding neutralized these category similarity effects by inducing a subtyping strategy (Weber & Crocker, 1983; Sujan & Bettman, 1989). They also suggest that, in terms of reciprocal spillover effects, sub-branding allegedly sends a credible signal to consumers that helps neutralize negative attributions and distinguish failure from the parent brand. Monga & Roedder-John (2010) suggest that luxury brands are more extendible than functional brands, and that sub-brands will be accepted by types of luxury buyers because such branding strategy can reciprocally affect the parent brand as strongly as a direct brand. We thus propose and test the following hypothesis:

**H2:** A new sub-branded line extension will reciprocally impact attitude toward a French luxury parent brand similarly to a direct branded extension by U.S. consumers.

Finally, in the case of an independent/standalone brand used for the extension, a completely new brand is created to “separate” it from the parent and avoid creating any possible reference to the original brand (Rahman & Areni, 2014). The authors posit that when the congruity of the brand positioning strategy and the fit of the new product category are both low, the development of a completely new brand (or independent/standalone brand as labeled in this paper) with no association to the core brand is a relevant option. However, Rahman & Areni (2014) is based on research propositions with no empirical tests. Aaker & Joachimsthaler (2000) observe that an independent/standalone brand is either not connected to the parent brand (e.g., Saturn & GM,) or shadowed by it (e.g., Lexus & Toyota). The goal of this study is to have consumers perceive the independent/standalone extension brand as being launched by another firm unrelated to the original parent brand. We expect this relationship to be key for a luxury brand when launching a downward extension and an independent/standalone extension should be perceived more strongly than a direct brand. We thus propose and test the following hypothesis:

**H3:** A new independent/standalone downward line extension will reciprocally impact attitude toward a French luxury brand more positively than a direct branded extension by U.S. consumers.

**Reciprocal Spillover Effects, Extension Authenticity, and Extension Fit**
Luxury manufacturers are now confronted by a careful balance between brand exclusivity and globalization of luxury brands (Tynan, McKechnie, & Chhuon, 2010). Originally associated with a lifestyle of excess, indulgence, and the unnecessary (Dubois, Czellar, & Laurent, 2005), luxury brands must now deploy sustainable strategies as part of their essence (Davies, Lee, & Ahonkhai, 2012). In this context, luxury firms must address the concept of authenticity and manage it with care to avoid diminishing it in the long term.

In the luxury sector, authenticity is a socially fashioned interpretation of the essence of what is observed, honestly executed, and what is perceived by consumers to be handcrafted by artisans instead of the inherent properties of an object (Beverland, 2005, 2006). Holt (2002) suggests that creative activities of authentic brands run the risk of lessening themselves if they are perceived as too commercial. They must instead appear detached from commercial considerations. This is even more true for luxury brands which attempt to launch downward line extensions. Beverland (2006) addressed this important issue and noted that many luxury manufacturers seem to adopt the commercial view that consumers must adapt to the product rather than the other way around, which goes against the very principle of authenticity.

Several definitions of brand authenticity can be found in the literature. Brand authenticity can be defined as a subjective evaluation of genuineness ascribed to a brand by consumers (Napoli et al., 2014). It is also defined as “a brand is true to itself and maintains its essential core,” which also affects its acceptance in the marketplace (Spiggle, Nguyen, & Caravella, 2012), and has a positive effect on brand attitude (Ewing, Allen, & Ewing, 2012) and on emotional brand attachment (Morhart et al., 2015). Brand authenticity can also be defined as “the perceived consistency of a brand’s behavior that reflects its core values and norms, according to which it is perceived as being true to itself” (Fritz, Schoenmueller, & Bruhn, 2017, p. 327). Alternatively, for a brand to be authentic it must be honest, real, and genuine through its sincerity, quality commitment, and connection to heritage (Beverland, 2006; Gilmore & Pine, 2007; Alexander, 2009; Napoli et al., 2014; Guevremont & Grohmann, 2016).

