Success Drivers for Vertical Brand Extensions in the Luxury Sector

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Abstract

In today’s competitive environment, the ability to successfully launch new products at reasonably costs is considered a key success factor for leading brand manufacturers, which is why vertically leveraging existing brands becomes more significant. This is particularly exhibited by the luxury sector, which is increasingly attempting to launch new accessible product lines under an existing brand name in order to reach a larger consumer base and consequently increase profits and sales. Even though the importance of vertical brand extensions is increasing, the high amount of failed extensions highlights the importance to understand what determines a successful brand extension. In order to address this issue, the purpose of this study is to describe success drivers for vertical brand extensions in the luxury sector and to further craft a model depicting the relationship between success drivers and effects of vertical brand extensions. In this context, a theoretical framework combining positive and negative effects as well as internal and external success drivers for vertical brand extensions in the luxury sector is developed. A qualitative case study incorporating eleven interviews in four luxury goods companies is built upon a pre-study with a leading strategic management consultancy. The findings from the case study are compared and contrasted within the theoretical framework in a combination of within- and cross-case analysis making it possible to identify and complement the major elements of the theoretical framework in practice. In this regard, the positive effects are composed of financial contribution, increase of brand awareness, reinforcement of brand image, revitalisation/repositioning and consumer development, while the negative effects consist of brand cannibalisation, tarnishing of brand prestige, dilution of brand image and negative feedback effects among existing consumers. Building up on these effects, the internal success drivers defined are legitimacy, strategic marketing abilities and operative marketing abilities, while the external success drivers are parent brand strength, conceptual fit, brand concept consistency and risk evaluation. With regard to the relationship between success drivers and effects of vertical brand extensions, a bilateral connection between both domains is observed, since success drivers are not only derived from the effects, but in turn also shape the effects. Furthermore, empirical evidence suggests that the newly developed domain of framework conditions, including company-, industry- and country-specific characteristics, takes high influence on both effects and success drivers. These findings are eventually depicted by a theoretically anchored and empirically guided model, which allows the authors to describe success drivers of vertical brand extensions in the luxury sector in detail and to visualise the relationship between success drivers and effects.

Key words: vertical brand extension, brand transfer, brand stretch, luxury marketing, brand management
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ABS  Antilock Braking System
ESP  Electronic Stability Programme
GWP  Gift with Purchase
POS  Point of Sales
1. Introduction

In this first chapter the outline of the studied area is presented and provides the background of the subject. Afterwards, the main problem of the thesis is discussed which leads to the research purpose and the research questions. Finally, delimitations are given.

1.1 Background

In today’s competitive environment, the innovation capacity associated with the ability to successfully launch new products is a key success factor for leading brand manufacturers. Recognising brand equity as a key competitive asset, more and more firms tend to leverage their existing brands rather than introducing new brands (Milberg & Sinn, 2007). In this context, the use of brand extensions as a growth strategy gains importance for companies.

The increasing popularity of brand extensions during the last decades can be seen in the fact that only 18 per cent of new product launches involve the introduction of a new brand, while 82 per cent are the result of brand extension strategies (Les Echos, 2004; Pina, Iversen & Martinez, 2010). As the costs of introducing a new brand and the risk of failure are immense, the focus on leveraging existing brands becomes more significant (Pina, Iversen & Martinez, 2010; Pitta & Katsanis, 1995). At the same time, the importance of brands is increasing, recognising brand equity and especially the brand name as the most valuable and competitive asset of a company (Milberg & Sinn, 2007). It is the brand name defining the brands’ quality, function, characteristics and promises, which create a picture in the mind of the consumer in order to distinguish a brand from other brands (Klink & Smith, 2001; Pitta & Katsanis, 1995). As a result, firms use established brand names for their new product launches to facilitate entering new markets by reducing financial risks and taking advantage from the well-established brand equity (Aaker & Keller, 1990). Therefore, brand extension strategies are regarded as a cost-saving alternative to the launch of new brands.

Brand extensions are broadly classified into two categories, called horizontal and vertical brand extensions (Aaker & Keller, 1990; Pitta & Katsanis, 1995). While horizontal brand extensions refer to the application of an existing product name to a new product in the same product class or in a new product category, vertical brand extensions involve the introduction of a product in the same product category on a different price and quality level (Michel & Salha, 2005; Pitta & Katsanis, 1995). The latter especially seeks to target different consumer segments, which are more or less focused on price and quality, to reach a broader consumer base and to ensure the growth of the brand (Kapferer, 2008; Keller & Aaker, 1992; Sullivan, 1990). Vertical brand extensions become more and more important with regard to the changing economical and societal parameter and the increasing competitive pressure in the total market, which force leading brand manufacturers to adapt their strategies to a wider range of consumers. This adaption includes the re-orientation towards pricing strategies in particular (Steenkamp & Kumar, 2009). In the long term, vertical brand extensions are regarded as a good solution for new pricing strategies by offering products of an already existing brand in the same category underneath and above the familiar price level of the brand, also called step-up and step-down extension (Michel & Salha, 2005; Pitta & Katsanis, 1995).

1 A brand extension is defined as the use of the same brand name for different product categories or classes in an attempt to leverage their existing brand equity (Aaker & Keller, 1990; Levin, Davis, & Levin, 1996; Srivastava & Shocker, 1991; Vöckner & Sattler, 2006)
Although vertical brand extension strategies are widespread within all types of industries, they become increasingly important for luxury brands. In recent years, the luxury sector grew substantially due to a rising demand for luxury products which can be explained by two main reasons. First, improved economic factors, such as growing disposable incomes, decreasing unemployment rates, lower production costs and a growing upper class in emerging countries, have led to a more favourable environment (Nuño & Quelch, 1998; Silverstein & Fiske, 2003; 2005; Yeoman & McMahon-Bat, 2006). Second, luxury goods are increasingly consumed among lower classes of society due to the desire of imitating the lifestyle of the upper class and the rising appreciation of the hedonic potential of luxury goods (Amaldoss & Jain, 2005; Catry, 2003; Nuño & Quelch, 1998; O’Cass & Frost, 2004; Truong, McColl & Kitchen, 2009). To answer the high demand of luxury products, more and more luxury producers launch new accessible product lines under the already established brand name (Catry, 2003). In this context, they choose to extend their portfolio vertically to a lower price level as this democratisation of the brand would allow a larger share of the society to “buy a little bit into the dream” (Shambora 2010, p.1).

1.2 Problem Discussion
Brand extensions have proven to be a successful growth strategy for luxury brands over time, as leading brand manufacturers gain several advantages following this strategy. In this context, brand extension may help to reduce the costs of the new product launch and at the same time stimulate the sales of the luxury brand’s products resulting from the attraction of a broader range of consumers. (Munthree & Bick, 2006; Reddy, Holak, & Bhat, 1994; Völckner & Sattler, 2006). Besides, vertical brand extensions may increase the brand awareness of the parent brand leading to the strengthening of the brand value and the reinforcement of the brand image (Haedrich, Tomczak & Kaetzke, 2003; Kaufmann, 2006; Stegemann, 2006). As more and more luxury brands offer “junior” versions of their brands with a lower price level and a more youthful touch, the transfer of these new associations may also lead to the revitalisation and even repositioning of the parent brand (Burkhardt, 2011; Nuño & Quelch, 1998; Supphellen, Eismann & Hem, 2004).

However, researchers also identified several negative feedback effects of brand extensions and some experts even claim that brand extensions should be avoided due to their massive consequences for the parent brand (Gürhan-Canli & Maheswaran, 1998; Loken & Roedder John, 1993; Ries & Trout, 2000; Thorbjonson, 2005). Inappropriate brand extensions may lead to the loss of the original brand meaning or even to brand cannibalisation (Pitta & Katsanis, 1995). In the long term the negative effects may result in the decrease of the market share of the parent brand products (Aaker, 1990). The risk of brand image dilution is especially high for vertical brand extensions, since the consumers’ expectations of the price and quality level of the brand extension often does not match with the price and quality level of the parent brand (Kim, Lavack & Smith, 2001). While step-down extensions are automatically associated with lower brand quality, step-up extensions may be perceived as inappropriate in comparison to the regular price level of the parent brand products, which makes them difficult to accept (Aaker, 1997; Michel & Salha, 2005). For brands in the luxury sector it becomes even more difficult to ensure the maintenance of the existing brand associations when launching new products through step-down extensions. This is mainly because the launch of products at a lower price level makes it difficult to keep the image of prestige, exclusivity and desirability of the luxury brands (Randall, Ulrich & Reibstein, 1998). While the new less expensive products may attract a market segment which could not afford the products of the luxury brand before, the old target group might lose their sense of

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2 The term parent brand refers to a company’s original or core brand which is extended (Aaker & Keller, 1990)
exclusivity for the luxury brand (Pitta & Katsanis, 1995). As a result, several authors argue that it is important to be aware of the positive and negative effects of vertical brand extensions on luxury brands before implementing this strategy (Pitta & Katsanis, 1995).

Apart from being aware of these effects, it appears to be even more important to understand what determines a successful brand extension in order to achieve positive and avoid negative effects (Arikan, 2010; Kapferer & Bastien, 2012). In this context, both the internal success drivers that are controlled by the company and the external success drivers that are not controlled by the company are of importance, since both influence the company’s behaviour and its performance (Burkhardt, 2011). Although there is abundant literature on the success drivers for brand extensions, most of the extant research only focuses on horizontal brand extensions and on non-luxury brands (Kapferer & Bastien, 2012; Les Echos, 2004; Reddy, Terblanche, Pitt & Parent, 2009). In this context, research has mostly emphasised the consumer point of view, so that only little is known from the company perspective. Therefore, this thesis addresses this gap in the literature and investigates the success drivers for vertical brand extensions in the luxury sector from a company perspective.

1.3 Research Purpose
Derived from the problem discussion above, the purpose of this thesis is to describe the success drivers of vertical brand extensions in the luxury sector. In this context, it is aimed to craft a model depicting the relationship between success drivers and effects of vertical brand extensions.

1.4 Research Question
In order to elaborate this thesis’s purpose, the following research questions are defined:

*What are success drivers for vertical brand extensions in the luxury sector to achieve positive and avoid negative effects?*

*How can the relationship between success drivers and effects be visualised in a model?*

1.5 Delimitations
As the concept of brand extensions is rather broad, the authors of this thesis will only elaborate on vertical brand extensions with a special focus on step-down extensions in the luxury sector. Besides, the researchers will not give a holistic view of the topic, but only focus on the effects and success drivers from a company point of view, which are limitations to be aware of.

1.6 Thesis Outline
This thesis includes six different chapters. The first chapter of introduction has included the background of the chosen area and the problem discussion leading to the purpose and the research question. In the next chapter, the literature review, relevant literature regarding effects and success drivers of vertical brand extensions is presented, before the actual theoretical framework is created. In the subsequent third chapter, the methodological characteristics of this thesis are provided in very detail. Chapter 4 presents the empirical findings and provides the input for the analysis in chapter 5. In the analysis, a combination of within- and cross-case analysis will be applied, comparing each case simultaneously to existing theory and to each other, defining the patterns and disagreements. In the last chapter of the thesis, the conclusion, implications and further research will be presented.
2. Literature Review

In this chapter relevant literature will be reviewed. Although there is extensive previous research on both effects and success drivers for brand extensions, most of this existing theory only focuses on horizontal brand extensions and non-luxury brands (Kapferer & Bastien, 2012; Les Echos, 2004; Reddy et al., 2009). Furthermore, prior scholars have missed to grasp the full extent of effects and success drivers and did also not see both elements related to one another, which leaves a research gap that is addressed in this thesis (Kapferer & Bastien, 2012; Reddy et al., 2009). Therefore, the following identification of effects and success drivers for vertical brand extensions entails a combination of factors from various scholars, appearing to be most appropriate for the luxury sector, which has not existed to this scope before. Subsequently, a theoretical framework is crafted that summarises the findings from the review of the literature.

2.1 Effects of Vertical Brand Extensions

Although vertical brand extension strategies have become a widespread international growth strategy for luxury brands, the amount of failed extensions indicates that it is important to be aware of the effects of vertical brand extensions before implementing this strategy (Pitta & Katsanis, 1995; Stegemann, 2006). As goods from diverse industries are affected differently by vertical brand extensions, it will be only focused on the step-down effects of vertical brand extensions for luxury brands (Kim & Lavack, 1996). Therefore, this section will firstly give a short overview of the relevance of vertical brand extensions in the luxury sector before elaborating on both positive and negative effects of this extension strategy.

2.1.1 Relevance of Vertical Brand Extensions for Luxury Brands

Since the early 1990s, the luxury sector is recording an annual sales growth of ten per cent each year due to the development of a more favourable environment (Nueno & Quelch, 1998; Silverstein & Fiske, 2003; 2005; Truong et al., 2009; Yeaoman & McMahon-Beattie, 2006) and an increasing consumption of luxury goods among lower classes of society (Amaldoss & Jain, 2005; Catry, 2003; Nueno & Quelch, 1998; O’Cass & Frost, 2004; Truong et al., 2009). The increasing understanding of luxury goods as a symbol for social status and good taste as well as a promise of pleasure and happiness may explain the changing consumer behaviour and related to that the changing target group of luxury brands. It is no longer only elder, wealthy people who buy a special luxury brand due to its high quality, but also younger clients who are more flexible in their brand choice and spend the income of their parents for a wide range of luxury brands (Twitchell, 2002). Nuено and Quelch (1998) refer to this new target group as "nouveau riche consumers". At the same time, the luxury sector is still under constant pressure to keep the old consumers’ confidence in their products, since the amount of competitive luxury products is immense and as the high marketing and distribution costs as well as the investments in conglomerates need to be covered (Catry, 2003; Dall’Ollmo Riley, Lomax & Blunden, 2004).

Even though the increasing demand of luxury goods is somehow favourable for luxury goods companies, it also confronts them with a dilemma. They either have the choice to ignore the new high demand for luxury brands and pursue their original differentiation strategy by risking being isolated in a niche market (Catry, 2003). Or, as a second option, they launch new and more accessible product lines in response to the rising demand for luxury brands (Catry, 2003; Nuено & Quelch, 1998). More and more luxury goods companies choose the second alternative and answer the high demand for luxury brands by offering a wider range of products with price differences (Truong et al., 2009). The major driver of this strategy is the fact that even though the highly expensive prestige products create the aura for the essential
credibility of the luxury brand, they are not the most profitable ones (Kapferer & Bastien, 2012). Being positioned at the top-end of the market, a brand can of course achieve incredible margins and price mark-ups justified by the immense value seen in the symbolic dimension of the brand (Berthon, Pitt, Parent & Berthon, 2009; Keller, 1993; 2003; Park, Jaworski & MacInnis, 1986). However, it is also obvious to see that if a crisis hits this small consumer segment able and willing to pay for the symbolic assets, the brand has not many possibilities to equilibrate such severe losses. To compensate for these risks as well as to increase sales and revenues of the luxury brand, many luxury producers chose to stretch the portfolio vertically to a lower price level as this democratisation of the brand would allow a larger share of the society to “buy a little bit into the dream” (Shambora, 2010, p.1).

As luxury brands are already on a high quality and price level, the vertical brand extension will mostly be a step-down brand extension to allow the stretching of the brand for lower income classes (Kim & Lavack, 1996). By offering less expensive products under the already established brand name, luxury goods companies strive to keep the prestige of the luxury brand on the one hand, but at the same time making the product accessible to a broader range of consumers (Silverstein & Fiske, 2003; Truong et al., 2009). Silverstein and Fiske (2005) as well as Truong et al. (2009) refer to the successful positioning of luxury brands between the prestige level of traditional luxury brands and the price level of middle-range brands through vertical brand extensions as a “masstige” strategy.

Although vertical brand extensions have proven to be an appropriate and profitable growth strategy in the luxury sector, it is still a controversial strategy (Dall’Ollmo Riley et al., 2004). In the next sections, the potential effects of vertical brand extensions on luxury brands are elaborated, divided into positive and negative effects.

2.1.2 Positive Effects of Vertical Brand Extensions

Vertical Brand Extension strategies have demonstrated to be a profitable growth strategy for luxury brands over time, as leading brand manufacturers gain several advantages following this strategy. Vertical brand extensions can benefit the luxury brand through the increase of profit and sales, the increase of brand awareness, the reinforcement of the brand image and the revitalisation or repositioning of the brand.

Financial Contribution - One positive effect of vertical brand extension is the increase of sales and profits, which can be achieved through several factors (Aaker & Keller, 1990; Thorbjonson, 2005). Firstly, through the launch of new products under an already established brand, luxury goods companies take advantage of the brand name recognition and image and therefore reduce the risk of failure when introducing a new product (Aaker & Keller, 1990; Pitta & Katsanis, 1995; Thorbjonson, 2005). As the consumers are already familiar with the parent brand, the company can decrease media expenses and costs for gaining distribution and at the same time increase the efficiency of promotional expenditures and synergy effects (Aaker & Keller, 1990; Burkhardt, 2011). Second, through the offer of more less expensive luxury products, the company attracts new consumers, which leads to an increase of sales in the long term. As these consumers are mainly middle-class consumers who could not afford buying the prestige-oriented core product before, the profit potential for the brand extension in the large middle-class market will be substantially higher than the profit potential for the expensive parent brand in the small upper-class market (Kim & Lavack, 1996).

Increase of Brand Awareness - A second positive effect of vertical brand extensions is the increase of the brand awareness of the parent brand through vertical brand extensions (Kaufmann, 2006; Stegemann, 2006). Even though the brand extension benefits from the already established brand image of the parent brand by getting famous in a faster and less
expensive way, the parent brand can also profit from the brand extension in the long term (Burkhardt, 2011). Due to more accessible products being launched under the established luxury brand name, the presence of the parent brand increases and gives consumers additional opportunities to get in contact with the luxury brand (Huber, 1997). This may lead to the reinforcement of the parent brand value by stimulating sales of other products of the luxury brand apart from the brand extension (Reddy, Holak & Bhat, 1994; Völckner & Sattler, 2006). Pitta and Katsanis (1995) refer to the phenomenon of indirect advertising of the parent brand through brand extensions as cross-fertilisation.

**Reinforcement of Brand Image** - Besides the increase of the brand awareness, another effect of vertical brand extensions is the creation of positive feedback effects from the brand extension towards the parent brand leading to the positive reinforcement of the parent brand image (Haedrich et al., 2003; Kaufmann, 2006). This can either happen through the strengthening of existing brand associations of the parent brand in case the brand extension emphasises these brand associations, or through the creation of new positive associations, which the brand extension conveys to the parent brand (Huber, 1997; Pitta & Katsanis, 1995; Sattler & Völckner, 2007). The latter can especially occur in case the new middle-class consumers, who could not afford the expensive parent brand, are attracted by the less expensive brand extension, as they will welcome the lower priced product line and may transfer the positive associations to the parent brand (Kim & Lavack, 1996). This may result in the fact that negative brand associations are neutralised through the strong emphasis of the positive brand associations leading to the reinforcement of the brand image (Huber, 1997).

**Revitalisation/Repositioning of Parent Brand** - The positive image transfers from the brand extension to the parent brand may also lead to the revitalisation or even repositioning of the core brand (Burkhardt, 2011; Supphellen, Eismann & Hem, 2004). In order to reach a broader market of consumers and especially younger audiences, more and more luxury goods companies offer “junior” versions of their brands at a lower price level and a more youthful touch (Nueno & Quelch, 1998). The new and youthful associations of the brand extension may be transferred to the core luxury brand leading to the repositioning of the brand in the long term (Kaufmann, Sattler & Mark, 2005; Pitta & Katsanis, 1995). Especially for those luxury brands that experienced a sales stop, the vertical brand extension can have a revitalising effect for the parent brand.

**2.1.3 Negative Effects of Vertical Brand Extensions**

Even though there is a great potential for the step-down positioning of luxury brands, the high difference of price and quality between the brand extension and the parent brand can have negative effects on luxury brands. Vertical brand extension can hurt the parent brand through the cannibalisation of the parent brand’s sales, the damage of the prestige of the parent brand name, the dilution of the brand image and negative feedback effects among the parent brand’s consumer franchise (Kim & Lavack, 1996; Stegemann 2006).