Morhart et al. (2015) noted that any authentic brand is not only dependable but truly cares for its customers, contributes to the definition of their identity, and remains dependable over time. In the end, brand authenticity is relevant to a brand’s identity, status, and equity (Guevremont & Grohmann, 2016). Furthermore, consumers actively seek authenticity to find meaning in their lives, in line with the associated personal goals or self-relevant objectives.
people pursue in their daily lives (Beverland & Farrelly, 2010). End-consumers do not seek authenticity in fake and false products but are, instead, looking for elements that are genuine, real, and true in their consumption experiences (Grayson & Martinec, 2004; Rose and Wood, 2005, Arnould & Price, 2000). Surprisingly, the concept of authenticity has received limited attention in the luxury literature (Beverland & Luxton, 2005; Beverland, 2005; Beverland, 2006; Cheah, Zainol, & Phau, 2016) despite its crucial importance. The current study not only addresses this situation, but tests the authenticity factor and how it can be affected by a downward extension and branding strategies in their reciprocal spillover effect on the parent brand. In the luxury literature, however, little is known about the complementary role of extension authenticity, and the extent to which vertical extensions and branding strategies may reciprocally spillover on the parent brand. We thus propose and test the following hypothesis:

**H4:** An extension’s authenticity will significantly affect the impact of an extension’s vertical direction and branding strategies used on the reciprocal attitude toward a French luxury brand by U.S. consumers.

In terms of extension *fit*, a good number of studies addressing consumers’ reactions to brand/line extensions have examined the rapport between parent brands and extensions using the notion of *fit* (Bottomley & Holden, 2001; Völckner & Sattler, 2007). An extension’s fit with the parent brand is considered a determining factor in brand extension success (Aaker & Keller, 1990; Lau & Phau, 2007; Shen, Bei, & Chu, 2011; Huang, Yanli, & Wyer, 2017). Brand/line extension fit is defined as the perceived similarity and relevance of parent brand associations (i.e., attributes or benefits) for the extension category (Aaker & Keller, 1990; Boush & Loken, 1991; Broniarczyk & Alba, 1994; Bottomley & Holden, 2001; Völckner & Sattler, 2007). More specifically, the more similar a brand/line extension is with the parent brand, the more positively consumers will evaluate the extension within the same category (Aaker & Keller, 1990; Boush & Loken, 1991; Herr, Farquhar, & Fazio, 1996). In contrast, a low-fit extension can be detrimental to the parent brand, especially if the information is emphasized in communications (Bambauer-Sachse, Hüttl, & Gierl, 2011).

Most studies found that consumers accept brand extensions that have a high fit with the parent brand image (e.g., Bottomley & Holden, 2001; Martinez, Polo, & de Chernatony, 2008; Lane & Fastoso, 2016). Research shows that high-fit extensions are predisposed to spillover (Keller & Aaker, 1992; Loken & Roedder-John, 1993; Gürhan-Canli & Maheswaran, 1998). Furthermore, high fit between extension and parent brand leads to a
positive reciprocal spillover effect while improving parent brand evaluation (Lane & Fastoso, 2016). In contrast, low-fit extensions can harm the parent brand through negative evaluative spillover and lower parent brand evaluation (Martínez, Polo, & de Chernatony, 2008; Buil et al., 2009; Iversen & Hem, 2011). In the case of a low-fit downward extension, unwanted parent brand dilution will occur (Kirmani, Sood, & Bridges, 1999; Kim, Lavack, & Smith, 2001; Boisvert, 2012; Pina, Dall’Olmo Riley, & Lomax, 2012).

Although brand extension research has primarily focused on identifying the factors, such as fit, that define successful brand extensions, other studies have also considered the impact of extensions on the parent brand (Loken & John, 1993; Roedder-John, Loken, & Joiner, 1998). Further, research shows that an extension may affect the equity of the parent brand, while at the same time the tactic of extending a brand is also to avoid “diluting” the parent brand’s equity, and leading to negative effects (Milberg, Park, & McCarthy, 1997; Roedder-John et al., 1998; Keller & Sood, 2003; Pullig, Simmons, and Netemeyer, 2006; Ng, 2010). This risk, however, exists if the extension’s associations are considered inconsistent with the parent brand’s core equity (Milberg, Park, & McCarthy, 1997; Roedder-John et al., 1998; Pullig, Simmons, & Netemeyer, 2006). However, research also suggests that parent brand dilution is not only caused by unsuccessful extensions (Sheinin, 2000).