**Brand Cannibalisation** - Introducing a vertical brand extension can lead to the cannibalisation of the parent brand’s sales (Kaufmann, 2006; Kim & Lavack, 1996; Sattler & Völckner, 2007). This implicates that consumers of the luxury brand do not longer purchase the parent brand in favour of the brand extension, which results in the reallocation of the brand’s sales from the prestige core products to the less expensive product lines (Keller, 2008; Kim & Lavack, 1996). As the sales of the less expensive brand extensions with lower margins does not match up to the sales of the highly expensive core products, the luxury brand will lose profits. This indicates that even though the company saves launching costs through the use of synergy effects in the short term, it may lose sales and profits through brand cannibalisation in the long term (Kaufmann, 2006). The risk of cannibalisation is especially
great when the step-down brand extension is perceived to be similar in quality to the parent brand only on a lower price level, attracting not only new consumers but also the traditional client base (Aaker & Joachimsthaler, 2000; Reddy et al., 1994). In order to minimise cannibalisation and to avoid the migration of the traditional client base from the core brand to the brand extension, luxury goods companies need to ensure that the product line fills a different market niche by offering products that differ in both price and quality (Kim & Lavack, 1996). One example are the already mentioned “junior” versions of luxury brands which especially seek to attract younger audiences who cannot afford to buy the expensive core products of the luxury brand (Nueno & Quelch, 1998).

**Tarnishing of Parent Brand Prestige** - Tarnishing the prestige of the parent brand name is a second risk of the introduction of a step-down brand extension (Dall’Ollmo Riley et al., 2004; Kim & Lavack, 1996; Pitta & Katsanis, 1995; Stegemann, 2006). This effect is a result of the introduction of more accessible product lines with lower quality and a lower price level as it undermines the essence of luxury itself, namely the creation of distance (Kapferer & Bastien, 2012). Although the quality and price level of the parent brand do not change, the new associations of the brand extension may be transferred to the parent brand as a result of feedback effects (Haedrich et al., 2003; Kaufmann, 2006). Due to the fact that a luxury brand is associated with attributes such as high quality, uniqueness, exclusivity and scarcity the new associations of the brand extension lead to the decrease in the benefits of luxury brand attributes, which results in the loss of the prestigious character of luxury brands (Park, Milberg & Lawson, 1991; Stegemann, 2006). As the new consumers of the luxury brands rather purchase the brand for differentiating purposes or the the desire of belonging to a special group instead of appreciating the real attributes of the brand, luxury brands may lose their symbolic characteristics and their high position in the market place (Dubois, Laurent & Czellar, 2001). In this context, the repositioning of the brand has a negative effect for the parent brand as it results in the loss of the luxury brand’s values.

**Dilution of Brand Image** - The loss of attributes which are inherent to luxury brands can also lead to the dilution of the parent brand image as a third negative effect of vertical brand extensions. A brand image dilution occurs when consumers perceive a dissonance between the quality and price level of the brand extension and the core brand as the original brand promise gets lost (Kaufmann, 2006; Kim et al., 2001). With an increasing number of vertical brand extensions it gets more and more difficult for the consumer to link the image of the parent brand with the brand extension because the main product attributes differ significantly (Huber, 1997; Smith & Park, 1992; Sujan, 1985). This problem is related to an unclear positioning of the brand due the fact that it is almost impossible to increase the company’s sales through a vertical brand extension while at the same time guaranteeing rarity of the luxury brand (Kaufmann, 2006; Roux & Floch, 1996; Stegemann, 2006). As the introduction of a vertical brand extension increases the brand awareness of the core brand, the brand is seen as accessible to a broader range of consumers, which contradicts the original luxury brand’s associations such as uniqueness, exclusivity and scarcity (Park et al., 1991; Stegemann, 2006). This dilemma is especially seen in the masstige strategy indicating the positioning of luxury brands between the prestige level of traditional luxury brands and the price level of middle-range brands (Truong et al., 2009). As a result, “some luxury brands […] have slid off the map of prestigious goods to become a sort of mass market of luxury items” (The Economist, 2003, p.67). The loss of the brand’s core values and the re-evaluation of the brand by existing consumers lead to the dilution of the luxury brand image in the long term (Dall’Ollmo Riley et al., 2004).

**Negative Feedback Effects Among Existing Consumers** - The fourth key concern involved in introducing a step-down brand extension is the risk of negative feedback effects among the
existing consumers franchise for the parent brand (Kim & Lavack, 1996). This results from both the tarnishing of the prestige of the parent brand name and the dilution of the parent brand image. As most luxury brands seek to broaden their target market by introducing step-down brand extensions, this may create negative feedback effects among their existing consumers (Keller, 1993; Kim & Lavack, 1996). While the brand extension may attract a market segment, which could not afford the products of the luxury brand before, the original clientele might lose their sense of exclusivity for the brand (Pitta & Katsanis, 1995). As the existing consumers purchase luxury brands for their symbolic attributes and values such as uniqueness, high quality and scarcity, they hold the opinion that luxury should be reserved only for those people who appreciate the value of these goods and who can afford to pay the price for this value (Stegemann, 2006). By viewing more and more middle-class consumers buying the “junior” versions of their luxury brands, the erstwhile desire for these brands disappears and the symbolical distance, which luxury is actually supposed to create, gets lost (Kapferer & Bastien, 2012; Stegemann, 2006). Perceiving the cheaper versions as a destruction of the social status of their expensive acquisitions, the traditional consumers will not only oppose the brand extension but also create an overall negative attitude against the parent brand (Kim & Lavack, 1996; Pitta & Katsanis, 1995; Stegemann, 2006).

2.2 Success Drivers for Vertical Brand Extensions

Given the increased reliance on vertical brand extensions as a growth strategy, it is important to understand what determines a successful brand extension to achieve positive and avoid negative effects (Arikan, 2010; Kapferer & Bastien, 2012). As vertical step-down brand extensions involve the introduction of product lines with a lower price and quality level, the superior success factor for luxury brands lies in the equilibrium between prestige and price which can be only achieved by the conscious consideration of internal and external success drivers (Burkhardt, 2011; Truong et al., 2009), which will be elaborated in the following.

2.2.1 Internal Success Drivers

The internal success drivers can be defined as the resources possessed by a company, which determine the company’s behaviour and justify its performance regarding vertical brand extensions (Burkhardt, 2011). These drivers include the factors brand legitimacy, strategic marketing abilities and operative marketing abilities.

Legitimacy - In marketing, the legitimacy of any kind of brand extension is either linked to the original know-how or to the intangible concept of the parent brand (Kapferer & Bastien, 2012). In detail it means that a brand extension is based on the brand’s sources of legitimacy when it delivers the luxury brand concept to other market niches and when it forms part of the brand’s perceived competence without diluting the original image of the brand (ibid). As every luxury goods company has a certain market orientation, it is proposed to stay close to this orientation to ensure the coherence between the brand extension and the parent brand (Burkhardt, 2011). In this context, it does not suffice that the company possesses the financial and technical capabilities to introduce a vertical brand extension, but it is more important that the extension respects the roots of the brand regarding history and culture of the overall brand (Kapferer & Bastien, 2012).

Luxury brands especially need to be aware of the company’s history as part of the legitimacy which is either based on the brand’s name, its country of origin or its founder (ibid). Related to the origin of the brand, luxury goods companies should be aware of their corporate culture when introducing a vertical brand extension. Keeping the corporate culture goes beyond the respect of the brand’s platform and the set of core values, and also includes the share of the company’s norms and values throughout the whole marketing process, including the distribution and the after sales service of the brand extension (ibid). In many luxury
companies there exists a culture of confidentiality as most of the firm assets are sacred to the company owners with the superior goal to keep the perception of exclusivity and impenetrability of the luxury brand (Catry, 2003).

**Strategic Marketing Abilities** - The second success driver for vertical brand extension can be seen in the strategic marketing abilities of a luxury goods company (Burkhardt, 2011). These marketing abilities refer to all marketing activities associated with the strategic planning of the brand extension. They include the degree of conducting market research and competitive comparisons to analyse the current market situation, the market segmentation, the choice of the target group of the new product line and the competitive positioning of the brand extension (Burkhardt, 2011; Dall’Ollmo Riley et al., 2004). The better the capabilities of the luxury goods company in the marketing management and in the evaluation of the received market information through the market research, the more able is the company to clearly position the vertical brand extension in the market (Burkhardt, 2011).

**Operative Marketing Abilities** - Besides the strategic marketing abilities, the operative marketing abilities also play an important role for the performance of vertical brand extensions and form the third success driver (Arikan, 2010; Burkhardt, 2011; Reddy et al., 1994). They include the firm’s marketing competency regarding aspects such as distribution, pricing and communication (Burkhardt, 2011). Although luxury goods companies can take advantage of the already established brand name and image when introducing brand extensions, one of the biggest difficulties is to make the consumer aware and accept that the luxury brand is in a new form on the market (Aaker & Keller, 1990; Arikan, 2010; Thorbjonson, 2005). Especially the traditional clientele will not immediately approve the cheaper versions of the luxury brand as they may perceive them as the destruction of the prestige and the social status of their expensive acquisitions (Kim & Lavack, 1996; Stegemann, 2006). Therefore it is believed that vertical brand extensions of firms with a more distinctive marketing competency are more successful than extensions of less competent firms (Reddy et al., 1994). In this context, especially the communication and distribution support play a significant role for the performance of the brand extension and the creation of the brand’s prestige (Arikan, 2010; Bridges, Keller & Sood, 2000; Martin, Stewart & Matta, 2005).

### 2.2.2 External Success Drivers

As stated above, Burkhardt (2006) defined internal success drivers as the resources possessed by a company, which determines the company’s behaviour and justifies its performance regarding vertical brand extensions. In argumentum e contrario, the external success drivers are considered as the resources and phenomena that are not controlled by the company, but which influence the company’s behaviour and affects its performance regarding vertical brand extensions (ibid). These drivers include the factors brand strength, conceptual fit, brand concept consistency and risk evaluation.

**Strength of Parent Brand** - The first external success driver is the strength of the parent brand (Arikan, 2010; Burkhardt, 2011). Without the essential brand strength vertical brand extensions are difficult to implement as there are no positive associations and qualities, which could be transferred to the brand extensions (Burkhardt, 2011; Reddy et al., 1994). One of the most important indicators for the brand strength is the perceived quality of the parent brand by consumers (Aaker & Keller, 1990; Burkhardt, 2011). If the parent brand is linked to positive associations, it is more likely that these quality associations are also linked to the brand extension. This is due to the fact that the consumers have not tried the brand extension yet and therefore rely on the known brand name to make implications about quality (Arikan, 2010).
Another indicator for the brand strength is the brand dominance in the market, derived from the market share and its relative advertising and promotion expenditures in comparison to other luxury brands (Reddy et al., 1994; Vickers & Hay, 1987). In this context, it is believed that the more dominant the parent brand is in the market at the time of introduction of the brand extension, the more aware are consumers of the brand and the more positive associations may be linked to the parent brand. With a rising brand awareness, the consumers’ brand knowledge and the familiarity with the parent brand increases, leading to the fact that the consumers will be more aware of the brand extension (Reddy et al., 1994; Stegemann, 2006).

Another indicator of the parent brand strength is the strength of its brand portfolio (Arikan, 2010). In this context, there is a positive relationship between the number of products belonging to a luxury brand and the positive attitude of consumers towards the brand evaluation (Dacin & Smith, 1994). This can be explained by the fact that with an increasing number of products, the firm’s investment increases as well and this value is seen as a signal for the brand quality by the majority of consumers (ibid). Next to the amount of products affiliated with a luxury brand, previous brand extensions in the brand portfolio also play an important role for the success of vertical brand extensions (Keller & Aaker, 1992; Swaminathan, 2003). This phenomenon can be explained by the fact that consumers may use their existing knowledge about previous brand extensions when evaluating the latest extension, which catalyses their favourability of the extension product (Keller & Aaker, 1992; Reddy et al., 1994; Swaminathan, 2003).

**Conceptual Fit** - The second external success driver is the conceptual fit between parent brand and brand extension (Aaker & Keller, 1990; Arikan, 2010; Burkhardt, 2011). This variable has generated most attention in previous research and is regarded as a key success factor for luxury brands (Aaker & Keller, 1990; Arikan, 2010; Kapferer & Bastien, 2012; Reddy et al., 2009; Smith & Park, 1992). The conceptual fit refers to the coherence of the brand extension with the brand essence and the level of luxury that it belongs to (Kapferer & Bastien, 2012). In this context, the level of conceptual fit influences the degree to which associations of the parent brand are transferred to the brand extension (Aaker & Keller, 1990; Boush & Loken, 1991; Smith & Park, 1992). The greater the similarity between the parent brand and the brand extension, the greater is the transfer of positive associations to the extension and the greater is the maintenance of the level of luxury of the parent brand (Arikan, 2010; Kapferer & Bastien, 2012). This demonstrates the essential role of the perceived fit for the success of brand extensions. As positive associations are essential for a favourable evaluation of the brand extension by the consumer, a high conceptual fit is needed to make the extension successful (Aaker & Keller, 1990). In argumentum e contrario, a low conceptual fit between parent brand and brand extension may lead to the refusal of the brand extension. Therefore, it is recommended for luxury goods companies to conduct a brand core analysis in order to understand the brand meaning, to identify its core values and to clarify its cultural aspects before introducing a vertical brand extension (Kapferer & Bastien, 2012).

The acquirement of a conceptual fit is especially difficult regarding vertical brand extensions as they differ in price and quality from the parent brand in order to attract a broader range of consumers and, hence, share different values than the parent brand. Through their lower price level, the new product lines are more accessible and at the same time may lose the core brand values such as uniqueness, exclusivity and rarity (Park et al., 1991; Stegemann, 2006). Although a high level of conceptual fit will be hard to reach on the product level, the use of communication and distribution strategies may support the perception of coherence between parent brand and brand extension (Catry, 2003; Truong et al., 2009). Referring to the distribution strategies, the brand imagery of rarity and exclusivity may be kept through the
limitation of stores where the old and new product lines of the brands may be available and through a luxurious selling environment (Catry, 2003; Truong et al., 2009). Another way to create a prestigious environment for luxury brands is through accurately selected communication strategies such as, advertising in glamorous magazines, special events for a select audience, and the use of well-known models and designer for the campaigns of the brand extensions, called “starification” (Catry, 2003; Truong et al., 2009).

Through this clever management of information, the missing associations of luxury of the brand extension may be still delivered to the consumer, but rather on a virtual than on a physical product level (Catry, 2003). This demonstrates that the conceptual fit between parent brand and brand extensions may be either created at the product level or at the communication and distribution level, leading to a more successful vertical brand extension (Kapferer & Bastien, 2012).

**Brand Concept Consistency** - The third external success driver is the brand concept consistency, which is related to the conceptual fit (Burkhardt, 2011; Park et al., 1991). While the conceptual fit refers to the product-feature-similiarity perception between the parent brand and the extension product, the brand concept consistency refers to the perception of an appropriate positioning of the extension product compared to the parent brand in the market compared (Burkhardt, 2011). In this context, the “concept consistency perception relies on the extension product’s ability to accomodate the [parent] brand concept” (Park et al., 1991, p.186).

As most of the vertical brand extensions are positioned below the traditional price and quality level they do not fit to the overall positioning of the parent and have therefore difficulties to integrate the luxury brand concept. This may result in the creation of negative feedback effects among existing consumers who might lose their sense of exclusivity for the luxury brand as the brand becomes more accessible (Keller, 1993; Kim & Lavack, 1996). In order to preserve the exclusivity of the luxury brand while trading the brand down, many luxury goods companies use distancing-techniques which are defined as the “means through which the brand extension is associated closer to, or farther away from, the core brand” (Kim & Lavack, 1996, p.29). While graphical distancing techniques include the change of the size of the core brand name for instance, linguistic distancing techniques use additional words in the brand name to manipulate the distance between the brand extension and the parent brand (ibid).

Luxury goods companies mostly refer to the latter by using sub-brand names for their vertical brand extensions. Adding a second name in addition to the original brand name for each brand extension results in the disassociation of the step-down brand extension name from the core brand name (Aaker & Keller, 1990; Kim & Lavack, 1996; Pitta & Katsanis, 1995). In this context, it is vital that luxury good companies make use of non-generic names which characterise the brand extensions, so that the consumers are able to recognise the link between the brand extension and its positioning (Kapferer & Bastien, 2012). As the consumers perceive only a weak or no connection between the different brand extensions and the parent brand, the negative associations of the extension are less transferred to the parent brand which leads to the protection of the core brand regarding its price and quality positioning (Aaker & Keller, 1990; Kim & Lavack, 1996). This greater distance between the parent brand and the brand extension results in minor dilution of the parent brand and minor negative feedback effects among the existing consumer franchise for the parent brand (Kim & Lavack, 1996). Therefore, the creation of sub-brands for different price points is the secret of success for many luxury goods companies who seek to maintain their core brands while introducing vertical brand extensions.
Even though the luxury brand structures its offerings indifferently in price stages, it remains unique as the sub-brands can justify its positioning and no longer harm the parent brand (Kapferer & Bastien, 2012). At the same time distancing strategies may lead to a less favourable consumer evaluation of the brand extension as the extension can no longer benefit from the positive associations of the core brand and needs therefore longer to be accepted (Kim & Lavack, 1996). Hence, luxury goods companies should be aware of their strategic goals – either gaining long-term profits with their vertical brand extensions or maintaining their parent brand – before making use of distancing strategies in order to ensure brand concept consistency (ibid).

Risk Evaluation - The fourth external success driver can be seen in the risk evaluation of vertical brand extensions (Kapferer & Bastien, 2012). As vertical brand extensions can either succeed or fail, the evaluation of possible risks for the brand extension and for the parent brand is a crucial step before introducing brand extensions (Burkhardt, 2011; Kapferer & Bastien, 2012). In order to do so, a strategic diagnosis of the company’s strategic goal may be helpful to identify the main idea behind the brand extension and the risks associated with this strategy (Kapferer & Bastien, 2012). In this context, one strategic goal for luxury goods companies can be the focus of their resources on maintaining the core brand while using the brand extension only as a short term income. The alternative may be that the companies seek to gain long term profits with their vertical brand extensions by growing in new major market segments (Kim & Lavack, 1996). In order to implement a successful risk evaluation, the company needs to evaluate for each strategic option the relation of its investment into the required resources to the later outcome of the strategy for the overall luxury brand (Kapferer & Bastien, 2012).

Referring to the first possible strategic goal, the company aims to keep the damage to the luxury brand on a minimum level by distancing the brand extension from the core brand. At the same time the luxury brand risks the failure of the brand extension as both new and existing consumers will take longer to recognise and accept the extension as part of the luxury brand (Kim & Lavack, 1996; Pitta & Katsanis, 1995). Companies who follow the second strategic goal rather seek the long term success of the brand extension by creating close connections between parent brand and brand extension while risking brand cannibalisation, brand image dilution and the loss of existing consumers of the parent brand in the long term (Kim & Lavack, 1996). Following an appropriate risk evaluation, the second strategic goal will only make sense for the company when the long term profit potential of the vertical brand extensions can compensate the potential long term loss of sales from the parent brand (ibid).

In the best case, the combination of internal and external success drivers leads to the successful positioning of luxury brands between the prestige level of traditional luxury brands and the price level of middle-range brands (Truong et al., 2009).

2.3 Theoretical Framework
The theoretical framework is a summary of the main parts of the presented theories in the literature review. As existing theory has not holistically elaborated on effects and success drivers of vertical brand extensions in the luxury sector, the theoretical framework accordingly exhibits a combination of factors from various scholars tailored to the topic under investigation.

In order to pursue the purpose of describing success drivers for vertical brand extensions in the luxury sector and to craft a model depicting the relationship between success factors and effects, it does not suffice to solely focus on the success drivers in an isolated manner, but to also take potential effects of vertical brand extensions into account. It can be argued that only
when luxury goods marketers are aware of the potential effects resulting from brand extensions in the past, they will be able to elaborate success drivers in order to achieve positive and avoid negative effects. In argumentum e contrario, luxury brands that are not aware of these effects will be barely capable of recognising the drivers that might influence the outcome of vertical brand extensions. Therefore, both effects and success drivers need to be illuminated in order to get a holistic view of the topic. Exhibit 1 shows the theoretical framework with its different domains consisting of positive effects, negative effects, internal success drivers and external success drivers, which will be investigated in the empirical part of this study. In this context, internal success drivers are regarded as resources possessed by the company, external success drivers as resources outside the company’s control, positive effects as benefitting the parent brand and negative effects as hurting the parent brand (Burkhardt, 2011). The arrow going from effects to success drivers illustrate the unilateral relationship between effects and success drivers since success drivers are supposed to built up on the experienced effects of vertical brand extensions.

<table>
<thead>
<tr>
<th>Effects</th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
</table>
| Financial Contribution | • Media costs  
  • Distribution costs  
  • Synergy effects  
  • Sales |  |
| Increase of Brand Awareness | • Brand presence  
  • Brand value |  |
| Reinforcement of Brand Image | • New associations  
  • Existing associations |  |
| Revitalisation / Repositioning of Parent Brand | • “Junior” versions |  |

<table>
<thead>
<tr>
<th>Success Drivers</th>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
</table>
| Legitimacy | • History  
  • Culture |  |
| Strategic Marketing Abilities | • Market research  
  • Segmentation  
  • Target group  
  • Positioning |  |
| Operative Marketing Abilities | • Communication  
  • Distribution |  |
| Risk Evaluation | • ROI |  |

Exhibit 1: Theoretical Framework (own illustration)
Positive effects of vertical brand extensions as the first domain are composed of the categories financial contribution, increase of brand awareness, reinforcement of brand image and revitalisation/repositioning of the parent brand. With regard to the financial contribution, the vertical brand extension can increase sales and profits through generating incremental sales and increasing the efficiency of investments made into media and distribution support, as the brand as such is already established in the market, which allows synergy effects between the parent brand and the brand extension to arise (Aaker & Keller, 1990; Burkhardt, 2011; Kim & Lavack, 1996; Pitta & Katsanis, 1995; Thorbjonson, 2005). Concerning the increase of brand awareness, the presence of the brand in the market is increased due to a higher amount of products sold under the same brand name, which is why there are consequently more potential possibilities for customers to encounter the brand (Huber, 1997; Kaufmann, 2006; Stegemann, 2006). Simultaneously, the value of the parent brand is increased as the higher awareness for the brand, potentially amplifying sales of existing product lines (Pitta & Katsanis, 1995; Reddy et al., 1994; Vöckner & Sattler, 2006). Moving to the reinforcement of the brand image, it is suggested that positive feedback effects from the extension product to the parent brand may arise in response to either strengthening existing positive associations made with the parent brand or by creating novice associations that favour the brand image (Haedrich et al., 2003; Huber, 1997; Kaufmann, 2006; Kim & Lavack, 1996; Pitta & Katsanis, 1995; Sattler & Völckner, 2007). Regarding the revitalisation or repositioning of the brand, it is especially the introduction of “junior” versions in the shape of vertical brand extension that is giving the brand a more youthful touch in the long term by attracting a broader and younger audience (Burkhardt, 2011; Kaufmann et al., 2005; Nuño & Quelch, 1998; Pitta & Katsanis, 1995; Supphellen et al., 2004).

Leaving the domain of positive effects behind and moving on to the negative effects of vertical brand extensions in the luxury sector, it is the brand cannibalisation, tarnishing of brand prestige, dilution of brand image and negative feedback effects among existing consumers, which are regarded as the major constituents. The first category, the brand cannibalisation, is concerned with the shift of consumers from high-margin products to the lower priced vertical brand extension, in case consumers are not able to differentiate between the delivered value by the parent brand and the extension (Aaker & Joachimsthaler, 2000; Kaufmann, 2006; Keller, 2008; Kim & Lavack, 1996; Reddy et al., 1994). The second category of the negative effects is seen in the tarnishing of the parent brand prestige through the lower priced extension product, leading to the loss of inherent luxury attributes namely high quality, uniqueness, exclusivity and scarcity, which ultimately undermines the very essence of luxury (Dall’Ollmo Riley et al., 2004; Dubois et al., 2001; Haedrich et al., 2003; Kapferer & Bastien, 2012; Kaufmann, 2006; Kim & Lavack, 1996; Milberg & Lawson, 1991; Park et al., 1991; Pitta & Katsanis, 1995; Stegemann, 2006). Related to the tarnishing of the brand prestige, the category of brand image dilution deals with the perceived dissonance of quality and price between the parent brand and the extension product through contradicting associations of the vertical brand extension, which can lead to re-evaluation of the brand (Dall’Ollmo Riley et al., 2004; Huber, 1997; Kaufmann, 2006; Kim et al., 2001; Park et al., 1991; Roux & Floch, 1996; Smith & Park, 1992; Stegemann, 2006; Sujan, 1985; The Economist, 2003; Truong et al., 2009). The last constituent of negative effects are negative feedback effects among existing consumers, which is concerned with consumers developing an antipathy or migrating from the brand in response to the higher accessibility of the luxury brand for lower consumer classes (Kapferer & Bastien, 2012; Keller, 1993; Kim & Lavack, 1996; Pitta & Katsanis, 1995; Stegemann, 2006).

The third domain, the internal success drivers, is comprised of the categories legitimacy, strategic marketing abilities and operative marketing abilities. Starting with the category
legitimacy, the vertical brand extension is expected to be more successful when it is transferring the luxury brand concept, including the history and the culture of the parent brand in particular, to other market niches (Burkhardt, 2011; Catry, 2003; Kapferer & Bastien, 2012). The strategic marketing abilities as the second category of internal success drivers includes the conduction of market research, market segmentation and target group choice in order to favourably position the vertical brand extension in the market (Burkhardt, 2011; Dall'Ollmo Riley et al., 2004). In contrast to these strategic marketing abilities, the operative marketing abilities focus on supporting the vertical brand extension from a communication and distribution point of view in order to ease the consumer acknowledgement and acceptance of the extension product (Aaker & Keller, 1990; Arikan, 2010; Bridges et al., 2000; Burkhardt, 2011; Martin et al., 2005; Reddy et al., 1994; Stegemann, 2006; Thorbjonson, 2005).

The fourth and last domain in the theoretical framework is made up of the external success drivers consisting of the parent brand strength, conceptual fit, brand concept consistency and risk evaluation. In this context, the parent brand strength is constituted by the perceived quality, the dominance of the parent brand in the market place as well as the strength of the parent brand portfolio as the existence of these attributes are catalysing the development of consumers’ positive associations towards the brand extension (Aaker & Keller, 1990; Arikan, 2010; Burkhardt, 2011; Dacin & Smith, 1994; Keller & Aaker, 1992; Reddy et al., 1994; Stegemann, 2006; Swaminathan, 2003; Vickers & Hay, 1987). The second category of external success drivers, the conceptual fit, is concerned with the similarity between the parent brand and the brand extension with regard to the brand essence and the level of luxury (Aaker & Keller, 1990; Boush & Loken, 1991; Burkhardt, 2011; Smith & Park, 1992). In this regard, a high level of similarity is linked with a high transfer of positive associations to the extension product and great maintenance of luxury (Arikan, 2010; Catry, 2003; Kapferer & Bastien, 2012; Park et al., 1991; Stegemann, 2006; Truong et al., 2009). Related to the conceptual fit, the third category is the brand concept consistency, which is dealing with the brand extension’s ability to clearly integrate the luxury brand concept in the market (Burkhardt, 2011; Park et al., 1991) by using sub-brand names in order to decrease the dilution of the parent brand and negative feedback effects among the existing consumer franchise (Aaker & Keller, 1990; Kapferer & Bastien, 2012; Kaufmann, 2006; Keller, 1993; Kim & Lavack, 1996; Pitta & Katsanis, 1995). With regard to the risk evaluation as last category of external success drivers, it is argued that the success of vertical brand extensions is positively influenced by carefully evaluating for each strategic option the relation of its necessary investment to its expected outcome (Burkhardt, 2011; Kapferer & Bastien, 2012; Kim & Lavack, 1996; Pitta & Katsanis, 1995).

This theoretical framework with the above elaborated domains and related categories will be empirically investigated to fill the identified research gap.
3. Methodology

In this chapter the methodology of this thesis is explained and presented. Justifications and arguments are provided in order to clarify all methodological choices made in the course of the research process.

3.1 Research Purpose

Academic literature elaborating on methodological solutions for business related studies advises scholars to follow a well coordinated process to commence academic research (Bonoma, 1985; Moore, 2006; Saunders, Lewis & Thornhill, 2007). In order to follow this suggestion, all research activities within this thesis followed this project’s purpose, which is to describe the success drivers for vertical brand extensions in the luxury sector and to craft a model depicting the relationship between success drivers and effects of vertical brand extensions. In order to elaborate this purpose, the following research questions are defined:

What are success drivers for vertical brand extensions in the luxury sector to achieve positive and avoid negative effects?

How can the relationship between success drivers and effects be visualised in a model?

In this regard, academic literature distinguishes between three types of research purposes. Following the argumentation by Saunders et al. (2007), research can be explanatory, exploratory, or descriptive in nature. Explanatory studies strive to establish causal relationships between variables. Thus, they attempt to study a problem or a situation in order to explain relationships between the variables involved (Saunders et al., 2007). Studies are regarded as being exploratory when one is attempting to gain a deeper understanding of a rather unknown subject, when striving to find out what is happening or when trying to seek new insights for instance (Robson, 2002). Saunders et al. (2007) state that exploratory research is usually required to be rather flexible as research objectives may need to be quite substantially adapted in the course of the research process, which does not mean that there is no clear direction in the research but that the focus of the research becomes continuously narrower.

According to Robson (2002), a research is descriptive, when it is striving to craft a precise and accurate profile of certain situations, events, companies or persons. It is considered necessary having a rather clear imagination and impression of the phenomenon to be studied when conducting a descriptive research (Saunders et al., 2007). As the fields of vertical brand extensions are already quite extensively researched by well-established scholars such as Kapferer and Bastien (2012) as well as Aaker and Keller (1990) for instance, this research clearly fulfills this prerequisite and therefore qualifies to be descriptive in nature. However, the extensive research is primarily focussing on horizontal brand extensions and non-luxury brands, which is why it is fruitful to craft a precise profile of effects and success drivers for vertical brand extensions in the luxury sector constituting this thesis’s contribution to academic literature.

3.2 Research Approach

Concerning the research approach for this thesis, two decisions needed to be made. Firstly, it had to be decided whether to use a qualitative or a quantitative approach, and, secondly, whether a deductive or inductive approach should be pursued. Both decisions shall be outlined and justified in this section.
3.2.1 Qualitative vs. Quantitative

A meaningful way to differentiate between quantitative and qualitative data is to focus on numeric and non-numeric data (Saunders et al., 2007). While the former refers to numerical data or data that has been quantified, the latter refers to non-numerical data or data that has not been quantified (ibid). Furthermore, Malhotra and Birks (2007) argue that quantitative research technique are usually also applying some form of statistical analysis, while qualitative research techniques are usually based on small samples and intend to create insights, understanding or precise profiles.

Indeed, both the quantitative and the qualitative approach feature a number of relative advantages and disadvantages that are worth to be considered. It is argued that qualitative studies are said to produce no truly valid findings that can be applied to the entire population (Malhotra & Birks, 2007). This is due to the fact that qualitative researchers refrain from sampling representatively with findings based upon a single or only a few cases subject to the study (ibid). On the other hand, qualitative data are said to be the only method enabling the researcher to collect data sensitive enough to gain a deep understanding of and insight to social events as well as to create holistic profiles of certain phenomena (Strauss & Corbin, 1998).

Due to the fact that this thesis strived to describe and craft a profile of success drivers for vertical brand extensions in the luxury sector from a company perspective, applying a qualitative approach as described by Malhotra and Birks (2007) as well as Saunders et al. (2007) was considered to be most fruitful and goal oriented.

3.2.2 Deductive vs. Inductive

Basiclly, there are two grand approaches towards academic research. There is the deductive approach on one hand and the inductive approach on the other hand (Bonoma, 1985; Saunders et al., 2007). The inductive approach refers to studies that collect data prior to developing theory based on the analysis of the data collected (Saunders et al., 2007). Research that makes use of an inductive approach is said to be rather concerned with the context in which events take place (ibid).

A deductive research approach is exhibited by studies that develop a theoretical framework from existing theory in order to then design a research strategy elaborating the theoretical framework, which, in this thesis, is visualised in section 2.3 (Saunders et al., 2007). The deductive approach is classically regarded as the more scientific research approach as it is “the dominant research approach […], where laws present the basis of explanation, allow the anticipation of phenomena, predict their occurrence and therefore permit them to be controlled” (Saunders et al., 2007, p.117).

However, Bryman and Bell (2007) postulate that inductive and deductive researches cannot necessarily be fully and clearly distinguished from one another. Furthermore, it is admitted that labelling a research as being purely deductive or inductive is potentially misleading and of no actual practical value as both approaches partly entail elements of their counterpart (Miles & Huberman, 1994; Saunders et al., 2007). Thus the choice of the research approach is rather only a tendency towards one strategy (Bryman & Bell, 2007). This can also be seen in the fact that even though this thesis used a qualitative method which is generally rather associated with inductive research, the research approach was in fact of rather deductive nature. This is due to the fact that a multitude of academic literature covering brand extensions already existed, which has enabled the authors of this thesis to approach this research project in a deductive manner. Accordingly, the research question and the theoretical framework were developed based on the theory covered in the literature review of this thesis.
However, this thesis still contained inductive elements as new categories and sub-items were crafted based on the empirical findings as a contribution to existing theory.

In accordance to the explanations above, all research activities were organised in a well-directed manner, following the six-step deductive research process of Bryman and Bell (2007), as shown in exhibit 2.

![Exhibit 2: Research Process (own illustration, adapted from Bryman & Bell, 2007)](image_url)

### 3.3 Research Strategy

Saunders et al. (2007, p.135) posit that the research strategy must „enable [the researcher] to answer the particular research question and objectives.” Following this argumentation, the research strategy must fit the approach and the purpose of this study, which already have been outlined in the above. In order to fully answer the research question and to craft a precise profile of success drivers for vertical brand extensions in the luxury sector, a broad scope of possible research strategies has been considered. The strategies available to research are, according to Saunders et al. (2007), the following: experiment, survey, case study, action research, grounded theory, ethnography and archival research.

Due to the descriptive purpose and qualitative approach not all of these research strategies were applicable in order to collect valuable primary data enabling the authors of this thesis to answer the research question and to reach all research targets. Among all strategies considered, the case study was promising to be applied for researchers who wish to gain a deep understanding of the topic under investigation or to craft precise descriptions of certain phenomena (Morris & Wood, 1991). Within the case study, at least two semi-structured interviews were conducted in order to triangulate the results from each company and accordingly increase the validity of the research carried out (Bryman & Bell, 2007). Even though Saunders et al. (2007) argue that case studies are most likely to be applicable in explanatory and exploratory research, the authors of this thesis sided themselves with Morris and Wood (1991) and accepted a case study to be the best strategy to answer the research question in this descriptive study.

In total, there are four different case study strategies acknowledged, which are single and multiple case studies as well as holistic and embedded cases (Yin, 2009). While a single case is frequently used to investigate a truly critical or extreme case, a multiple case study is concerned with more than one case, which, in this study, is a range of luxury brands. As the authors of this thesis strived to investigate the success drivers and effects of vertical brand extensions in the luxury sector and not only in a small distinct branch, a multiple case strategy was chosen in order to incorporate brands from different branches including the automotive and perfumes industry. As it was not attempted to distinguish multiple sub-units or divisions of each brand but rather see and investigate each brand as a whole, Yin (2009) accepts this case study furthermore to be holistic and not embedded.
3.4 Case Selection and Sampling

Sampling techniques allow the researcher to “reduce the amount of data [needed] to collect by considering only data from a subgroup rather than all possible cases or elements” (Saunders et al., 2007, p.204). Common problems dealt with in academic research are budget and time constraints, which required limiting the amount of interviewees for this project. In qualitative interviewing it is firstly necessary to define the population from which the sample is chosen (Eisenhardt, 2002), which in this case were marketers of luxury brands. In this context, a luxury brand marketer was defined as a company selling its products at the top-end in its respective category, rather than defining it through the absolute prices paid for goods in a certain category.

Sampling techniques in business research be generally divided into probability sampling on one hand and non-probability sampling on the other hand (Saunders et al., 2007). In this context, no pre-defined and suitable sampling frame of luxury brands having successfully carried out a vertical step-down brand extension in the past available to the authors. Consequently, as a creation of a holistic sample frame would have exceeded the resources of this project indeed, non-probability sampling was selected as an “alternative way to select samples based on […] subjective judgement” (Saunders et al., 2007, p.226). In more detail, in order to be able to select cases that would enable the authors to reflect on the theoretical framework derived from the review of the literature and to answer the research questions, purposive, or judgemental, sampling has been applied and enhanced by convenience sampling (Collis & Hussey, 2009; Saunders et al., 2007). In this regard, a number of criteria to purposefully select an appropriate sample were applied, which were as follows: (1) to be a luxury brand that has successfully carried out a vertical step-down extension in the past (2) to be from different luxury industries, (3) to be accessible with regards to time and monetary resources of the authors and (4) to have access to appropriate research subjects.

The selected sample of this study originally consisted of five luxury brands that have successfully carried out vertical brand extension strategies in the past. However, as the interviewees and brands demanded to be anonymous in this study, they will be referred to as the perfume brands P1 and P2, the automobile brands A1, A2 and A3. Although the theoretical framework was derived from the literature review, there was no indication that each case investigated would reflect the framework and provide valuable information and insights to pursue the purpose of this thesis. In this regard, the story provided by the first interviewee at A3 was very thin and access to further interview partners was not granted, which is why the authors dropped this case and proceeded with the remaining four. The results obtained from the four companies would then enable the authors to contrast and compare complementary outcomes from the cases (Yin, 2009). In order to prepare for these interviews and obtain first practical knowledge about vertical brand extensions of the perfume and automobile industry, a pre-study with the well-renowned strategic management consultancy C1 was carried out. The pre-study further enabled the authors of this thesis to confirm that the major research topics derived from the literature review were relevant in practice and the questions in the semi-structured interview guide well understandable for third parties. All in all, this helped to guide more intelligently through the interviews and find adequate focuses during the primary data collection.

After defining the companies that are appropriate to be researched, gaining access to capable research subjects is regarded as one of the major problems of qualitative researches (Collis & Hussey, 2009; Myers, 2009). In this context, knowledge about vertical brand extensions and the success drivers behind this strategy in particular, was suggested to be possessed by brand, product and project managers in the companies described in the above. Therefore,
professionals in these positions were considered as best persons to contact in order to pursue the purpose of this thesis. In order to gain access to these promising research subjects, the authors of this thesis predominantly contacted promising potential research subjects through the online business networks Xing and LinkedIn, through Alumni networks the authors are members of, or by making use of personal relations to suitable companies. In all cases, potential interview partners would first receive a detailed e-mail introducing the researchers’ backgrounds, explaining the research project and how the results would be used (Myers, 2009). After the initial email contact to all research subjects in this study, a conversation on Skype was held with every suitable interviewee that has accepted to take part in the study in order to arrange an appointment for the actual face-to-face interviews and to further clarify any questions and concerns.

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<tr>
<th></th>
<th>Company / Brand</th>
<th>Interviewee</th>
<th>Position</th>
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<td><strong>Pre-Study</strong></td>
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<td>C1</td>
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<td>04.03.2013</td>
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<td>Marketing &amp; Sales</td>
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<td><strong>Case 1</strong></td>
<td>P1</td>
<td>Interviewee 1</td>
<td>Marketing Director Europe</td>
<td>04.03.2013</td>
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<td>06.03.2013</td>
<td>Face-to-Face</td>
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<td>06.03.2013</td>
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<td>06.03.2013</td>
<td>Face-to-Face</td>
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<td><strong>Case 3</strong></td>
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<td>Interviewee 1</td>
<td>Intl. Product Manager</td>
<td>07.03.2013</td>
<td>Face-to-Face</td>
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<td>Intl. Communications</td>
<td>07.03.2013</td>
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<td>Director Product Management</td>
<td>02.04.2013</td>
<td>Face-to-Face</td>
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<td><strong>Case 4</strong></td>
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<td>05.03.2013</td>
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<td>Interviewee 2</td>
<td>Intl. Project Manager</td>
<td>05.03.2013</td>
<td>Face-to-Face</td>
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<td>A2</td>
<td>Interviewee 3</td>
<td>Intl. Project Manager</td>
<td>05.03.2013</td>
<td>Face-to-Face</td>
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**Exhibit 3: Overview of Brands and Interviewees (own illustration)**

However, not all interviews were following this exact process. In the cases of P1 and A2, the interviews with the first interview partners could be carried out to a low extent only, due to time deficits of the interviewees. In this context, interviewee 1 of P1 was contacted three times but due to her very high position, it was only possible to have her on Skype for a few minutes. This is why for P1 and A2 third interview partners were recommended and accordingly consulted for the interviews. In the case of A1, the interviewee for the second interview was not chosen as a result of the above process as well, but was recommended in
the course of organising the first interview of A1. The brands and interviewees that have accepted to be part of the study are shown in exhibit 3.