When it comes to vertical line extensions (e.g., horizontal vs. downward), the goal is to create a quality/prestige differential to target new customer segments (Kirmani, Sood, & Bridges, 1999; Lei, de Ruyter, & Wetzels, 2008; Boisvert, 2012). The issue with this tactic is that the new vertical extension has the potential to reciprocally spillover negatively on the parent brand and alienate the current customer base (Kirmani, Sood, & Bridges, 1999; Kim et al., 2001). Extension fit must be seen as a complement to authenticity in explaining consumer reactions to brand extensions (Spiggle, Nguyen, & Caravella, 2012). In the luxury literature, similar to the notion of authenticity, limited empirical research has tested the role of extension fit and how vertical extensions and branding strategies may reciprocally spillover on the parent brand. We thus propose and test the following hypothesis:

**H5:** An extension’s fit will significantly affect the impact of an extension’s vertical direction and branding strategies used on the reciprocal attitude toward a French luxury brand by U.S. consumers.

**METHOD**
Based on the goal of this study, an ANOVA design was established based on 2 line extensions (horizontal/downward) x 3 branding strategies (direct brand/sub-brand/independent-standalone brand), resulting in 6 randomly assigned experimental cells within the United States.

**Sampling Procedures and Data Collection**

The data collection was conducted over a two-week period through a large private commercial online database (sample frame) using participants in the United States. In the literature, an increasing number of academic studies have been published in top marketing journals using online sampling procedures (Yang & Peterson, 2004; Chernev, 2006; Völkner et al., 2010; Mimouni-Chaabane & Volle, 2010; Boisvert, 2012; Balabanis and Siamagka, 2017).

A total of 960 respondents drawn from the U.S. population (randomly assigned to each of the 6 cells - 160 subjects per cell) took part in an online study based on the following demographics: at least 50,000 USD income and 25 years of age, education, and a 50-50 proportion of gender. They were also asked if they had purchased a luxury product in the previous year. A breakdown of the demographics can be found in Table 1.

**Table 1: Demographics**

<table>
<thead>
<tr>
<th>Education</th>
<th>N</th>
<th>%</th>
<th>Age Group</th>
<th>N</th>
<th>%</th>
<th>Income</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary</td>
<td>11</td>
<td>1.1</td>
<td>25 to 34 yrs</td>
<td>106</td>
<td>11.0</td>
<td>$50,000 to $74,999</td>
<td>452</td>
<td>47.1</td>
</tr>
<tr>
<td>High Secondary</td>
<td>49</td>
<td>5.1</td>
<td>35 to 44 yrs</td>
<td>211</td>
<td>22.0</td>
<td>$75,000 to $99,999</td>
<td>282</td>
<td>29.4</td>
</tr>
<tr>
<td>College / Some college</td>
<td>132</td>
<td>13.8</td>
<td>45 to 54 yrs</td>
<td>158</td>
<td>16.5</td>
<td>$100,000 and more</td>
<td>226</td>
<td>23.5</td>
</tr>
<tr>
<td>University – Undergraduate</td>
<td>162</td>
<td>16.9</td>
<td>55 to 64 yrs</td>
<td>230</td>
<td>24.0</td>
<td>Total</td>
<td>960</td>
<td>100.0</td>
</tr>
<tr>
<td>University – Graduate</td>
<td>179</td>
<td>18.6</td>
<td>65 to 74 yrs</td>
<td>230</td>
<td>24.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University – Post Graduate</td>
<td>200</td>
<td>20.8</td>
<td>More than 75 yrs</td>
<td>25</td>
<td>2.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>227</td>
<td>23.6</td>
<td>Total</td>
<td>960</td>
<td>100.0</td>
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An initial request for participation was sent to thousands of potential participants, and, after eliminating straight-liners (halo effect), those who agreed to participate led to a total of 480 questionnaires completed. Respondents were then randomly assigned to each of the 6 experimental cells (quota of 80 subjects per cell). The breakdown of line extensions (horizontal/downward), and branding strategies (direct brand/sub-brand/independent-standalone brand) was evenly dispersed based on the research plan.

**Questionnaire Design and Stimuli Development**
Based on the objectives of the study, a 6-cell experiment was developed using a 2 x 3 ANOVA design (2 types of vertical extension x 3 types of branding strategies), leading to 6 separate questionnaires. An initial pretest of eighty randomly selected respondents with equal proportions of men and women was conducted to ensure proper questionnaire design and semantics of questions. No issues were identified as a result of the pretest.