3.5 Data Collection

There are two general possibilities of how to collect data for an academic research: primary data collection on one hand and secondary data collection on the other hand. Both collection methods applied in this study shall be briefly described in the hereunder.

3.5.1 Primary Data Collection Method

The research question and purpose is usually of high importance for the choice of the appropriate method (Yin, 2009). As the research project sets out to describe success drivers for vertical brand extensions in the luxury sector and to craft a model depicting the relationship between success drivers and effects of vertical brand extensions, qualitative interviews allowed the researchers to gather rich data on this specific topic (Myers, 2009; Saunders et al., 2007). This is due to the fact that qualitative in-depth interviews enable the researcher to learn from the experience of the interviewees, to comprehend their actions, decisions, attitudes and opinions, and clarify answers immediately (Marshall & Rossman, 2006; Saunders et al., 2007).

Within all forms of interviews as a form of primary research, structured interviews, semi-structured interviews and unstructured interviews are distinguished (Collis & Hussey 2009; Myers, 2009). Even though qualitative in-depth interviews are supposed to primarily encourage a rather free flow of the interviewee’s perception and thoughts of the matter, a certain degree of systematisation is often appropriate (Marshall & Rossman, 2006). In this case, semi-structured interviews were also appreciated for descriptive studies and were therefore selected for this project (Saunders et al., 2007). The nature of questions, however, was not constant throughout the entire interview guide. In order to gradually sensitise the interviewees for the topic and to enable them to fully reflect on each topic dealt with during the interview, the beginning and the end of the interview guide was set up of very open questions, as such an interview guide would enable the researchers to craft a precise profile of success drivers for vertical brand extensions in the luxury sector. The architecture of the semi-structured interview guide was generally built upon the theoretical framework presented in section 2.3, which is why the interview guide was accordingly composed of four grand sections, namely positive effects, negative effects, internal success drivers and external success drivers. In more detail, these grand sections were further divided into the very categories that were elaborated in the course of the theoretical framework in order to ensure that the primary data collected were linked to previous research that was carried out in the fields of vertical brand extensions. This combination of very open questions and rather structured questions is addressing this thesis’s deductive approach entailing inductive elements.

As the mother tongue of this thesis’s research subjects was German, the interviews were held in German in order to allow the interviewees to fully express their view upon the matter (Bryman & Bell, 2007). Accordingly, the interview guide was translated from the English into the German language by the authors and afterwards translated back into English by the trained German-English interpreter Tatjana Capriott in order to ensure that the very substance of the questions was identical in both versions. After a few amendments conformity was obtained and the interview guide given into primary research. The interview guide in both English and German is attached in the appendix of this thesis and presented in sections A.1 and A.2. The interview guide in English and German for the pre-study, is presented in the sections A.3 and A.4 in the appendix.
Even though the interviews mostly followed the structure presented on the semi-structured interview guide, the researchers added further information to questions whenever needed and also asked additional follow-up questions if it was considered fruitful. This was done to receive information in order to obtain more detailed information about a certain phenomenon or to explore new facets arising from a particular answer (Bryman & Bell, 2007; Collis & Hussey, 2009). All in all, the semi-structured interview allowed the researchers to adapt, be flexible and to discover new topics and facets of the phenomenon under investigation, which were not indicated after the review of the literature (Bryman & Bell, 2007).

The interviews within this case study have been carried out on a two-to-one and face-to-face basis, which was done due to several reasons. The most important intention was to allow the researchers to jointly process the answers and all other reactions including mimic and gestures immediately and to add follow-up questions or remarks right on the spot (Saunders et al., 2007). Simultaneously the authors of this thesis were striving not to intimidate the interviewees through their numerical superiority at any time, which is also why the interviews took place in the familiar environment of the interviewees’ offices. However, as two interviewees were geographically not reachable, due to time and monetary constraints, these interviews were conducted via Skype.

3.5.2 Secondary Data Collection Method
Secondary data are data that the researcher of a respective study has not originally collected himself (Saunders et al., 2007). Secondary data were collected in order to craft the theoretical framework of this thesis by reviewing relevant and appropriate books, academic articles and other publications.

For this study the authors of this thesis have used Halmstad City Library, Halmstad University Library and the Stockholm University Library to find books relevant to the topic. The books used were predominantly used to build a general knowledge about branding in general and the nature of luxury brands. Academic articles, on the other hand, were used to gain precise knowledge about the luxury brand as well as about the success drivers and effects of vertical brand extension in order to craft the theoretical framework applied. The following databases have been used to find relevant and appropriate articles: Google Scholar, JSTOR, Libris and Emerald. The most important key words used to find articles were: brand extensions, vertical brand extension, brand transfer, brand stretch, luxury brand, premium brand, luxury marketing, etc.

3.6 Data Analysis
The analysis of qualitative data requires the researcher to respect the meanings expressed in words, to categorise the collected data from non-standardised methods and to analyse the data through the use of conceptualisation (Saunders et al., 2007).

The initial step of enabling the authors to analyse the data was to audio record the interviews that had been carried out. Through this the most important aspects of the interviews could be provided in chapter 4, the empirical presentation (Saunders et al., 2007), since it was based on the transcriptions that were crafted out of the audio recordings from the interviews. In this context, the authors of this thesis were aware of the dangers imposed by translating a German audio record into English, however, this problem was dealt with very carefully in order to ensure that valuable data are neither lost nor influenced by the authors (Bryman & Bell, 2007). In order to capture and display data collected as illustratively as possible, the most impressive answers were presented in the form of direct quotations in the empirical elaboration (ibid).
The data presented in chapter 4 was analysed in a combination of a within-case and cross-case analysis. In a within-case analysis, the collected data obtained from each case are normally analysed separately and compared to theory in order to compare and contrast research results with previous work accomplished in these fields (Yin, 2009). Subsequently, the findings from each case are confronted with each other in order to highlight patterns in similarity and dissimilarity in cross-case analysis (ibid). A mixture of both analysis methods provided the advantage to directly compare the practical findings with the theory and simultaneously contrast the findings from the cases among each other. Hence, it is easier for the reader to directly see the multilateral relationship between the cases and theory while simultaneously avoiding the unnecessary repetition of information. Accordingly, the reflections in the analysis were following the structure of the theoretical framework by separately contrasting and comparing each domain and category presented in the theoretical framework with the findings gained in the primary research. However, as not all empirical findings were adequately dealt with in previous research, the authors of this thesis have crafted own categories and sub-items within these categories going beyond existing theory in order to discuss truly novice insights to vertical brand extensions in the luxury sector. This analysis strategy seemed to be most appropriate to answer the research question of this thesis.

3.7 Research Criteria

The most important criteria for research to be ascribed a meaningful informative value and a considerable academic weight, are the validity and the reliability (Bryman & Bell, 2007; Saunders et al., 2007). Both shall be examined in the following. Generally, it is very hard to ensure both reliability and validity in qualitative studies as the researcher as an imperfect human being is to be regarded as the dominant research instrument. The full disclosure of all relevant aspects of the research carried out for this project within this methodology chapter and obeying methodological rules for business research provided by literature represent the most important contributions to both reliability and validity.

3.7.1 Validity

Validity is given when the research carried out is relevant and valid, which is the case when the data collection method or methods accurately measure characteristics, which the researchers actually intend to measure (Malhotra & Birks, 2007). Accordingly, a research may be regarded as valid when “research findings are really about what they profess to be about” (Saunders et al., 2007, p.614). Within the fields of validity, also external and internal facets are distinguished. Internal validity refers to the data collected and how they actually suit the research question. External validity, on the other hand, refers to the ability to generalise the findings of a study (ibid). As the sample size in this study was rather low, it was of course barely possible to generalise the findings and project them on the entire population.

In order to cater for a high validity the authors of this thesis took a couple of measures that shall briefly be examined. First of all, in order to investigate the success drivers of vertical brand extensions it was considered necessary to actually collect the data from research subjects that are familiar with the topic and involved in decision making processes in the firm. Hence, marketing and product managers employed in the luxury goods sector were interviewed (see section 3.4). To triangulate the results from each company respondent, at least two interviews were carried out in each company (Bryman & Bell, 2007). Further to that, a large share of the companies and brands investigated in this thesis have been subject to previous studies, which is why their ability to serve as appropriate cases for this study was ensured. Additionally, as is outlined in section 3.4, a pre-study with a senior consultant of a strategic management consultancy has been carried out in order to make sure that the major research topic derived from the literature are relevant and can be researched in practice. In
order to allow the research subjects to fully express their opinion about the topic under research, the interviews were held in German, which was the mother tongue of all research subjects. As it was already briefly outlined in section 3.5.1, the interview guide was originally conceptualised in English, then translated to German by the authors and then back to English by a trained translator in order to make sure that the actual substance in both versions of the interview guide is identical.

3.7.2 Reliability
Malhotra and Birks (2007) state that the criterion of reliability is concerned with the ability of a research to yield the identical results after being carried out again under comparable circumstances. In other words, reliability describes the extent to which the data collection method will deliver consistent findings or similar observations when other researchers would attempt to conduct the same research again (Saunders et al., 2007). However, the actual aim of a reliable study is not to enable other researchers to replicate its results but rather to enable other researchers to carry out the identical study again, to which is referred as external reliability (Yin, 2009). Internal reliability, on the other hand, describes the degree to which qualitative studies incorporating multiple researchers are addressing the danger of an uneven interpretation of research results among the researchers (Bryman & Bell, 2007).

The most important actions taken to ensure the external reliability in this study were to fully disclose all relevant actions taken during the research process and to precisely describe the profile of how the research was carried out. The authors of this thesis were striving not to guide the interviewees in any kind of direction in terms of suggesting answers or by any other kind of influence. The interviews were not conducted under time pressure and in the interviewees’ respective offices to ensure a familiar and comfortable environment that also allowed the audio recording to be carried out without any difficulties.

3.8 Research Ethics
The “Guidelines on Best Practice in Research Ethics” published by the Dublin City University Research Ethics Committee (2006), where one of the authors of this thesis has studied before, was regarded as basis for all research actions taken during this study. To enable the researchers to carry out the research with the most scientific rigour and ethical adequacy, the authors constantly educated themselves through relevant business research literature, attendance of the corresponding research method lectures at Halmstad University and discussions with their supervisor, Navid Ghannad, and other academic staff employed at Halmstad University.
4. Empirical Data

In this chapter the empirical data from the qualitative interviews will be provided. In total, one pre-study in one consultancy and eleven interviews in four luxury companies were conducted. The interviews are written in a continuous text divided into five topics, starting with the background of the company and proceeding with the positive and negative effects, as well as internal and external success drivers for vertical brand extensions.

4.1 Pre-Study: C1

Background

C1 is one of Europe’s leading strategy consultancies. The company claims to have a deep understanding of cultures and markets and combines its European roots with entrepreneurial spirit. The consultancy’s experts focus on the demand side and offer market-driven, rule-breaking strategies to well-renown clients in industries such as fast moving consumer goods, automotive, retail, fashion and luxury. The consultancy has a comprehensive knowledge and experience in various disciplinary fields including marketing and sales, supply chain management and finance for instance.

The interview was carried out with Interviewee 1, Senior Consultant in Marketing and Sales, who has led numerous projects in the fields of brand extensions in the luxury sector. In the following, the results of this interview are presented.

Positive Effects of Vertical Brand Extension

The main goal of luxury brands behind the introduction of extension products is the increase of turnover and profits for the brand. Another reason can be the enlargement of the brand’s consumer base. In this context, the topic consumer development, meaning that the brand leads the consumer from the brand extension to the parent brand, is of high importance.

Regarding the contribution of extension products to the financial success of luxury brands, “it is rather the decrease of the brand’s unit costs than the gross margins of the extension product that increase the profit of luxury brands” (Interviewee 1, 2013). This is due to the fact that the gross margins of the extension product are in general not higher than those of the parent brand due to its low prices, especially in the mobile and automotive industry. However, the lower price level of the extension products leads to an increase of the brand’s sales and a depression of the unit costs in the long term.

Another advantage of vertical brand extensions is the increase of the parent brand awareness. Especially in the perfume or cosmetics market, it is common that luxury brands try to use lower priced products in the same product category as well as different distribution channels to decrease the consumers’ inhibition level to get in contact with the brand. The increasing awareness of the parent brand can positively influence other product lines of the luxury brand apart from the extension product. In this context, the topic “upselling” is of high importance, which means that a company tries to offer its consumers a higher priced product after these consumers bought the lower priced extension product. This requires that, “apart from presenting the same basic benefit, the traditional higher priced products provide an additional benefit to the consumers, which justifies the higher price level” (Interviewee 1, 2013). In the best case, this leads to consumer development as the consumers start with a low priced extension product and continue with higher priced products when they are older and possess the required money.

Besides the increase of the awareness of the parent brand, vertical brand extensions can also positively impact the brand image of luxury brands by creating stimuli for the consumer to try
out something new. A consumer who is familiar with a certain price level, will be bored by these products after a certain time, since the product does not have the same marginal utility as in the beginning. The consequence is that consumers search for another product which provides this marginal utility for them. In view of this fact, “a clever brand positioning along different price levels provides a good opportunity for luxury brands to siphon off different payment reserves and to keep their consumers in the long term” (Interviewee 1, 2013).

The repositioning or revitalisation of the luxury parent brand can be another effect of vertical brand extensions and depend on the brand’s current position in the particular country as well as its objective target. In this case, luxury brands need to manage “loading up dusty parent brands through a new positioned brand extension in a lower price segment” (Interviewee 1, 2013). Even though most of the luxury brands speak about filling a new market niche when repositioning their brands, this is not true as they mostly focus with their lower priced extension product on the mass market, or at least on a bigger market than they did before.

**Negative Effects of Vertical Brand Extension**

Besides the aforementioned positive effects of introducing a vertical brand extension, there are also negative effects to be aware of. “Especially when the parent brand and the extension product are not positioned identically, sold under the same brand name and in the same store it is difficult to avoid a brand image dilution as the negative effects of the extension product will be transferred to the parent brand” (Interviewee 1, 2013). Some luxury jewellery brands tried to solve the problem by arranging their high and low priced products on different floors in the same store and by making the highest-priced products only accessible for their upper-class consumer in order to separate the product lines visually. At the same time, this strategy formed the basis for consumer development by leading consumers from the low priced extension products to the traditional high priced products.

Although the traditional consumer clientele might not be satisfied with the introduction of the lower priced extension products and start doubting on the luxury image of the higher priced products, it depends on the branch of the company if the consumer’s dissatisfaction will be transformed into real action. Especially in the automotive industry, it is rather unrealistic that the traditional clientele stops buying a car for €100,000 only because they do not like the new lower priced model of the brand. However, this could be different in the perfumery and cosmetics industry, the mobile industry and the jewellery industry since here “product lifecycles are comparatively shorter and the amount of competitors higher, which eventually leads to lower switching costs” (Interviewee 1, 2013).

**Internal Success Drivers**

In general, the main success factor is the success story of a luxury brand. Vice versa, it might be more difficult for an outmoded luxury brand, which is barely bought by its traditional clientele, to introduce a successful brand extension. In this context, the country-specific perception of a brand might play major role. Another main success factor is that the core values of the parent brand are represented in the extension product and, in case the extension product represents also new values, that these values are complementary and not contrary to the core values of the parent brand. The awareness of the parent brand is also crucial for the success of the brand extension.

The representation of the parent brand’s historic and cultural attributes by the extension product is crucial for the brand extension’s success in the market place, especially with regard to the mass consumers “who mainly buy the extension product because of the parent brand behind this product” (Interviewee 1, 2013). At the same time, the extension product and the
parent brand should not have exactly the same utility to avoid the cannibalisation of the parent brand.

In order to minimise the risk of failure for vertical brand extensions, market research in form of a targeted analysis of a situation and the testing of the final product including personal surveys, focus groups and expert interviews in a small market would be vital.

**External Success Drivers**

Regarding the importance of the fit between parent brand and extension product, “*it is crucial to keep the brand’s luxury image despite the positioning of the extension product below the original price and quality level*” (Interviewee 1, 2013). The most common way is the use of a selective distribution strategy, the right positioning on the point of sales and the right positioning of the consumer perception. Weighing up the automotive and cosmetics industry against each other, the luxury object can be rather recognised in the automotive industry than in the cosmetics industry. This is due to the fact that the ideal utility of a product is mainly generated through the representation and perception of this product by other people. In this context, the choice of the luxury car makes a big difference for the consumer as it leads to another prestige feeling and another ideal utility. In comparison to that, almost nobody will see the difference between high- and low priced cosmetics products.

Another way of integrating the extension product in the luxury concept of the parent brand is to “*ensure that the marginal utility differs among the different product lines justifying different payment reserves of the consumer*” (Interviewee 1, 2013). This strategy can be supported by the use of sub-brand names. On one hand, the extension product is still associated with the parent brand by keeping the brand name in the sub-name. On the other hand, the use of an additional second name for the sub-brand creates a visual distinction between the positioning of the parent brand and the extension product to protect the parent brand from the brand extension in case the brand extension fails.

Besides the aforementioned factors, the strength of the parent brand is vital for the success of the extension product, which can be seen in the fact that the brand name is mostly kept in the sub-brand name. In this context, the influential market power and the perception of high quality are most important, “*while the already established extension products rather increase the risk of brand dilution as too many different positioned products exist in the market place*” (Interviewee 1, 2013).

In order to make the extension product successful and to minimise the risk of failure, it is also recommended to conduct risk evaluations by working with a good consultancy. This risk evaluation includes carrying out market evaluations, constructing and testing the brand extension concepts and calculating a business case. The input factors for the business case can result from different sources: market research, former experiences or secondary material such as statistics and project histories. The problem is that most of the luxury brands that do not work with consultancies mostly do not conduct risk evaluations.

**4.2 Case One: P1**

**Background**

P1 was established as a fashion brand, and is today diversified into the fields of fashion, furniture, accessories, hotels, cosmetics and fragrances. Later on the perfume business of P1 was established.

Within this thesis, the extension product is referred to as EP1, while the parent brand will be simply called P1. In contrast to the established parent brand products, which are sold for €56
and above, EP1 starts at €30\(^3\). EP1 embodies very modern and trendy values while still reflecting the luxury image of P1. The main goal behind the introduction of the extension product is the financial strengthening of the parent brand. As EP1 focuses on a new and younger consumer group in addition to the existing P1 consumer clientele, the brand seeks to increase their sales and profit margins.

The interviews were carried out with Interviewee 1, Marketing Director Europe, Interviewee 2, Product Manager Germany, and Interviewee 3, Trade Marketing Manager Germany. In the following, the results of these interviews are presented.

**Positive Effects of Vertical Brand Extensions**

In general, the brand mostly gained positive experiences with the introduction of the vertical extension product EP1 regarding the feedback of their consumers. Since most of the brand’s direct customers such as Douglas and Müller perfumeries believe that P1 fragrances are too expensive in comparison to their competitors, “they consider EP1 with its lower price as a good chance for consumers to access the overall brand, which is the reason why they are more willing to buy high quantities of EP1” (Interviewee 3, 2013).

Regarding the brand’s profit and sales, EP1 highly contributes to the financial success of the company with 25 per cent of the brand’s sales and is seen as the brand’s cash cow. As EP1 focuses on a new target group which could not afford to buy P1 products before, the brand widens its consumer base leading to increasing sales and profit margins, which is used for investments in media, advertising and promotion of P1. Another reason why the brand earns so much money with EP1 is that the marketing team does not need to promotionally support EP1 as much as other product lines, since it benefits from the awareness of its parent brand. In vice versa, if the brand would remove EP1 from the product portfolio “the company would have a hard time to survive financially” (Interviewee 2, 2013).