Regarding the selection of an adequate luxury brand for the study, and to control for any “brand effect,” a literature search suggested that “Cartier” is one of the luxury brands with the highest unaided awareness among both men and women (Kapferer, 2009; Geiger-Oneto, 2013). The pretest also revealed a high level of awareness of the luxury brand “Cartier” among respondents. In addition, a separate pretest revealed that watches as a product category are not gender-specific, which led to the selection of the luxury brand “Cartier” watches as the main brand stimulus.

Based on the goal of this study and high familiarity with the main brand name tested, stimuli development was done by using semantic descriptions. In the past, many studies have used semantic descriptions in tested stimuli (Jo, 2007; Sood & Keller, 2012; Goetz, Fassnacht, & Rumpf, 2014). Tables 2a and 2b contain samples of the different semantic descriptions used as stimuli for each line extension questionnaire.

**Table 2a: Example of New Extension Descriptive (luxury downward extensions)**

<table>
<thead>
<tr>
<th>Branding strategies</th>
<th>Semantic Description</th>
</tr>
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<tbody>
<tr>
<td>Direct branded</td>
<td>The French luxury watch maker <strong>CARTIER</strong> intends to launch a non-luxurious watch for women branded “Cartier’s QuartzPlus.” This new watch is a “Casio-type” low cost watch for women (men).</td>
</tr>
<tr>
<td>Sub-branded</td>
<td>A luxury watch maker (a small division of Cartier outside France) intends to launch a new non-luxurious watch for women branded “QuartzPlus.” This new watch is a “Casio-type” low-cost watch for women (men).</td>
</tr>
<tr>
<td>New/standalone brand</td>
<td>A French luxury watch maker (a Cartier direct competitor) intends to launch a new non-luxurious watch for women branded “QuartzPlus.” This new watch is a “Casio-type” low-cost watch for women (men).</td>
</tr>
</tbody>
</table>

**Table 2b: Example of New Extension Descriptive (luxury horizontal extensions)**

<table>
<thead>
<tr>
<th>Branding strategies</th>
<th>Semantic Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct branded</td>
<td>The French luxury watch maker <strong>CARTIER</strong> intends to launch a new top-of-the line watch for women branded “Cartier’s Ultimate.” This new watch is the best in women’s luxury.</td>
</tr>
<tr>
<td>Sub-branded</td>
<td>A luxury watch maker (a small division of Cartier outside France) intends to launch a new top-of-the line watch for women branded “Ultimate.” This new watch is the ultimate in women’s luxury.</td>
</tr>
<tr>
<td>New/standalone brand</td>
<td>A French luxury watch maker (a direct competitor of Cartier) intends to launch a new top-of-the line watch for women branded “Ultimate.” This new watch is the best in women’s luxury.</td>
</tr>
</tbody>
</table>

**Measures**
For the measurement of the constructs, we drew on well-established scales used in the literature and adapted them to our research context. For the dependent variable, the rating of attitude toward the parent brand, after extension, was based on a frequently used 3-item, 7-point bipolar horizontal scale, which included the following bipolar adjectives: bad/good, dislike/like, and not favorable/favorable. The Cronbach’s reliability index was high (α = .96), well above the suggested rule-of-thumb threshold of .70 (Hair et al., 2009).

**Covariates** Following a review of the literature, extension “fit” and “authenticity” were found to be relevant covariates in the assessment of extensions. Perceived fit was assessed following Aaker & Keller (1990) with three bipolar horizontal seven-point scales. The question used was: *After reading about the above new extension’s description, to which extent would you say that the extension is, on a scale of 1 to 7 (for each of the following pairs of adjectives): 1- bad fit for the parent brand - good fit for the parent brand, 2- not at all logical for the parent brand - very logical for the parent brand, and 3- not at all appropriate for the parent brand - very appropriate for the parent brand, where higher scores indicate greater fit perceptions.*

The measure of authenticity was based on Spiggle, Nguyen, & Caravella (2012), who found that authenticity is a key complementary factor to fit in extension success. Authenticity was thus included as a covariate in the analysis of variance. In this case, a reduced set of items of their authenticity construct was used and adapted to this research context. The following question and statements were used: *After reading the description of the extension, to what extent do you agree or disagree with each of the following statements on a scale of 1 (strongly disagree) to 7 (strongly agree):*

1. The standards of the brand Cartier are apparently conveyed by the extension.
2. The style of the “extension” seems to reflect that of the CARTIER brand.
3. The extension appears to reflect the quality I associate with the CARTIER brand.
4. The extension appears to connect with what I know about CARTIER’s origins.
5. There is a link between the extension and what I know about CARTIER’s legacy.
6. The CARTIER brand seems to have preserved its roots with the extension.
7. The extension is consistent with the image of the CARTIER brand.
8. The extension preserves what the CARTIER brand means to me.
9. The extension captures what makes the CARTIER brand unique to me.
10. The extension likely does not trade off the essence of the CARTIER brand for profit.
11. The extension does not sacrifice what makes the CARTIER brand special for commercial gain.
Data Analysis and Results

Upon receipt of the final survey data, the data of the ANOVA design was analyzed using SPSS v24. The results displayed in Table 1 show not only that each factor under investigation is highly significant (≥ .01), but in addition, a key two-way interaction (≥ .05) between vertical directions and branding strategies was revealed. Results can be found in Table 3 and interaction effects are illustrated in Figures 1a and 1b.

Table 3. Analysis of Variance: Tests of Between-Subjects Effects

<table>
<thead>
<tr>
<th>Source</th>
<th>Type III Sum of Squares</th>
<th>df</th>
<th>Observed Power</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrected Model</td>
<td>302.37</td>
<td>6</td>
<td>50.39</td>
<td>29.15</td>
<td>.000</td>
</tr>
<tr>
<td>Intercept</td>
<td>1714.25</td>
<td>1</td>
<td>1714.21</td>
<td>991.55</td>
<td>.000</td>
</tr>
<tr>
<td>Fit Ext (covariate)</td>
<td>268.00</td>
<td>1</td>
<td>268.00</td>
<td>155.02</td>
<td>.000</td>
</tr>
<tr>
<td>Authenticity (covariate)</td>
<td>25.28</td>
<td>1</td>
<td>25.28</td>
<td>14.88</td>
<td>.000</td>
</tr>
<tr>
<td>Vertical</td>
<td>17.08</td>
<td>1</td>
<td>17.08</td>
<td>9.88</td>
<td>.002</td>
</tr>
<tr>
<td>Branding</td>
<td>14.20</td>
<td>2</td>
<td>7.10</td>
<td>4.11</td>
<td>.017</td>
</tr>
<tr>
<td>Vertical * Branding</td>
<td>10.61</td>
<td>2</td>
<td>5.30</td>
<td>3.07</td>
<td>.047</td>
</tr>
<tr>
<td>Error</td>
<td>1647.61</td>
<td>952</td>
<td></td>
<td>1.73</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>29381.22</td>
<td>960</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrected Total</td>
<td>1949.97</td>
<td>959</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent variable: attitude toward the parent brand (after extension).
Figure 1a: Interaction effects between branding strategies and types of extensions

Figure 1b: Interaction effects between types of extensions and branding strategies
The first hypothesis (H1): stipulates that a direct branded downward line extension will reciprocally impact attitude toward a French luxury brand less positively than a direct branded horizontal extension by U.S. The results displayed in Table 1 show that the overall effect of branding strategies and interaction with vertical direction is significant ($F = 3.07, p \leq .05$). A further T test also revealed a significant difference between the two types of extensions ($t = 3.49, p \leq .01$). H1 is thus supported. A summary of the hypotheses and statistical results is described in Table 4.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationship</th>
<th>DV</th>
<th>Results*</th>
<th>Support</th>
</tr>
</thead>
</table>
| H1         | Direct branded downward extension < Direct branded downward extension | Att. toward luxury P.B. (after ext.) | $F = 3.07, p \leq .05$  
$t = -3.49, p \leq .01$ | Supported |
| H2         | Sub-branded extension = direct branded extension | Att. toward luxury P.B. (after ext.) | $F = 4.11, p \leq .05$  
$t = .18, p = ns$ | Supported |
| H3         | Standalone downward line extension > Direct branded downward extension | Att. toward luxury P.B. (after ext.) | $F = 3.07, p \leq .05$  
$t = 2.10, p \leq .05$ | Supported |
| H4         | Authenticity of the ext. (covariate) | Att. toward luxury P.B. (after ext.) | $F = 14.88, p \leq .001$ | Supported |
| H5         | Fit of the ext. (covariate) | Att. toward luxury P.B. (after ext.) | $F = 155.02, p \leq .001$ | Supported |

*: see also Table 3

H2 proposes that a new sub-branded line extension will reciprocally impact attitude toward a French luxury parent brand similarly to a direct branded extension by U.S. consumers. The results displayed in Table 1 show that although the overall effect of branding strategies is significant ($F = 4.11, p \leq .05$), a further t-test reveals a non-significant difference between the two types of extensions ($t = .18, p = ns$). H2 is thus supported.