While the brand awareness of P1 has a positive effect on EP1, the parent brand also benefits from the extension product by gaining more attention in the market place. Although P1 was already well-known before due to its origin in the fashion industry, the broader distribution of EP1 is supposed to have at least a little positive effect of the parent brand’s level of awareness. This is also because “most of the consumers do not see a difference between EP1 and P1” (Interviewee 3, 2013). Instead they only see an increasing number of products under the established brand name in the selected perfumeries leading to the fact that they have more opportunities to get in contact with the brand. Although it is difficult to measure the relation between P1 and EP1 regarding the sales figures, the increasing brand awareness through EP1 is supposed to positively influence the sales of other product lines apart from the extension product. This is also supported by the positioning of the products in the perfumeries as “EP1 and P1 are placed side by side, so that a consumer of the extension product comes easily in contact with other product lines” (Interviewee 2, 2013). At the same time, the risk of brand cannibalisation through EP1 is quite low as the brand tries to fill a new market niche with EP1 by focusing on younger target consumer, who is not interested in the higher priced products.

Besides the increase of the parent brand’s awareness, P1 also experiences a positive influence on the parent brand image. While P1 represents elegance, high-end luxury, timelessness, understatement and simplicity, “EP1 is more modern, lifestyle-oriented and less selective with a focus on a broader and younger consumer base than the other product lines of the brand, however, EP1 still represents the very basic idea of classy chic” (Interviewee 2, 2013). Although these novice associations of EP1 are in contrast to the luxury image of P1, they help

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3 Prices as of 17th April 2013 from www.Douglas.de
the parent brand to lose its distance to the consumer by giving especially younger consumers the possibility to access the brand on the basis of its modern image and the low prices. The thought behind this strategy is the development of the consumer along the brand’s product portfolio, including the “transfer of the consumers from low priced products to higher priced products when they get older and wealthier” (Interviewee 3, 2013).

Even though EP1 rather represents novice associations than the core associations of the parent brand and focuses on a younger consumer group, it was not meant to reposition or revitalise the parent brand, but to rather financially support P1 in terms of sales and profit margins. In this context, it is important to see the different positioning of P1 in different countries “as a revitalisation of the parent brand is more important in countries where the brand image does not match with the consumer lifestyle” (Interviewee 2, 2013). But even though the repositioning was not intended from the beginning, EP1 still had some rejuvenating effects on the parent brand.

Negative Effects of Vertical Brand Extensions
Along with the loss of the brand’s distance to the consumers through the extension product, P1 might risk to tarnish its prestigious character. While the brand’s high quality is still ensured by all product lines, the brand extension does hardly represent the parent brand’s exclusivity, rarity and uniqueness due to its low prices, its broad distribution concept and its promotion in brochures. This is because EP1 shall be understood as “a mixture of a luxury and mass product and is therefore promoted as affordable and accessible luxury” (Interviewee 2, 2013). However, the brand did not receive negative feedback about the perceived prestige of EP1 so far, neither from the press nor from the consumers. This is due to the fact that most of the consumers only see the price difference but do not recognise a difference between the value of EP1 or P1, as it is still the same luxury brand for them. It is rather the high-end than the mainstream consumer who realises the brand differentiation strategy.

However, the push of EP1 towards a mass fragrance may lead to the dilution of the parent brand image in the future. Here it needs to be differentiated between the high-end consumers who only buy the traditional high priced products of P1 and the mainstream consumers who rather buy the lower priced EP1 products. While the latter considers the brand extension as interesting and positive for the overall brand, the high-end consumers do not see EP1 as a luxury product and might transfer these negative associations to the parent brand or even to the fashion line of P1 with the same brand name. In addition to that, the gifts in the form of cheap accessories handed out to aggressively promote and support the perfumes during promotional periods, are not really in line with the values P1 is originally representing. In order to control this image dilution and to keep the luxury image of the parent brand, the main intention of the brand is to reduce the amount of gifts with purchase (GWPs) and to only contain high-end luxury products in the product portfolio in a few years. Accordingly, “the brand’s long term goal is to highly strengthen the parent brand through the brand extension, but at the same time reduce the strength of the brand extension itself to be able to remove EP1 from the product portfolio in a few years” (Interviewee 2, 2013).

The negative feedback of the traditional high-end consumer clientele regarding EP1 let assume that a few of them left the brand and switched to other luxury brands, although it cannot be proved by exact numbers. Alternatively, the existing consumers of P1 understand the different positioning of the sub-brands and “either stay with the parent brand or switch to even more expensive P1 products” (Interviewee 2, 2013). In this context, the brand considers the focus on different strategies for the aforementioned different consumer groups of high importance in order to avoid consumers to be dislodged from the brand. As consumers in
different countries have a different way of life, the country perspective plays an important role when following this strategy. Concluding what was said before, the right focus, the country-perspective and different strategies for different consumer groups are most important when introducing a vertical brand extension.

**Internal Success Drivers**

One of the most important success drivers for EP1 is the high brand awareness of the parent brand since the brand belongs to one of the three most well-known luxury brands in the world. As most of the consumers do not differentiate between P1 and EP1, the positive image of P1 is transferred to EP1 since “consumers only see the brand on a much lower price level and therefore buy it” (Interviewee 3, 2013). The lower price level also makes the extension product to a popular gift, which raises the sales figures of the brand in total. Another success driver is the offer GWPs, as the consumers get a gift in addition to the extension product in the moment he buys the product.

Speaking about the importance of the legitimacy of the extension product for its success, “the fragrances are shaped from the fashion business with P1 as the main face of the brand” (Interviewee 2, 2013). In this context, the designer of the brand is always involved in all parts of the product, starting from the inspiration of the fragrance, the patterns of the package and the campaign of the products. Therefore, the most important cultural and historical attributes are the association with the designer and his inspirations, the connection to fashion, perfection and the high quality of the product. These attributes are also featured by the extension product, which highly contributes to its success in the market. As the designer P1 is a big icon and since EP1 is associated with this icon, consumers have no doubt about buying the extension product.

In order to successfully position EP1 in the market, market research was conducted. But since the headquarters of P1 are not located in Germany, most of the market research was carried out abroad, which makes it more difficult to see a clear relation between market research and the brand extension success in Germany.

While conducting market research plays a rather minor role for the success of EP1, a clear marketing strategy is of more importance. In this context, it is crucial for the brand to separate between the marketing of P1 and EP1 to create a clear differentiation between the parent brand P1 and the extension product EP1 in order to avoid the aforementioned dilution of the parent brand. While EP1 is promoted in brochures and supported with special promotions and discounts, P1 follows a rather reserved and conservative above-the-line marketing strategy. However, EP1 is less promotionally supported than any other product line of the brand as it is “a fast-selling item benefiting from the high brand awareness of the parent brand” (Interviewee 2, 2013). This is the reason why the brand earns so much money with EP1.

**External Success Drivers**

Regarding the conceptual fit between the parent brand P1 and the extension product EP1, both stand for quality due to their luxury origin. However, EP1 perfumes have a less luxurious and qualitative packaging and flacon than P1 products, the distribution strategy is less selective and the extension product is offered at a much lower price level than the parent brand. Nevertheless, the luxury image of the brand can be kept through the strength and the high brand awareness of the P1, which is also transferred to EP1. In addition to that, “the brand launches every year at least one high-end luxury fragrance to show the consumers that the high priced products predominate the lower priced extension products” (Interviewee 3, 2013). At the same time, EP1 benefits from the strong promotion of P1 at the point of sales as they are positioned closely to each other, leading to the transfer of the luxury image from P1
to EP1. With the help of these factors, the brand tries to continuously endure the prestige of the overall brand.

Since EP1 represents a new, more modern and trendier image in comparison to the parent brand, it makes sense to embody this image through the use of sub-brand. On one hand, the brand keeps a part of the name to make the brand extension more popular through the famous name. On the other hand, the sub-brand contains a second, non-generic name to “avoid destroying the selective concept of P1” (Interviewee 2, 2013). This concretely means that the trendy, modern and less luxurious image of EP1 does not harm the high-end luxury image of P1. In this context, the sub-brand name serves as a protection of the parent brand image regarding the transfer of negative feedback effects through the extension product. The use of sub-brand names for the brand’s fragrances makes even more sense since the same sub-names are also used for the fashion lines of the brand.

Besides the use of sub-brand names, the strength of the parent brand is vital for the success of EP1. Speaking of P1 it is especially the high brand awareness and the popularity of the parent brand named after the designer, which is of high importance. In this context, the influential market power has the highest impact on the brand extension’s success as it will be easier for a well-known brand to introduce brand extension products in the market than for a new luxury brand. Although the quality is surely important, it is rather seen as a fundamental prerequisite in the entire industry. The workmanship and the design of the flacon are even more crucial as a sign for the exclusivity of the product. The amount of the already established brand extensions is the least relevant factor as “competitors have more extension products and are still not more successful” (Interviewee 2, 2013).

Even though the management of risk evaluation before the introduction of the extension product is considered as vital, there is still space for improvements. In this context, the marketing team considers potential risks of the extension product, but “as the most important goal is to earn money with the brand, the sales figures decide in the end if a product is introduced or eliminated from the product portfolio” (Interviewee 2, 2013). Even though, the company does not want to have EP1 in its product portfolio from an image point of view, it currently needs the extension product to financially strengthen the parent brand. Due to the financial priority, the brand experienced a couple of failures with high investments in the past, which were difficult to reverse once the product was launched.

4.3 Case Two: P2

Background

P2 was established as a fashion brand, and is today diversified into the fields of fashion, home accessories and fragrances. Later on, P2 entered the world of perfumes.

Within this thesis, the extension product is referred to as EP2, while the parent brand will be simply called P2. Until the introduction of EP2 the price entry barrier to P2 was lying at around €52, and now lies at €37\textsuperscript{4}. EP2 consists of four different fragrances symbolising four different characters of men and women. In contrast to the established fragrances of the parent brand, EP2 is represented more colourful, young, modern and lifestyle-oriented. The main goal behind the introduction of EP2 is to strongly establish and shape the parent brand in the European and German market in particular. As P2 has a more traditional and outdated standing in the German market, the brand seeks to address a new and broader consumer group with the extension product in order to shape the brand in the long term.

\textsuperscript{4} Prices as of 17th April 2013 from www.Douglas.de
The interviews were carried out with Interviewee 1, Product Manager Germany, and Interviewee 2, Marketing Director Germany. In the following, the results of these interviews are presented.

**Positive Effects of Vertical Brand Extensions**

In general, the experiences of the brand with the extension product were mostly positive. Regarding the brand’s profit and sales, “EP2 contributes with around 45 per cent to the financial success of the company, which is an enormous amount for the brand” (Interviewee 1, 2013). As P2 is presented differently through the extension product, the brand gets a better negotiating position than a brand which represents the same kind of products over several years leading to a higher turnover. At the same time, the company needs to continuously invest a high amount of money in the marketing of the extension product to make EP2 successful in the market.

EP2 does not only have a positive impact on the financial success of the brand, but also slightly increases the brand awareness of the parent brand in the market place. This is not only thanks to the same brand name but also thanks to the whole idea of the transfer product. Especially the dynamic colours of the EP2 campaign increase the visibility and therefore the attention of the overall brand at the point of sales. Although it cannot be proved by exact figures, the increasing brand awareness is supposed to positively influence the sales of other product lines as the consumers are more often confronted with the brand as such. This is also due to the broader distribution of the brand. “While the brand was only presented on two shelves in perfumeries before the introduction of EP2, it is currently presented on four shelves leading to a higher visibility of the brand” (Interviewee 2, 2013). At the same time, there exists no risk of brand cannibalisation through EP2 since it focuses on a new and younger consumer group, “which did not buy the higher priced P2 products due to the non-identification with the American lifestyle image” (Interviewee 1, 2013). Therefore, EP2 rather leads to additional sales by attracting new consumers than to the cannibalisation of existing product lines.

In addition to the increase of the parent brand’s awareness, EP2 also reinforces the image of P2 on the basis of novice associations. While P2 is known for its elite image, American heritage and traditional colours, EP2 is positioned more dynamic and colourful to “create a new vibe around the brand and to focus on younger consumers” (Interviewee 1, 2013). On the other hand, “EP2 still reflects the image of the arrogant, spoiled American society since the trademark of P2, is prominently illustrated on the flacon of EP2” (Interviewee 2, 2013). Due to these ambivalent associations of the extension product, the brand manages to position the extension product differently from the parent brand while still keeping the core associations of P2. This strategy supports the focus on a completely new consumer group, while not losing the brand’s traditional clientele leading to a positive impact on the parent brand image.

Besides the reinforcement of the parent brand’s image, another reason for the use of the aforementioned novice association is the revitalisation of the parent brand to enable P2 to grow in the German market. In this context, one need to differentiate between the image of P2 in different countries: while P2 has a big market share in its home country, young consumers in Germany have difficulties to identify with P2 due to its American lifestyle image and its summerly fragrances, which do not match with the German climate. Therefore the goal with the introduction of EP2 was to rejuvenate the parent brand in Germany through a rather dynamic, young and new fragrance which attracts new and younger consumers. “The parent brand needs this hype right now in order to avoid that P2 will die out sooner or later” (Interviewee 1, 2013). At the same time the marketing team realised that it needs more than
the introduction of only one brand extension to reposition the brand overnight, since the outmoded and dignified American image is still in the head of the German consumers. Therefore, the brand intends to launch “new versions of already existing fragrances, which will be more modern and dynamic, in the next years to reposition the whole brand” (Interviewee 1, 2013). In general, the brand sees a bigger potential for P2 fragrances in young consumers than in the older consumer group in Germany.

**Negative Effects of Vertical Brand Extensions**

With the different positioning of EP2 in comparison to the parent brand, “most of the luxury attributes are not longer represented in the extension product” (Interviewee 1, 2013). Although EP2 still represents high quality through its name, its valuable materials and its packaging, the quality has changed in the way that the fragrance only consists of two instead of three scents. As the average price of the smallest EP2 perfume lies at roughly €29, the fragrance is accessible for almost all consumer groups, leading to a loss of exclusivity. Since the concept of EP2 was already imitated by other cosmetic brands and through the less selective distribution concept, the rarity and uniqueness are also not longer given. Summarising all these facts, “P2 has become a luxury product for the mass with the introduction of EP2” (Interviewee 1, 2013). However, the brand has not yet received any negative feedback regarding the tarnishing of the prestige of the parent brand as most of the consumers have not perceived the change in prestige.

This is mainly due to the fact that “P2 is not an ultimate luxury brand in Germany, which makes it easier for the brand to launch a brand extension without diluting the brand image” (Interviewee 2, 2013). For the future, it is not the fragrance EP2 itself, which might lead to the brand dilution, but rather the GWPs given to the consumers for free when buying EP2, since they sometimes do not fit to the image of P2. This is the reason why the P2 headquarters have already forbidden gifts such as caps and t-shirts. “Even though the strategy on EP2 is working out quite well right now, it can sooner or later lead to a prestige problem of the brand” (Interviewee 1, 2013).

Since most of the brand’s traditional clientele does not perceive P2 as a high-end luxury brand in Germany, the company has not received any negative feedback regarding the extension product. This is also due to the fact that “the mainstream P2 consumer is a loyal consumer who stands for the brand” (Interviewee 2, 2013). He usually buys his fragrances for many years and as long as he can still find his favourite fragrances, he is not interested in what happens besides these products. Even though some consumers may be irritated about the new concept of EP2, it would be exaggerated to say that they are dislodged from the brand due to the introduction of the transfer product. In this context, it is most important for a brand to follow different strategies for different consumer groups to avoid negative feedback effects.

**Internal Success Drivers**

The main reasons why EP2 is so successful in the market is its low price and its positive effect on the visibility of the overall brand. As the fragrance market is driven by new innovative products, “EP2 was the main impulse for the brand’s changing position in the perfumeries as it moved from the positioning in one of the lowest shelves to the top shelves” (Interviewee 2, 2013). This visibility is especially important for the brand to be recognised by consumer groups who are not very familiar with P2 or with the differentiation of different fragrances in general, such as men.

Speaking about the importance of the legitimacy of the extension product for its success, “P2 is shaped by the history of a designer” (Interviewee 2, 2013). Today the parent brand still represents the American lifestyle. On one hand, the extension product keeps some of these
historic attributes representing the American lifestyle through its packaging, to benefit from the high brand awareness of P2. On the other hand, the brand tries to dissociate from the original brand concept through its new colours and the more modern and dynamic campaign, since many German consumers have difficulties to identify with the traditional American image of the parent brand. Therefore the right mixture of keeping and distancing from cultural and social attributes of the parent brand makes EP2 so successful.

Since the positioning of EP2 differs in the United States and Germany, market research was conducted in Europe to identify niches and market potentials. Although the final concept of EP2 was only tested abroad and not in Germany, the brand was still able to deliver the right message to the consumers, “demonstrating that the conducting of market research is tricky to be connected to the success of the extension product from the local perspective” (Interviewee 2, 2013). Even more important is that the headquarters of P2 try to react on the feedback of the local product managers in every country in order “to present a fragrance which is adapted to certain markets and consumer groups” (Interviewee 1, 2013).

In addition to that, the promotional support and the visible positioning of EP2 at the point of sales are much more vital for the success of the extension product. Therefore, the brand invests a huge amount of money in the marketing of EP2 on a continuous basis. In this context, the brand creates different shopping experiences in selected perfumeries by emphasizing that P2 is not only driven by the American lifestyle. At the same time, EP2 is supported with the aforementioned GWP s contributing to the extension’s success as new consumers are more willing to buy the extension product when they get another product for free in addition to the fragrance.

**External Success Drivers**

Regarding the fit between P2 and the extension product, “the EP2 campaign focuses on emphasising the differences rather than the similarities between P2 and EP2” (Interviewee 1, 2013). While all fragrances of P2 have three scents, EP2 only contains two scents resulting in the fact that EP2 cannot be kept as long as the other fragrances and that it has to be used more often. At the same time, EP2 plays with luminous and almost kitschy colours rather than with the traditional colours in order to attract the young consumers. Although these differences complicate the fit between parent brand and extension product, one way to keep the luxury image of EP2 is its strong link to the fashion business where P2 is perceived as a luxury brand. In this context, the elite picture of EP2 is indirectly illustrated on the flacon and in all communication tools of the product line. Another way to keep the luxury image is the selective distribution of the parent brand having positive feedback effects on the brand extension.

In order to emphasise the different positioning of parent brand and extension product, the brand uses sub-brand names, which has several reasons. Firstly, the sub-brand name represents the campaign and the identity of the extension product and tries to create an entire new segment for the brand. As the name is kitschier, it rather attracts younger consumers than the traditional clientele of P2. Another intention of using a sub-brand name is the protection of the parent brand. In this context, it is considered fruitful to distance the brand extension product from the parent brand through the name in order to avoid negative feedback effects from the extension product. This is especially important for the cosmetic sector as the positioning of the products can change really fast. Thirdly, with the use of sub-brand names, “the brand benefits from its origin in the fashion industry, making it easier for an extension product to be accepted than for brands without this connection” (Interviewee 2, 2013). As the fashion brand with its different fashion lines is associated with savoir-faire and exclusivity, the use of the same sub-brand names for the fragrance product lines definitely helps to
transfer these associations to the extension product. This is also one reason why the brand still keeps the brand name “P2” on the flacon and the packaging of EP2, as the extension product will be much easier recognised by the consumers.

The choice of the sub-brand name shows how important the strength of the parent brand is for the success for EP2. As the brand awareness and the reputation of the brand in the market place is of high importance for the extension product, the market power is regarded as most vital for the success of the brand extension product, followed by the quality and by the number of already established extension products.

Regarding the importance of risk evaluation for the success of extension product, “it is more risky to introduce the extension product when the parent brand is well positioned in the market than for a brand whose positioning is not optimal as there is much more space to improve the current positioning of the brand” (Interviewee 2, 2013). In this context, the brand risked to introduce the extension product on a very low price level despite being aware that “this strategy could destroy the brand in the long term” (Interviewee 1, 2013). From a strategic perspective, this low acknowledgement of potential risks is rather bad for the brand since it will be difficult to enhance a destroyed image afterwards. But since the sales figures are most important for P2, the low price strategy was and still is the best option for P2.