The third hypothesis (H3) states that a new independent/standalone downward line extension will reciprocally impact attitude toward a French luxury brand more positively than a direct branded extension by U.S. consumers. The results displayed in Table 3 show a significant interaction between the branding strategies and the vertical directions ($F = 3.49, p \leq .05$). A further t-test also revealed a significant difference between the two types of extensions ($t = 2.10, p \leq .05$). H3 is thus supported.

H4 suggests that an extension’s authenticity will significantly affect the impact of an extension’s vertical direction and branding strategies used on the reciprocal attitude toward a French luxury brand by U.S. consumers. The results displayed in Table 3 show that extension authenticity assessed as a covariate has a significant effect ($F = 14.88, p \leq .001$). H4 is thus supported. The last hypothesis (H5) proposed that An extension’s fit will...
significantly affect the impact of an extension’s vertical direction and branding strategies used on the reciprocal attitude toward a French luxury brand by U.S. consumers. The results displayed in Table 3 show that extension fit included as a covariate has a significant effect on the experimental model ($F = 155.02, p \leq .001$). H5 is thus supported.

**DISCUSSION**

In recent years, many luxury brand manufacturers have been tempted to launch downward line extensions aimed at the mass market. The reason behind these tactics has been to use their established brand names in a competitive chase to cash-in on potential consumers in market segments ready to purchase “affordable” luxury brands that would otherwise not be possible for them. This, of course, leads luxury brand manufacturers to tap into a significant volume of additional sales. Strategically, the main question has been to what extent such relatively low-cost extension strategies can be carried out commercially without affecting the core brand. This research examined and empirically tested how downward line extensions may influence U.S. consumers’ evaluation of a French luxury parent brand through the filtering of branding strategies, taking into consideration the roles of extension authenticity and fit.

The findings show that, in the context of the U.S. market, the use of a downward line extension of a French luxury brand with a direct branding strategy, as compared to a direct branded horizontal extension, greatly exposes the parent brand, and the reciprocal spillover on the French luxury parent brand “Cartier” is negative. It is clear based on the findings that the use of a direct brand when launching a downward line extension is a dangerous move, as the luxury parent brand will see a dilution of its equity that may end up being permanent.

Because of the just described inherent risk underlying the use of a direct brand, some have suggested the creation of a sub-brand instead (Milberg, Park, & McCarthy, 1997; Sood & Keller, 2012). Authors argue that a sub-brand launched in the context of non-luxury brands entices sub-typing effects, where individuals automatically categorize those uncharacteristic target objects using a distinct set of beliefs (Taylor, 1981; Sujan & Bettman, 1989; Rahman & Areni, 2014). However, we hypothesized that this effect may not hold for a luxury brand because of the perceptual velocity created by the presence of the parent brand’s name in a sub-brand. The results found in the current study are important, as they confirm this theoretical assumption, and show that a sub-brand has a similar reciprocal spillover effect to the one obtained by a direct-brand. Therefore, when launching a downward line extension of
a well-known French luxury parent brand in the U.S., the use of direct and sub-brands lead to a similar effect, as opposed to what has been suggested in the non-luxury brand literature.

In addition to the previous branding strategies, this research also tested the effect of an independent/standalone line extension that has no reference whatsoever to the luxury parent, which eliminates the risk of the reciprocal spillover effect (Aaker & Joachimsthaler, 2000; Rahman & Areni, 2014). The current research also found that when U.S. consumers are exposed to a new independent/standalone downward line extension of a French luxury brand, the reciprocal spillover by U.S. consumers on the luxury parent brand is significantly more positive than a direct brand, likely due to the novel effect of the new extension (Keller, 2009). These findings clearly show that when a decision to launch a downward line extension becomes imminent, a luxury manufacturer should opt for an independent/standalone brand, as it eliminates the risk of negative reciprocal spillover perceptions on the parent brand.