4.4 Case Three: A1

Background
A1 is one of the oldest automobile manufacturer in the. Within this thesis, the extension product is referred to as EA1, while the parent brand will be simply called A1. Prices for EA1 start at about €24,000, which substantially eases the entry into the brand A1 as the next higher positioned model starts at about €34,0005.

In contrast to the parent brand, EA1 has successively been developed to a vehicle concept that especially targets young and not as financially strong consumers. Accordingly, the vehicle is very lifestyle-oriented, which is in sharp contrast to the very established parent brand. Therefore, besides increasing sales by allowing a broader consumer base to have access to the brand, A1 strives to substantially rejuvenate the sometimes as outdated perceived brand image and shape the brand in the long term.

The interviews were carried out with Interviewee 1, International Product Manager, Interviewee 2, International Communications Manager and Interviewee 3, Director Product Management China. In the following, the results of these interviews are presented.

Positive Effects of Vertical Brand Extensions

Offering compact cars was a totally new segment for A1 so it was not easy for the company to overcome scepticism in the market in the pre-launch phase. Still EA1 has been very successful since its introduction and was therefore successively developed to its current generation, with which the company claims to have finally mastered a big step to rejuvenating the brand.

From a financial point of view, gross margins per unit are lower in the hatchback-segment than it is the case for bigger and higher positioned models, hence the contribution to the financial success per unit is comparatively low in a first instance. However, the successive enlargement of the lower end of the brand portfolio increasingly allows the sharing of mutual

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5 Prices as of 17th April 2013 from the corporate website
vehicle platforms and architectures and therefore catalyses economies of scale. These positive effects mainly arise from spreading immense development costs for power trains and safety technology in particular to be spread across a wider range of models. As the sales volumes of EA1 and its derivatives are very high compared to the top-end of the A1 portfolio, the consolidated contribution to the financial success of the company is substantial.

Due to the fact that A1 is one of the oldest automobile brand and certainly already among the top three best-known brands in the world, the enormous sales volumes achieved through EA1 and its derivatives are not positively impacting the brand awareness of A1. EA1 as the product in question rather “helps the brand A1 to move into the set of brands considered by young consumers when planning the purchase of a car” (Interviewee 1, 2013). If at all, the brand awareness is more likely to be enhanced by the communication activities around the product, since these activities do not necessarily require those to which the brand A1 is not known to engage with the product as such. Generally, these measurements are quite hard to make, which is why it is also barely possible to record any positive spill-over effects from the enhancement of brand-awareness through EA1 and communication activities to the sales of other product lines. Enhancing brand awareness has, however, never been an actual goal of EA1 anyways but rather to rejuvenate the brand and to have the possibility to develop EA1 consumers to higher and more expensive models within the A1 portfolio, which shall foster total brand sales in the long term.

Not only in order to rejuvenate the brand in the long term but especially to reinforce the parent brand image, the core associations one makes with the brand A1 are to be represented in the transfer product, too. For A1, these core associations consist of perfection, comfort, quality, expressive design, safety and cultivated sportiness. Over the years, A1 has increasingly been regarded as an old-fashioned and outdated brand, which is why in this context it is especially the associations of expressive design and cultivated sportiness that are enhanced and reinforced by EA1. As both values are seen as very important for an automobile to radiate youthfulness, the brand image of A1 is not only reinforced but the brand is eventually rejuvenated.

This was in the absolute focal point when crafting and developing the concept of EA1 and therefore the car was deliberately given a modern design and sporty setup, in order to further catalyse consumer associations such as dynamics, fascination and modernity. The fact that these new and youthful associations have allowed the brand A1 to become a part of a younger consumer clientele’s set of brands considered when purchasing a car, of course positively influences the brand image. Even though it is too early to measure the actual extent of the brand’s rejuvenation through the latest generation of EA1, people are increasingly exposed to the brand A1 in fashion and lifestyle environments, since especially the coupé of the EA1 has become of sincere interest for fashion and lifestyle publications. This was unimaginable with the established product portfolio in the past, demonstrating the high value of the new EA1 and its derivatives for the rejuvenation strategy of the parent brand A1.

Negative Effects of Vertical Brand Extensions

At the same time, A1 is very concerned to be still perceived as a luxury brand and not to tarnish the brand’s prestige, even though this is endangered to be compromised by putting too much emphasis on lifestyle and fashion as these are often attributes of a short half-life period. Perceived value and quality is extremely important, which is why EA1 can be equipped with luxury options such as full-leather dashboards, chrome parts and other high quality material in the interior, enabling the driver and everyone getting in contact with the car to actually see and feel the luxury. Still luxury attributes such as uniqueness and exclusivity are rather
defined by the brand and not by the product itself, as cars within the same segment do not vary very much from a functional and technology point of view. Therefore, it is more a complex coherence of aspects related to brand experience, the design, the feeling in the car, the positioning as well as the environment in which the car is positioned, services and after-sales services in particular, which consequently define uniqueness and exclusivity. A1 does not consider “EA1 and all its competitors [to] be rare. There are special editions and models that define themselves through price and rarity, but for EA1 since the extension product strives to massively boost brand sales through vertical step-down extension” (Interviewee 2, 2013). Even though the luxury attribute of rarity is not represented in EA1, A1 did not receive any negative feedback regarding the perceived prestige of the brand extension as it was the case with previous models in the distant past, when A1 firstly introduced a considerably lower positioned model to the market.

This is also the reason why A1 does not consider its brand to be diluted by the lower positioned and youthful EA1 in any way, especially because consumers are said to be able to differentiate quite well between the sporty positioning of EA1 and the more comfortable and sovereign positioning of larger models for instance. However, and despite “all the new facets EA1 adds to the parent brand, it still is a true A1” (Interviewee 1, 2013) and therefore the image cannot be diluted. In fact, even existing consumers and drivers of other models never thought that A1 would be able to craft such a modern and expressive automobile and therefore also responded very positively to the new EA1.

A1 is sure that EA1 is targeting a niche of the market that is very new to the brand A1. From a global perspective A1 is observing a huge consumer conquest rate as almost every buyer of the new EA1 was driving a competitor product before, which proves that EA1 serves an entirely new consumer need that could not be served by the company before. As the car is serving a set of needs, especially including the need for a sporty and fashionable lifestyle, that is very new to the brand and the company, A1 also did not experience any negative sales effects such as cannibalisation of other product lines’ sales, since the portfolio still was much diversified.

**Internal Success Drivers**

The most important reasons for the success of EA1 are seen in its design that is a very unique in the market, as well as the attractive interior and the immense emotional value of the car. It clearly is not the functional benefit that is sought in EA1 anymore as these consumers would always choose to buy a Volkswagen Golf, yet this is not the clientele A1 wants to attract with EA1. Another important reason for the success of the latest generation in particular is definitely that it lives up to the expectations and promises the company makes. The car is not only said to be sporty but A1 is, by way of example, offering the most powerful engine in the segment.

Having the ability to innovate and to raise the bar in the market constantly a little bit higher, as it is exemplified with the intelligent vehicle architecture of the first generations and the engine portfolio of the current model, is a very typical aspect of the brand when looking at its history. Not only is the engine portfolio of EA1 reflecting the historic values of the brand but also the safety equipment that is available for the car. Accordingly, the safety equipment available in EA1 is the benchmark in the compact car segment. The availability of these features allows the company to actively communicate these attributes and eases the perception of EA1 as a true A1, which ultimately contributes to the success significantly. However, even though the most important historical brand facets are clearly represented in EA1, the model has developed to also take a step back from conservative A1 attributes in order to load the brand with rejuvenating values.
In order to identify market potentials and niches, the company is carrying out market research very systematically related to both the product and to the brand. The own product portfolio is constantly compared to the portfolio of other luxury automobile manufacturers in order to identify trends and potential paths to tread in the brand’s portfolio strategy. Once potential niches and potentials are identified, product concepts are crafted, which are exposed to current A1 consumers on one hand, and consumers of competitor products on the other hand during the entire product development process in so called product and brand clinics. “This enables A1 to really shape the product in line with the consumer taste in both design and functionality, while making sure that the consumer is always able to identify the core brand values in the product concept in progress” (Interviewee 2, 2013).

When the concept of EA1 and the development process were successfully finished, a comprehensive communication toolbox containing contents and material for a very wide integrated communication strategy was crafted. The toolbox was composed of extensive online material, modular film and video material, print material, banners, a comprehensive road-show concept that allowed the company to really go there where the target consumer is. Generally the international marketing toolbox was very well accepted by local subsidiaries and in addition to what the headquarters provided, global subsidiaries added another very colourful selection of communication and marketing activities to support the launch of EA1. Even though A1 strives to communicate in an integrated manner, of course local and cultural adaptations were necessary. The actual contribution to the transfer product’s success is, however, hard to measure because the coherences between the communication and marketing tools and the sales achieved are plainly too complex. The only thing the company is capable of is to look at the actual reactions of consumers on the activities and figure out what they liked and what they disliked. Even though A1 believes that “activities on Facebook, for example, will not generate any direct sales in the first instance, still activities like these are crucial to rejuvenate and shape the brand, which shall foster sales in the long term” (Interviewee 1, 2013). The most important marketing support element was, however, to enable the consumer to three-dimensionally experience EA1, which is why test drive events and other events were extensively organised even before the product was actually introduced to the market.

External Success Drivers
With regards to the conceptual fit of EA1, similarities clearly lie in the engines that are used in the car, which are the same across the entire portfolio. EA1 is further adopting the most important design elements of the parent brand including the design of the head lights and the grill, which makes it very easy to identify EA1 as an A1 from an outside point of view. However, a great difference in the power train concept is the less sophisticated front-wheel drive setup of EA1 compared to other platforms of larger vehicles that are exclusively rear-wheel drive. This allows the car to be more compact and saves weight, which is of course an important contributor to the car’s and the entire fleet’s efficiency level and therefore an important milestone to the brand’s vision of emission-free driving. Further to that EA1 and its derivatives have an independent interior concept, which is much more youthful compared to larger models. In order to still keep the luxury image while positioning EA1 well below the next higher positioned model in the portfolio, A1 is refraining offering aggressive price discounts as its main competitors recently did. Communication and distribution strategies of course have to reinforce the luxury image. Accordingly, “A1 would never widely communicate the price in the communication as mass marketers such as Volkswagen and Opel do. The price is something A1 does not like talking about in public” (Interviewee 1, 2013). Furthermore, even though the communication concept for EA1 is very revolutionary for A1, the overall brand-slogan is of course also communicated in connection to EA1, all
models of the brand are reconciled under a mutual communication strategy. With regards to
distribution activities A1 is selling EA1 in the same sales branches like all other models of the
brands and therefore creates a “very special and sophisticated environment for EA1 at the
point of sales” (Interviewee 3, 2013).

Regarding the use of sub-brand names, the sub-brand name of EA1 demonstrates the entry
possibility into the brand A1, which is why even though the current concept is heavily
different to the former generations, the company decided to still call it EA1. Furthermore, the
precise classification found on the boot of the car, clearly indicates which exact model the
consumer is driving and therefore enables the driver to fully express what he or she is driving.
Furthermore, even though the concept and the architecture of EA1 has substantially changed
over time, A1 did never consider changing the actual name of the car as it would have been
quite complicated to communicate both an entirely new product concept and a new name –
EA1 still is a A1 and not a smart or anything else. “An A1 remains an A1” (Interviewee 1,
2013).

Being a part of the A1 universe, embodying the core of the brand and being “100% A1 DNA”
(Interviewee 2, 2013) is crucial to the vehicle’s success. EA1 can immensely capitalise on the
strong trust in the parent brand, which will always be a strong criterion when it comes to the
purchase decision making of a car. This trust is mainly achieved through the relative market
dominance of A1 in the industry and in a next instance the quality all cars possess. A1 is sure
that if the brand logo would be removed from the car its actual functional benefits would
indeed remain, however, the brand A1 adds so much intangible and priceless values to the car,
which key to its success. The car would feel different and so the brand is necessary to make
EA1 the successful car it is today.

Being successful also includes minimising the risks imposed by transferring the brand
downwards. A1 is very careful when dealing with EA1 and therefore every decision made
was evaluated multiple times both when initially introducing EA1 and all its further
developments. The most important action that can be taken to minimise the risks and to be
successful in vertical brand transfers is “to stay trustworthy and to hit the core of the brand”
(Interviewee 1, 2013).

4.5 Case Four: A2

Background
Even though the company A2 does not have its roots in the automobile business, today’s
company focus lies on manufacturing luxury automobiles. Within this thesis, the extension
product is referred to as EA2, while the parent brand will be simply called A2. Prices for EA2
start at approximately €22,000, which considerably eases the entry into the brand A2 as the
next higher positioned model starts at about €29,0006.

EA2 was developed and introduced in order to address several issues and changing
framework conditions such as fostering urbanisation, strict environmental regulations and a
demand side that increasingly becomes price sensitive. In accordance to these issues that are
aimed to solve, the EA2 shall enable a broader consumer base to buy into A2 and to
financially strengthen the parent brand. Furthermore, A2 strives to increase the environmental
friendliness of its portfolio in order to obey European regulations – in other words it was
aimed to prepare and adjust the parent brand to the challenges of the future.

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6 Prices as of 17th April 2013 from the corporate website
The interviews were carried out with Interviewee 1, International Project Manager, Interviewee 2, International Product Manager, and Interviewee 3, International Project Manager. In the following, the results of these interviews are presented.

Positive Effects of Vertical Brand Extensions

EA2 has been accepted very well in the market and is constantly under the Top 20 new vehicle registrations. Accordingly, EA2 has become a valuable element in the A2 long term strategy.

From a financial point of view, EA2 contributes gross margins that are of course lower as it is the case for bigger and more expensive automobiles. This is due to the fact that the fixed costs for development and production are quite similar, while the prices that can be charged from the consumer are much lower. Therefore, the gross margin per unit is inferior, but through achieving high economies of scale, the entire EA2 then contributes again very strongly to the financial success of A2. The current generation shares a technological platform with the next larger model of the brand allowing to transfer a large share of the car’s interior and chassis onto EA2, which substantially contributes to economies of scale and therefore to the financial contribution of the car. The financial contribution is further enhanced by the fact that A2 does not individually invest in media and marketing support activities on a large scale but always aims to animate the entire product portfolio.

Due to the fact that the sales volumes of EA2 have almost risen to a similar level like those of the best selling model of the brand, the visibility of the A2 in the market is substantially enhanced. Furthermore, the introduction of EA2 was novice and revolutionary for A2, causing surprise and attention in the market. Yet it is merely possible to say that necessarily more people started to know the brand A2 through EA2, since the parent brand was actually already too popular and known before. So it is rather the attention that increases than the awareness of the brand. Attracting consumer attention is important in the German market in particular, where the share of premium and luxury automobiles meanwhile accounts for about 30 per cent. Therefore it is crucial for A2 to be very present in the market and numerous segments, in order to increase brand exposure and to attract attention. Still it is not easy to say if and to what extent such an increase of brand exposure, attention and maybe awareness is directly affecting sales of EA2 and also other product lines. It is rather aimed to develop consumers from EA2 to bigger and more profitable models, which is why A2 considers it very valuable having a portfolio that is wider spread across the price spectrum in order to be able providing suitable alternatives throughout the life of a driver. However, the company cannot measure “whether consumers of larger models have bought their car only because they were exposed to EA2 or in the media” (Interviewee 2, 2013).

Drivers of all A2 cars mostly seek sporty attributes in their automobiles, which is why A2 as the sportiest alternative in its segment is their first choice. The core of the brand A2 justifiably is to provide driving pleasure, which is also embodied by EA2 – maybe even better than by other A2 models as EA2 is smaller, more agile and very dynamic in comparison to larger models of the brand. EA2 as the smallest A2 model actually has the advantage that it is not obliged to do a balancing act between all sometimes contradicting setup parameters including sportiness and comfort for instance. EA2 does not aim to be the most comfortable car in its segment but puts great focus on being among the most sportive alternatives in the market, which is the absolute core of the A2 brand and therefore reinforces the core image of the brand. Another important facet of A2 has always been the design language, so accordingly design and aesthetics are major elements of the A2 brand image besides pure driving dynamics. Since EA2 is regarded as both a very dynamic and aesthetic model, A2 claims to really pay into the parent brand and reinforcing the brand image. So since EA2 is regarded to
hit the very core of A2’s image, the company says that it does not really add new associations to the parent brand but rather “emphasises brand facets such as sustainability, efficiency as well as design and dynamics in particular” (Interviewee 3, 2013). Being able to transfer the story of being the most dynamic and most efficient car brand to a very wide range of vehicles eventually enhances the image substantially.

Having a sporty design, not sacrificing dynamics over a comfortable setup and allowing a younger consumer clientele to buy into the brand, makes the brand as such younger from a macro perspective. Yet the company refrains from stating that it was intended to substantially revitalise the brand to an extent as it was aspired by its competitor. The brand A2 “actually works quite well and is perceived as being very youthful and up-to-date in comparison to some of its main competitor” (Interviewee 1, 2013).

**Negative Effects of Vertical Brand Extensions**

In order to not tarnish the parent brand’s prestige, A2 aims to be at the forefront of quality and perceived value in the market. Of course there are different expectations in the compact car segment than in the market for big saloon cars, yet the platform strategy allows A2 to transfer the same high quality elements they have in the next higher model to EA2. Major differences lie in whether or not the fine quality equipment is standard or optional. While a full leather interior may be standard in the largest model of the brand, the consumer of an EA2 must pay a price surcharge - so the quality of the actual entry models may be different but the consumer has the choice and possibility to substantially upgrade the quality and the value of the car. “At the end of the day A2 also have to compete on a price level but A2 would never sacrifice the luxury image over offering poor quality at a lower price. Luxury and quality absolutely go hand in hand at A2” (Interviewee 3, 2013). With regard to quality, one must not forget that the quality does not begin and end with the car as such but also the services provided besides the car including warranty agreements, repairing services, etc. These subsequent interactions and consumer touch points are the same across the entire model range of A2 and therefore a driver of an EA2 enjoys the same treatment as a driver of a much more expensive model, which is said to really distinguish A2 from mass market manufacturers. Further to that, A2 is incrementally transferring high quality equipment such as sophisticated safety features from models at the top-end of the market to the bottom-end of its portfolio in order to project the same level of quality to EA2. Even though the measures of rarity do not apply to the A2 EA2 as it is in fact a model that is deliberately aimed to achieve high sales volumes, A2 has not received any serious negative feedback on the perceived prestige of EA2. Accordingly, A2 does not experience its brand to dilute in any ways but rather to be strengthened. The company is sure that “as long as the transfer product represents typical A2 attributes including dynamics, joy, emotional design, top quality in both interior and other vehicle components [...] A2 does not expect the brand image to be diluted” (Interviewee 2, 2013).

With regards to negative effects on sales of other product lines, A2 is not able to make any precise measurements. Even though it is potentially imaginable that EA2 is cannibalising sales of larger, more profitable models, there are no figures supporting these concerns. At the same time, “consumers that grade up to larger model for instance throughout their consumer lifecycle would most certainly equilibrate cannibalisation effects” (Interviewee 3, 2013). There also is no evidence of consumers of other models to dislodge the brand or giving any negative feedback in response to the downward extension of the A2 brand. If anything, the downwards extension strategy has been so successful, that the bottom-end of the A2 will continuously be expanded by introducing further derivatives of EA2 and the new front-wheel drive platform.
**Internal Success Drivers**

The most important reason why the extension is such a success is because EA2 is still very loyal to original core brand values and so the consumer still experiences the car as a true A2. Despite the low price the consumer still has the opportunity to add value to the car by equipping it with very high quality optional equipments, which are adopted in downgraded versions from bigger and more expensive cars in the company’s portfolio. EA2 therefore embodies a luxury product and true A2 pedigree for a comparatively reasonable price.

The most important historical and cultural attributes of the brand A2 is the aforementioned driving pleasure, yet since the near past the cars’ efficiency is increasingly moving into the focal point of the company’s activities as the company strives to build and market cars that are perceived as dynamic and efficient at the same time. In order to justify the extensive development costs of more efficient power trains and to make these developments profitable, A2 has to manufacture great volumes, which, in a next step, is only possible when the company builds a large number of cars. In order to achieve this great output volume, A2 are obliged to expand their activities in the lower end of the market and therefore these values are inevitably also represented in EA2 and contribute to the extension product’s success.