The goal of the study included the concurrent effect of an extension’s authenticity and fit in the model to provide additional theoretical and managerial arguments to reinforce the assumptions with regards to the roles of vertical extensions versus branding strategies. This study also contributes to a better understanding of brand authenticity for luxury brands within the dynamics of this study. Previous studies have explored authenticity as being perceived too commercial due to creative activities (Holt (2202), as not adapting to the true luxury consumers (Beverland, 2006), linked to emotional attachment (Morhart et al., 2015), help pursue personal goals (Beverland & Farrelli, 2010), or relevant to brand identity, status and equity (Guevremont & Grohmann, 2016). In the context of luxury, authenticity have been investigated in terms of country-of-ingredients and brand attachment (Cheah, Zainol & Phau, 2016), the impact of integrated communications on authenticity (Beverland and Luxton, 2005), or antecedents of authenticity (Beverland, 2006).

The results show that when a luxury brand launches a new vertical line extension (horizontal and/or downward), measuring the covariation effect of the extension authenticity and fit contributes to the significance of the experimental factors. Moreover, the study confirms that both extension authenticity and fit must be assessed concurrently (Spiggle, Nguyen, & Caravella, 2012) leading to obtain reliable reciprocal spillover effects on a French luxury parent brand sold in the U.S. The findings also revealed that the fit and the authenticity of the extension should always be considered when branding strategies are used in investigating reciprocal spillover effects of vertical extensions. In the past, line extension has been mainly examined to assess the impact of a parent brand on the extension and most of the time in the
non-luxury sector. The current study has shown evidence that the concept of fit is as important in exploring spillover effects in a luxury context.

Finally, the relatively scant research on the reciprocal spillover effect of vertical line extensions on a luxury parent brand has not considered the extent to which consumers evaluate downward line extensions using different branding strategies and the role of extension authenticity and fit. This study is important as it contributes to closing a series of important gaps in the literature with respect to the reciprocal spillover effect of downward line extensions versus branding strategies from a luxury brand perspective. It provides new knowledge leading to a better understanding of the effects of downward vertical line extensions on a French luxury brand sold in the U.S. through the findings that show significant interaction effects between branding strategies and the vertical direction of the extension when extension authenticity and fit are considered as covariation factors. It is therefore important to not rely on the vertical extension point-of-view exclusively, as other research has done, but to also consider the complex question of how branding strategies can reciprocally spillover on the luxury parent brand, as well as the extent to which the brand’s country-of-origin, and the authenticity and fit of the extension impact marketing decisions in different countries.

Managerial Implications

Luxury brand manufacturers must analyze with care the decision to launch a downward line extension, as decisions based only on possible additional sales could fail to consider potential reciprocal spillover effects on the parent brand. A downward line extension is likely to turn into a risky and conceivably fatal decision regarding the core brand’s equity if branding strategies are not carefully planned in the process. This study found that the use of a sub-branded line extension is quite risky, as it would dilute the parent brand in the same way as a direct branded line extension, contrary to previous beliefs.

In this case, an independent/standalone line extension will help decision makers avoid a risky dilution of the luxury parent brand if the long run is considered in terms of product line diversification. What this means is that, to protect the parent company’s brand equity, a new/standalone brand represents the creation of a completely distinct strategic business unit that would have to be managed without making any reference to the parent corporation. However, decision makers must assess the balance between investment and potential income generated by such new line extensions. In the current erosion of the classic high-end luxury
market and the trend of launching “masstige” brands, any decision to launch a new independent/standalone would be better than launching a direct and/or sub-brand.

**Limitations and Directions for Future Research**

Additional questions remain in terms of launching downward line extensions of luxury brands. First, our study covers a French luxury brand as viewed by U.S. consumers. It would be interesting to know how a French luxury brand is perceived in other countries using the same dynamics of downward extensions, branding strategies, authenticity, and fit. Other luxury brands, as well as other luxury categories, could be included. Second, different versions of downward extensions could be experimentally tested using close, medium, and distant versions. Finally, the effects of gender and socio-demographic factors versus cross-national influences could also be tested.
REFERENCES