The success is also built upon large investments in market research activities observing trends, competition and evaluating internally crafted ideas. Each potential niche identified is therefore multiply tested and evaluated in advance. The market research department carries out focus groups, shows design prototypes and evaluates price positioning and advertisements for instance. The findings and results from market research activities “continuously influence and shape the product development process; from the first ideas of the product concept to the final design and concrete positioning” (Interviewee 2, 2013). A2 further emphasises that the development of a new automobile normally takes between five and seven years, which requires the company to continuously validate previous results in order to stay on track of the latest trends in consumer perception, in order to identify and ward off threats by potential trend ‘bubbles’.

Once the final product concept of EA2 had arrived in the maturity phase and was given into serial production, a distinct launch marketing campaign was crafted and sales branches equipped with sales literature to support the sell-out of the car. For A2 it is especially events during which EA2 was exposed to the demand side. Here, there company considers it to be very important to play not a single car but the entire product portfolio. A role model of A2 event support activities were the Olympics 2012 in London, where the entire model range of A2 was accompanying the carrying of the Olympic torch. Further to that, key athletes were provided with adequate A2 models as this allowed the company to reach a very broad base of consumers outside. In this context EA2 was aimed to target a rather young consumer clientele and consumers at the lower end of the luxury automobile market. Hence, EA2 enables A2 to speak to a much wider audience as it would be possible without the vertical extension product. A2 found that it is essential for the success of EA2 and consequently the company, that the car is always shown and played in connection to the entire product portfolio as the model itself is not spectacular enough to attract much attention. Classically, the more expensive a product is, the more attention it attracts when it is placed somewhere.

**External Success Drivers**

The aforementioned services provided including special treatments in the garages or mobility warranties for instance are a good possibility to differentiate a luxury car from the mass market competition. Another premium and luxury automobile attribute has always been the safety characteristics of a car, which is likely to even gain importance prospectively and therefore represents a vital opportunity for A2 to demonstrate and promote the luxury facets
of the brand. Some safety features such as night vision technology are currently only available in the top-end of A2’s product portfolio; however, high-tech features like these are usually gradually transferred to smaller models in order to create a connection to the top-end models, upgrade lower models and differentiate them from the competition. Then there is the important criterion of perceived value, which is different to the quality as such. The perceived value can be touched, seen and smelled and especially includes materials used in the interior. These materials make up the certain something when it comes to experience the actual car and differentiates the EA2 from mass products. Further to that A2 is striving to cater for the fit in its communication and distribution activities by selling EA2 under the same general brand slogan “driving pleasure” and not differentiating between the models in its distribution strategy and therefore sells the entry model in the same branches like the largest models.

Referring to the use of sub-brand names, the sub-brand name is meanwhile a very established model name that mainly serves two main purposes. Firstly, the categorisation within the entire portfolio in order to craft a hierarchy of names that is in line with the price positioning of the respective models. This is crucial, which is why also other premium car manufacturers apply the same logic in their naming. It is simple, but rather effective. The full naming of each model further shows which engine the car features and therefore enables the consumer to explicitly show what he or she is driving. Consumers are proud to show that they were able to buy and drive a car with a three litre 6-cylinder engine and therefore A2 must provide them with an opportunity to demonstrate their achievement. To a certain extent the differentiation of model names within its product portfolio serves to protect different model lines from one another. As EA2 is sharing a platform with other models of the brand it would also have been possible to launch EA2 as a derivative of the next higher model but this would have been very risky as history has demonstrated. Once A2 offered a compact version of this next higher model, which was very close to what the brand now offers as EA2, yet the car was not very successful and eventually discontinued. Launching a similar model now under a new product name, allowed the consumers to better understand and to appreciate the car and parallel to that also enables A2 as manufacturer to further differentiate the product from larger cars.

Meanwhile, the strength of the parent brand immensely contributes to the success of EA2. A strong brand in the luxury automobile industry is generally regarded as very important, since “the consumers’ investment, no matter what type of car he or she purchases, is very big and therefore the trust of the consumer in a brand is absolutely crucial” (Interviewee 2, 2013). Hence, even if the car and all its features as such appeared to be very promising, there would still be a high level of uncertainty if the brand was unknown to the consumer. In this context EA2 has greatly profited from being launched under the well-renown A2 brand as this substantially supports consumer trust and therefore sales. Further by A2 acknowledged supporting factors of a brand extensions success embrace the consumers’ perception of high quality and perceived market dominance. A2 would not compromise high quality at any price and consumers also expect an A2 to be of high quality. Moreover, buying a product from the market leader, consumers feel much more secure in their purchasing decision, which then also eases the acceptance and high sales of further products. The firm says that this is also the reason why the CEO’s of the biggest luxury brands in the automobile sector put so much effort into the struggle of being number one in the market from a sales perspective.

In order to ward off potential threats of vertical brand extensions, A2 is deciding no portfolio related matter before not all options available to the firm are discussed. Accordingly, the firm would never transfer the brand upwards, downwards or horizontally if the company would not be sure that it is the right strategy. Minimising the risk of not hitting the core of the brand is therefore very crucial in everything A2 does - “an A2 must always remain an A2” (Interviewee 2, 2013).
5. Analysis

In this analysis chapter the categories presented in the theoretical framework are used to structure the comparing and contrasting of the empirical findings with the existing theory. However, in order to adequately deal with all facets of the data collected, new categories and sub-items are crafted. Furthermore, a model is crafted presenting the outcome of the analysis and depicting the relationship between success drivers and effects of vertical brand extensions, which shall contribute to the understanding of vertical brand extensions in the luxury sector.

5.1 Positive Effects of Vertical Brand Extensions

Financial Contribution - All four case brands see positive contributions of the vertical brand extensions to the financial performance of the company, which is in line with Aaker and Keller (1990) as well as Thorbjørnsen (2005). This high financial contribution is especially important for luxury brands, since even though the highly expensive prestige products create the aura for the essential credibility of the luxury brand, these rather low volumes are not very profitable (Kapferer & Bastien, 2012). The financial contribution is significant in the case of P2 in particular, where EP2’s share in sales and profits meanwhile accounts for 45 per cent since the introduction in 2010, while the share of EP1 amounts to 25 per cent - A1 and A2 could not provide any precise data. Increasing profits are especially achieved through generating additional sales by attracting new consumers, decreasing media costs and benefits through synergy effects (Aaker & Keller, 1990; Burkhardt, 2011; Kim & Lavack, 1996). However, one can clearly identify different patterns among the two different industries that have been researched in this study, which has not been pointed out in theory so far. Companies in both industries benefitted from incremental sales through attracting additional consumers to the brand, yet in the automobile industry additional gross margins are not only contributed by additional sales but especially due to enormous economies of scale. This is due to the fact that fixed costs for production and product development are considerably higher in the automobile industry, which is why vertical brand extensions are only profitable, when synergy effects with other product lines arise. These synergy effects are mainly gained from the sharing of vehicle platforms and architectures as well as the distribution of distinct technology across multiple models.

Having observed branch-specific characteristics, there are also significant differences in financial contribution abilities with regard to the actual purpose of the vertical brand extension that are not industry-related at all. All brand extensions benefited from the familiarity of the parent brand, which is said to have positive effects on expenditures for media and distribution activities (Aaker & Keller, 1990; Thorbjørnsen, 2005), as it is exceptionally demonstrated by P1 and A2, which do not promotionally support their extension products as much as other product lines due to the radiating effects of the parent brand. P1 even views EP1 as a fast-selling item, which is profiting from the media investments in the parent brand representing another reason why the company is financially very dependent on EP1. On the other hand, P2 and A1 still invest huge amounts in promotional and media support. This can be traced back to the different primary strategic goal of the brand extensions. While P1’s and A2’s predominant aim was to generate incremental sales when introducing EP1 and the EA2, A1 and P2 strove to substantially shape the perception of their brand. Therefore, it appears that brands, which only want to generate additional sales with their extension products, invest considerably less in media support activities than companies intending to shape their brand positioning, which is why gross margins contributed by the brand extensions are not shrunk.
Increase of Brand Awareness - Besides the positive contribution to the financial performance of the luxury company, there is supposed to be raising parent brand awareness through the vertical extension, as consumers have more possibilities to get in contact with the brand (Huber, 1997; Kaufmann, 2006; Stegemann, 2006). Although all four case companies observe a raising attention for the brand in the market place through an increase of visibility and brand exposure, only P1 and P2 experience a slight increase of actual brand awareness. For P1 this is especially due to the fact that many consumers do not see a difference between the brand extension and the parent brand, but rather observe an increasing number of products under the established brand name at the POS. A1 and A2, on the other hand, do not experience any increase of brand awareness at all, since their brands are already too popular and established in the market. A1, in particular, is one of the oldest automobile brands in the world and globally among the top three best known brands, which is why brand awareness cannot be impacted at all. Even though A1 and A2 do not see their awareness to be enhanced, both of them consider brand extensions as an important tool to enhance the brands’ possibilities to be continuously moved into the mindset of consumers and so to remain omnipresent and successful in the market. This is especially emphasised by A2, which regards brand extensions as an inevitable strategy to remain competitive when rivalling in saturated markets that partly feature a luxury brand share accounting for 30 per cent and above.

Even though all four companies acknowledge the theoretical relationship between a raise of brand attention, awareness and the raise of sales of other product lines (Reddy et al., 1994; Völckner & Sattler, 2006), they all admit that the actual measurement of this relationship is barely possible and hard to quantify. Still this very relationship appears to be rather existent for the perfume industry than for the automotive sector, since a high level of brand exposure and visibility at the point of sales (POS) is considered paramount in the marketing of perfumes. This coherence is pointed out by both P1 and P2 saying that the visibility and brand exposure is considerably increased by their brand extensions, since a bigger product portfolio now allows the brands as such to be represented on more shelf boards at the POS than before and accordingly a greater possibility to attract consumer attention. In addition to an increase of the brand’s surface on the shelves, the visibility can also be increased by a better shelf-positioning, which is especially demonstrated by P2 whose fragrances were removed from the very bottom to higher levels on the shelves in response to the introduction of EP2. This positioning on eye-level enables the brand to be faster and easier recognised and, therefore, to be considered for purchase by consumer groups who were not familiar with P2 before. One reason for these coherences could be that, in contrast to the automobile industry, the nature of perfume purchases is relatively spontaneous and therefore an increase of brand visibility does not only foster sales of the brand extension but also sales of other product lines of the brand.

Consumer Development - In the context of brand extensions positively enhancing the sales of other product lines, A1, A2 and P1 describe the importance of being able to develop consumers from the lower end to the upper end of the portfolio, which was also confirmed by the pre-study with C1 but not outlined by P2. Therefore, it is considered important to have a brand portfolio that is rather wide-spread across the price spectrum in order to enable the company to offer suitable alternatives throughout the life of the consumer, since it appears that the solvency of consumers increases with progressing age. In the best case, this concretely means that the extension product allows young consumers a comparatively easy access into the brand and therefore enables the company to continue selling higher priced and more profitable products over the consumers’ lifecycle within the brand. The pre-study has yielded that in this context the perceived utility derived from a certain product shrinks over time and therefore catalyses the consumer’s demand for other products with a higher marginal utility that is justified by a higher price. Accordingly, it appears to be fruitful for a brand to
position the brand along different price and marginal utility levels in order to siphon off different payment reserves of the consumers and to keep the consumer in the long term within the brand. This consumer development or “up selling” of consumers as outlined by A1, A2 and P1 has not been pointed out by existing theory and represents additional input to theory in the fields of positive effects of vertical brand extensions – therefore this additional category was created.

**Reinforcement of Brand Image** - Not only the brand awareness and attention are reinforced by brand extensions but also the overall brand image, either through the strengthening of existing parent brand associations or through the creation of novice positive associations (Haedrich et al., 2003; Huber, 1997; Kaufmann, 2006; Pitta & Katsanis, 1995; Sattler & Völckner, 2007). All companies subject to this study agree upon the fact that extending their brands has reinforced their brand image through animating positive associations consumers make with the brand extension. However, one can clearly distinguish certain industry-specific patterns with regard to the type of associations used for this image reinforcement. Automobile brands rather animate already existing associations that have partly passed out of the mind of consumers, while the perfume brands, on the other hand, add truly new associations to the brand. In concrete terms this is demonstrated by the EA2 emphasising the established associations of driving dynamics and efficiency, and the EA1 moving associations related to expressive design and cultivated sportiness back into the mindset of consumers. In contrast to that, for EP1 and EP2 it is obvious that they create a new atmosphere around the brand through the use of more modern, dynamic and lifestyle-oriented associations while still keeping the parent brand’s core including the origins of the brand. This use of novice associations aims to neutralise former negative connotations with the brand (Huber, 1997), such as the elite American image of P2 or the conservative and classical image of P1.

One potential reason for these industry related patterns featuring the strengthening of existing associations for the extension product in the automobile industry and the creation of totally new associations in the perfume industry could lie in the different dynamisms and time orientations in the market place as well as the different costs that arise for each brand extension. In comparison to the automobile market, it is expected that the comparatively fast changing perfume sector featuring rather short product lifecycles, a huge amount of competitors and relatively low fixed costs allows and requires perfume brands to act much more in the short term. Therefore, it appears that perfume brands are obliged to constantly adjust the associations made by adding up-to-date values and to constantly give consumers new reasons to buy the brand, which is the reason why they use especially novice associations for their extension products. Due to the comparatively low fixed costs, they do not expose themselves to a high risk when following the aforementioned actions. Hence, the consequences of failure for perfume brands will be less severe than for automotive brands having higher fixed costs and price ranges as well as longer product lifecycles. Automobile brands therefore tend to stress and strengthen existing associations including expressive design, comfort, agility, driving pleasure and safety, since these associations are unlikely to ever become out of fashion in the automobile industry.

**Revitalisation/Repositioning of Parent Brand** - The aforementioned positive image transfer from the brand extension to the parent brand can ultimately lead to the revitalisation or even repositioning of the parent brand (Burkhardt, 2011; Supphellen et al., 2004). While the reinforcement of the brand image is regarded as a medium-term effect, the repositioning or revitalisation is located on a superior perception level, since it affects the brand in the long term (Pitta & Katsanis, 1995). Comparing theory with the practical findings from the cases, it is vital to isolate the terms revitalisation and repositioning from one another. All brands in this study feel to be revitalised and rejuvenated as a consequence of their brand extension, which
is due to the fact that the extension product as a “junior” version of their brand allows a new and younger consumer clientele to buy into the brand (Nueno & Quelch, 1998). However, it would be exaggerated to say that the introduction of a sole extension product would entirely reposition the brand, as the parent brand image is still too anchored in the mindset of consumers. Among the four companies reviewed, P2 is the only brand that aims to actually reposition the brand and accordingly regards the EP2 only as a very first step towards the repositioning. Prospectively, the company strives to launch new and younger versions of their entire product portfolio in order to achieve a repositioning of the overall brand. Only through this consequent rejuvenation strategy across the entire portfolio is the company able to load up the parent brand with youthful associations and to finally reposition the brand (Kaufmann et al., 2005; Pitta & Katsanis, 1995).

At the same time, the country-specific perception of the brand is highly important when it comes to the revitalisation of the brand. Even though the country level had not been subject to previous research in the fields of vertical brand extensions, the pre-study has raised the suspicion that indeed cultural and geographic differences are vital for the brand positioning and the need for changes - a coherence that has been confirmed in the actual study. In this context, a revitalisation strategy through vertical brand extensions may be necessary in those countries where the current positioning of the luxury brand does not match with the consumer lifestyle leading to declining sales. Both P2 and A1 were facing exactly this problem as consumers could hardly identify with the brand in the German market for instance, which is why the rejuvenation of the brand was a factual goal of extending the brand. While P2 wanted to drop its American lifestyle image, A1 intended to not being perceived as outdated and conservative anymore. On the other hand, P1 and A2 did not face this identification problem and rather intended to achieve incremental sales through extending their brands. The rejuvenation these brands are experiencing is therefore rather a by-product of the brand extension strategy.

5.2 Negative Effects of Vertical Brand Extensions

Brand Cannibalisation - A major negative effect that can occur in the context of vertical brand extensions is the cannibalisation of other product lines of the parent brand (Kaufmann, 2006; Kim & Lavack, 1996; Sattler & Völckner, 2007). This reallocation from parent brand sales to the less expensive product line is likely to shrink the company’s profit since the margins for vertical step-down extensions are usually much lower (Kaufmann, 2006; Keller, 2008; Kim & Lavack, 1996). All four case companies are aware of the theoretical connection between vertical brand extensions and cannibalisation; however, none of their sales reports confirm these concerns. Hence, the companies subject to this study do not perceive cannibalisation to be a major issue in their operations. Even if there were any negative effects on sales of other product lines, A2 points out that these would be more than equilibrated by the opportunity to develop attracted consumers from the low-end of the portfolio to more profitable product lines of the parent brand, to which was referred as “consumer development” in the above. The brands agree upon the fact that the rare occurrence of cannibalisation can be traced back to targeting a part of the market, which is very new to each brand and therefore does not harm sales of other product lines. This is even more emphasised by high consumer conquest rates the companies observe for their brand extensions, which suggests that the vertical extension product is serving a need that could not be addressed by the brand itself but only by competition before. The satisfaction of these needs is particularly achieved through offering the aforementioned “junior” versions, ensuring that the extension products differ in both quality and price in comparison to the brand’s original portfolio (Kim & Lavack, 1996; Nueno & Quelch, 1998). As the price difference is a prerequisite condition for the vertical brand extension as such, it seems that it is rather the differentiation of the
extension product’s quality and utility, which are meaningful in this instance. These
differences are rather easy to observe in this study’s automobile brands, as both the EA1 and
the EA2 obviously differ in both product concept, availability of certain technology
equipment, size and performance from the rest of the portfolio. Looking at the perfume brands
P2 and P1, these differences turn out to be not as obvious, as differences predominantly lie in
the fragrance formula and the quality of the packaging. Following these observations, it can
be concluded that the cannibalisation of existing and more profitable product lines is not
applicable to the four case companies as the vertical extension product is in every instance
located on a lower quality and utility level (Aaker & Joachimsthaler, 2000; Reddy et al.,
1994). Hence, the importance of this effect is of merely low importance for this thesis.

**Tarnishing of Parent Brand Prestige** - Another negative effect of the introduction of more
accessible product lines is said to be the tarnishing of the parent brand prestige as a result of
undermining the essence of luxury (Dall’Ollmo Riley et al., 2004; Kapferer & Bastien, 2012;
Kim & Lavack, 1996; Pitta & Katsanis, 1995; Stegemann, 2006). This undermining can lead
to a re-evaluation of the original luxury brand, which may then result in the loss of the brand’s
core values in terms of high quality, uniqueness, exclusivity and rarity (Dall’Ollmo Riley et
al., 2004; Park et al., 1991; Stegemann, 2006). All four case companies are concerned about
the brand prestige as it is acknowledged to be a major selling proposition of their products and
must therefore not be compromised over the introduction of more accessible product lines.
They agree upon the fact that a substantial contributor to preserving the prestigious character
of their brand is to keep a high quality of their extension products, although there are minor
differences to be identified in comparison to the parent brand. In this context, the perfume
extension products still represent high quality through their valuable materials; however, EP1
demonstrates differences in its packaging quality, while EP2 fragrances are only composed
out of two instead of the usual three scents. Meanwhile, both A1 and A2 strive to cater for
high quality by optionally offering their consumers the possibility to fit their vehicles with
truly luxurious equipment possibilities such as full-leather dashboards and chrome parts,
which enable the driver and everyone getting in contact with the car to actually see and feel
the luxury. In contrast to that they simultaneously offer high technology equipment in the
fields of safety and comfort in just downgraded variants.

With regard to the further classical luxury attributes of exclusivity, uniqueness and rarity, the
situation is not as clear as for the measure of high quality. Looking at the brand extension on
an isolated product level, all brands do not consider their brand extension to actually radiate
these values and attributes. As it is aimed to generate high sales volumes with all extension
products, the measure of rarity suffers considerably and is factually not longer represented on
the product level. Further to that, the companies also consider the attributes of uniqueness and
exclusivity to be sacrificed by the extension product due to various reasons. P1 and P2 see the
most important reasons for this development in the very broad distribution concept for their
products, low prices as well as in the aggressive promotion of the brand in brochures of high
street shops. A1 and A2, on the other hand, regard the measures of uniqueness and exclusivity
to be negatively affected by the missing differentiation on the functional and technology level
in comparison to the competition in the segment. Furthermore, A1 points out that the
placement of the EA1 and its derivatives in fashion and lifestyle environments contradicts the
brand’s original idea of exclusivity.

Although theory states that the missing representation of the aforementioned luxury attributes
by the extension product may result in negative feedback on the perceived prestige of the
parent brand (Haedrich et al., 2003; Kaufmann, 2006), the companies in this study have not
experienced negative reactions of their consumers. Accordingly, it appears to be well possible
to position a part of the brand between the prestige level of the traditional luxury brand and
the price level of middle range brands, to which is referred as a “masstige” strategy (Silverstein & Fiske, 2005; Truong et al., 2009). Following this argumentation, P1 and P2 understand their extension products as an expression of affordable and accessible luxury. In the context of the “masstige” strategy it appears to be fruitful to take theory a step further by really differentiating between the company and the consumer perspective in perceiving prestige because even though the brands know about the differences in prestige attributes, consumers are said to not observe or at least are not disturbed by these differences.

An explanation for this may be found in the development the luxury market was undergoing in the past decades. Luxury brands are not as one-dimensional and homogenous anymore, since product portfolios are nowadays much quicker extended than in the past, which is why consumers have become sensitised for the opening of brands. In former times, consumers have complained about how luxury brands could possibly introduce basic low-end products, however, the perception and tolerance of society seems to have substantially changed meanwhile. In detail, this suggests that people have become much more open towards the step-down extension, which is why they do not feel disturbed by vertical step-down extensions anymore and so tolerate and welcome brands in segments that did not belong to their original territories.

**Dilution of Brand Image** - Even though the loss of the luxury attributes of the extension product does not necessarily have to lead to the tarnishing of the brand prestige, the brand image can be diluted in the long term if the associations and values represented in the brand extension are not in line with the parent brand’s original promise (Kaufmann, 2006; Kim et al., 2001). As is outlined in the above, the companies subject to this study have so far not experienced any brand diluting but only brand strengthening effects caused by the brand extension. However, one can clearly identify an industry-specific pattern with regard to the perception of future risk of brand dilution, since there is a difference between the findings gained from perfume brands on one side and automobile brands on the other side.

P1 and P2 suspect themselves exposed to a much higher risk in the future than it is the case for A1 and A2, which is caused by existing P2 and P1 consumers might seeing a discrepancy between the represented values of the extension product and the parent brand in some facets of the business (Kim et al., 2001). This discrepancy is mainly based on the novice associations called into play by the marketing support tool of the GWPs, which are little presents that are very cheaply produced and given away when purchasing an extension product. P2, for instance, used to give away cheap caps and T-shirts along with EP2 perfumes, which do not really represent the upper-class American values of the parent brand and therefore causes an unclear positioning of the brand as it is acknowledged in theory (Kaufmann, 2006; Roux & Floch, 1996; Stegemann, 2006). In contrast to the perfume brands reviewed, the automobile companies see no risk at all to prospectively dilute the image of their brands. This is due to the fact that the companies ensure that the values represented by the extension product stay in very line with the core values of the brand through animating existing associations. In this context, EA2 still mainly represents values such as dynamics, joy, emotional design and high quality, while EA1 stands for expressive design and cultivated sportiness - which are the core values of both brands.

These findings suggest that brand dilution effects appear to be rather applicable to the perfume industry than to the automobile sector, as the automobile brands do not tend to incorporate new values and associations as quickly and frequently as perfume brands, but act much more conservatively and long term oriented due to the aforementioned comparatively low market dynamisms and long product lifecycles. This philosophy may lead to a
diminishing dissonance between the values of the parent brand and the brand extension and therefore to a decreasing risk of brand dilution.

**Negative Feedback Effects Among Existing Consumers** - Further to the aforementioned negative effects of brand extensions, the introduction of a step-down brand extension may cause negative feedback effects among existing consumers, since a broader consumer base is granted access to the brand (Keller, 1993; Kim & Lavack, 1996). As the symbolic values and attributes, for which the existing consumer clientele originally purchases luxury brands, get lost with the brand extension, the consumers’ erstwhile desire for these brands disappears because the symbolical distance is fading (Kapferer & Bastien, 2012; Stegemann, 2006). As this effect is in a tight relationship with the aforementioned tarnishing of brand prestige and the dilution of the parent brand’s image, which have proven to not being severely relevant in the cases of this thesis, negative feedback effects among the existing consumer clientele turned out to be accordingly small in this study. Both A1 and A2 did not monitor any negative feedback effects in response to the introduction of the EA1 and the EA2 at all, which is in line with the two companies not perceiving any risk of dilution of the parent brand image. Also, P2 only speaks about the potential possibility of existing consumers becoming irritated about the new concept of EP2 at the most; however, this irritation does factually not cause any opposing actions by established consumers. Only P1 could realistically imagine negative feedback effects to occur among their existing consumer clientele, potentially leading to a small portion of existing consumers to either switch to competitor brands or to the higher priced P1 lines as a result of losing their sense of exclusivity, which is in line with theory (Kim & Lavack, 1996; Pitta & Katsanis, 1995; Stegemann, 2006). These findings from the case companies confirm the results from the pre-study to a large extent, as C1 rather identify consumers in the perfume industry to really turn dissatisfaction into real actions since here the product lifecycles are shorter and the amount of competitors higher, which is why the switching costs for perfume consumers are respectively lower.

In the context of negative feedback effects among the existing consumer franchise, both perfume brands note that, if negative feedback effects occur, it is rather the conspicuous consumer than the self-serving consumer causing these effects. Projecting these types onto both perfume brands, a large share of P1 consumer is expected to be very conspicuous and therefore eager to express status and distance with this brand. Most P2 consumers, on the other hand, are comparatively self-serving and loyal and buy the high priced fragrances for years and are also not interested in what happens besides these fragrances. Therefore, it appears that it is rather the conspicuous consumer giving negative feedback, since he cannot express his superior status and distance anymore when more consumers are able to buy into the brand through the lower priced brand extension, rather than the self-serving consumer. Simultaneously, also consumers within a brand may react differently from what was stated above due to their different levels of status, which means that the wealthy high-end consumer is less tolerant than for example the middle-class mainstream consumer purchasing luxury perfumes on a very sporadic basis. Although existing theory has not made a differentiation between different consumer groups subject to research, it appears to be fruitful to categorise between different consumer types, which will be elaborated in detail in the next section.

**5.3 Internal Success Drivers**

**Strategic Marketing Abilities** - Following the elaboration from above, including the categorisation of different consumer types, it is promising to continue with the strategic marketing abilities of the firm as a success driver for vertical brand extensions (Burkhardt, 2011). These abilities include the conduction of market research, competitive comparisons, market segmentations as well as the definition of the target group and the competitive
positioning (Burkhardt, 2011; Dall’Ollmo Riley et al., 2004). In this context, the automobile brands A1 and A2 carry out comprehensive competitive comparisons with their direct competitors in order to identify niches and possible market potentials. Once potential niches are identified, product concepts are crafted and then given into focus groups that identify the most promising ideas for automobiles fitting a certain niche. These concepts are then internally further developed until design prototypes can be given into the next round of market research, where yet another focus group in a so called “design clinic” gives important feedback on the exterior and interior design of the product in question. As a last step of the market research in focus groups, the competitive positioning of the vehicle is discussed and determined. Accordingly, findings from market research continuously and substantially shaped the development of the EA1 and the EA2, to make sure that the core values can be identified in the extension product and, therefore, immensely cater for the success of brand extensions in the automobile industry. In contrast to the automobile brands, P1 and P2 both agree that there is no clear relation between market research activities and the success of vertical brand extensions. Rather than carrying out classical market research, P2 considers it important that the headquarters and product development includes the feedback of local product managers from every country to adapt the fragrance EP2 to local conditions.

A possible reason for this industry-specific pattern could lie in the differences in the organisational levels researched, since the data of A1 and A2 were mainly collected in the international headquarters in Germany, while the data of P1 and P2 were primarily collected in national subsidiaries. These national subsidiaries of P1 and P2 may not be fully aware of the entire effects of market research activities, which are carried out in the headquarters abroad. Another reason why the scope of marketing research activities is substantially higher in the automobile industry could lie in the different amount of financial risk and longer product lifecycles the companies are facing when developing and introducing an extension product. In comparison to the perfume brands, the financial investments and fixed costs are therefore immensely higher for automobile companies, which is why they have to maximise the probability of success for their products through carrying out extensive market research. Following this elaboration, one can argue that the findings from previous research stating that there is a positive relationship between the strategic marketing abilities and the vertical brand extension’s success (Burkhardt, 2011), are much more applicable to the automobile brands than to the perfume brands in this study.

However, in addition to what theory states and what was found out in the above, it seems that in the perfume industry strategic marketing abilities do not end with researching the external environment in terms of market research and competitive positioning, but also includes capturing the internal perspective in a next step. Deriving from the findings from the perfume brands regarding negative feedback effects among existing consumers, it becomes obvious that not all consumers react similarly on the introduction of vertical brand extension due to their different luxury brand purchase intentions. While the high-end P1 consumer may disassociate himself from the brand due to the lower priced extension products, the mainstream consumer positively welcomes EP1, while a third consumer type may not even recognise the difference between P1 and EP1 at all for instance. The insights from the perfume brands let suggest that a categorisation of consumer types along purchase intentions within the already identified target groups of the parent brand might be fruitful in order to address each consumer group with an appropriate strategy. Including this categorisation as a discipline in the strategic marketing activities is therefore said to be positively associated with lessening the aforementioned negative effects of tarnishing the brand’s prestige, diluting the brand image and perceiving negative feedback from the existing consumer clientele. Since the
findings from A2 and A1 do not provide any evidence regarding this matter, no assumptions about the fruitfulness of this marketing activity can be made in the automobile industry.

Operative Marketing Abilities - Apart from the strategic marketing abilities of a firm, theory regards operative marketing skills as equally important in order to cater for the success of a vertical brand extensions, including practices related to distribution and communication in particular (Arikan, 2010; Burkhardt, 2011; Reddy et al., 1994). These strategies are said to be highly important to make the consumers aware and accept that the luxury brand is in a new and cheaper form on the market (Aaker & Keller, 1990; Arikan, 2010; Thorbjonson, 2005). In this context A1, P1 and P2 advocate the use of different marketing strategies for the brand extensions in comparison to the parent brand, in order to visually support the availability of a new brand concept in the form of the extension product. This is practically demonstrated by P1 and P2, which quite aggressively promote EP1 and EP2 by GWPs, considerable pricing discounts and placements in brochures, while rather conservatively supporting the parent brands in brand building above-the-line communication activities. For the first time in the history of A1, the company is largely investing in extensive online activities on social media in particular as well as a comprehensive road show concept for the EA1, which enabled the target group to three-dimensionally experience the product easing the acceptance of the product in the market. In contrast to that and similarly to P1 and P2, the A1 parent brand is supported by rather reserved marketing activities. A2, on the other hand, does not differentiate between the marketing strategy of the EA2 and the rest of the product portfolio, as they do not consider the EA2 spectacular and expensive enough to attract a substantial amount of attention in the market. The new approaches in the different marketing campaigns of extension products allow P1, P2 and A1 to specifically address the target audience, which captures the aforementioned idea of consumer categorisation. This approach explicitly enables the companies to use different marketing strategies for different consumer types within the overall target group of the brand such as the high-end consumer or mainstream consumer for instance. In this context, it also appears to be fruitful to include the aforementioned country-perspective when following different marketing strategies as consumers in different markets have different ways of life, which needs to be taken into account when pursuing marketing strategies. Even though the consumer categorisation is not really dealt with in established theory of operative marketing abilities, findings from this case study suggest that it is of high importance to cater for the success of vertical brand extensions, as already discussed in connection to the strategic marketing abilities.

Besides the use of different marketing strategies within the overall target audiences of the brands, there is another clear pattern among the case companies’ concentration of marketing support activities, which is not branch-specific. Both A2 and P1 focus their marketing activities on the parent brand or the entire product portfolio respectively, and hence do not focalise their expenditures on the brand extension. In contrast to that, A1 put great emphasis in promoting the EA1 and P2 even only invests in EP2 while completely neglecting the rest of the product portfolio to make the extension product successful. The latter is in accordance with theory stating that the success of vertical brand extensions is directly dependent on the distinct marketing support the extension receives (Reddy et al., 1994).

As already mentioned in the context of the brand extensions’ contribution to the financial success of the company, this non-branch-specific pattern in marketing support expenditures can be traced back to the primary strategic goal of the brand extensions. Accordingly, as P1 and A2 only intend to financially strengthen their parent brands through the brand extension, they expend not more than necessary in extension support and rather rely on the positive radiating effects from the parent brand. In contrast to that, A1 and P2 aim to extensively shape the perception of the brand in the long term and therefore prominently animate the EA1 and
EP2 in their marketing activities. Comparing previous research with the case study, it is difficult to examine the direct positive relationship between the extent of marketing competency and the success of the brand extension (Reddy et al., 1994), since the findings from this study suggest that the primary strategic goal of the extension product is highly impacting the extent of marketing efforts.

**Legitimacy** - The primary strategic goal behind the brand extension is also affecting the legitimacy of the extension product since the projection of the brands’ roots onto the brand extension highly depends on the target of the brand. Theory regards legitimacy as the representation of the parent brand’s original know-how and intangible concept in the extension product, in order to ensure the coherence between brand extension and parent brand (Burkhardt, 2011; Kapferer & Bastien, 2012). In this context it is of particular concern that the brand extension stays close to the parent brand’s history and culture in order to ensure that the spirit of the parent lives on in the new market niche (Kapferer & Bastien, 2012). All companies subject to this study agree upon the fact that their extension products generally represent a large share of the parent brand’s original values and concepts helping the brand extension to become successful. This was also indicated by the pre-study with C1 adding the explanation that especially the mass consumers tend to buy the extension product only because of the brand behind this product. Particularly the extension products of P1 and P2 are shaped by their founders and countries of origin, which appears to be very likely due to the fact that both founders are still alive and literally influence the development of the brand and new products. In this regard the well-known designer of P1 was deeply involved in all facets of EP1, ranging from the inspiration for the fragrances, via the design of the packaging, to the marketing campaign. The American lifestyle represented by EP2 also goes back to the designer P2. As the founders of A1 and A2 already died long ago, it is rather their spirit of engineering and pioneering that influences the management of the brand and the development of the extension products. Accordingly, the EA2 of A2 represents A2’s fundamental idea of driving pleasure and, since the near past, of efficient dynamics, while A1 perceives especially the company’s historic attitude towards safety and innovation strength embodied in the EA1.

Even though all companies are shaped by the parent brand’s history and culture, differences exist in the extent to which these original core values are complemented with novice attributes, highlighting a clear pattern in the case study with regard to the legitimacy. P1 and A2 try to stay as close as possible to the historic and cultural heritage of the brand with EP1 and the EA2, as it is especially the connection to the parent brand’s history leading to high sales volumes. P2 and A1, on the other hand, want to take a step back from their historic heritage in the course of the rejuvenation strategies for their brands. In this regard, they keep the major historical attributes, while distancing the extension products from the original concept through a more kitschy and colourful appearance of EP2 and a more stylish and lively concept of the EA1.

Again, this allows the presumption that these non-branch-specific patterns can be rooted back to the primary strategic goal behind the brand extension. As P2 and A1 struggled with the problem of the low identification of the consumers with the parent brand in the past, the purpose of their extension was the brands’ rejuvenation through the extension product, which could explain their use of a mixture of keeping and distancing from the original brand concept. In contrast to that, the primary goal of P1 and A2 was the generation of additional sales through the extension product, since the parent brand concept is still well-perceived in the market, possibly justifying their approach in fully retaining the historic and cultural heritages of the brands. Accordingly, previous research reflects the findings from this case study to the extent that the representation of historic and cultural values is important for the success of the vertical brand extension (Kapferer & Bastien, 2012); however, theory has to be
complemented by considering the primary strategic goal behind the vertical brand extension impacting the legitimacy.

5.4 External Success Drivers

Strength of Parent Brand - With regard to the external success drivers for vertical brand extensions, the strength of the parent brand is regarded as critical, since it represents the absolute basis for positive associations to be transferred to the extension product (Arikan, 2010; Burkhardt, 2011; Reddy et al., 1994). Within this field, the perceived quality, the dominance in the market and the strength of the product portfolio are believed to be the most important constituents of the parent brand strength (Aaker & Keller, 1990; Burkhardt, 2011; Dacin & Smith, 1994; Keller & Aaker, 1992; Reddy et al., 1994). All brands reviewed in this study agree upon the fact that the strength of the parent brand is a substantial success factor for their respective brand extensions, as the extension products can immensely capitalise on the positive image of their parent brands. In this context, all four companies regard the market dominance as the most important realm of the parent brand strength, since it is highly connected to the awareness and the popularity of the brand. Especially P1 and A1 stress the importance of this brand awareness as they regard themselves to be among the best-known brands in the world, which catalyses the success of their extensions. In relation to the brand awareness, both A1 and A2 appreciate the crucial role of trust in the automobile industry, which is due to the fact that the size of the investment in a new car is substantial and therefore a high level of certainty is a prerequisite condition for the car purchase. Accordingly, consumers feel much more secure in their purchasing decision when they buy from a market leader, which consequently also eases the acceptance rates and sales of new product lines. This coherence furthermore explains why the leading luxury automobile manufacturers fiercely strive to become the best-selling brand in the market. Since the brand awareness is highly stressed in different contexts of brand extension success, it appears to be fruitful to acknowledge this factor as a separate constituent of the parent strength besides the market dominance.

Below the market dominance and brand awareness, all four brands consider the perceived quality as the second most important factor of the parent brand strength. This contradicts previous research, considering this element as the most important contributor, since consumers automatically project positive associations from the parent brand onto the extension product (Arikan, 2010). The reason for the companies’ ranking is that they rather perceive the quality as a given prerequisite of a luxury brand in general, which consumers expect when purchasing the extension product, while the market dominance is rather extraordinary regarding the brand strength.

The strength of the product portfolio, in terms of the amount of previous brand extensions, is ranked as the least important constituent of the parent brand strength by both P2 and P1 - A1 and A2 do not even mention this factor in relation to the strength of the parent brand. In contrast to theory pointing out the positive relation between the amount of previous brand extensions and the consumers’ favourability of the evaluation of further extensions (Keller & Aaker, 1992; Reddy et al., 1994; Swaminathan, 2003), P1 in particular cannot recognise the parallel to practice since competitors with more extension products such as Chanel and Dior are not more successful than P1. This is also advocated by the pre-study with C1, which even suspect a high amount of previous brand extensions as a risk factor of diluting the brand image, since too many differently positioned products under one brand name blur a clear positioning and image. Following these observations, it can be concluded that the strength of the product portfolio is of low importance for the success of vertical brand extensions as it is
barely applicable to the study, while more emphasis has to be put on the brand awareness as part of the parent brand strength.

**Conceptual Fit** - Another important external success driver for vertical brand extensions is the conceptual fit, which refers to the relation of the brand extension to the essence and luxury level of the parent brand (Aaker & Keller, 1990; Arikan, 2010; Burkhardt, 2011; Kapferer & Bastien, 2012). Generally, a strong fit is said to substantially increase the transfer of positive associations from the parent brand to the extension and the prevention of the tarnishing of the parent brand’s prestige, which was already outlined in the above effects of vertical brand extensions (Arikan, 2010; Kapferer & Bastien, 2012). All four case companies support the fundamental idea of creating a certain fit in order to cater for the success of their brand extensions, still all of them execute this idea in very different ways. While all brands strive to keep the high quality of the parent brand roughly on the same level in the extension product, the dealing with the uniqueness, exclusivity and rarity differs among the companies researched. This is in line with previous research stating that these attributes of the parent brand are hard to keep in the extension product due to the lower price positioning and the higher accessibility, which ultimately impede a conceptual fit (Park et al., 1991; Stegemann, 2006).

In this context, P1 stresses the use of less luxurious and exclusive materials for the packaging and the flacon for EP1 products as well as the less selective distribution strategy, while EP2 uses almost kitschy colours contradicting the traditional colours, the fragrances consist of two instead of the usual three scents leading to a decreasing perception of the luxury level of the extension product. Although A1 and A2 keep similarities in the materials used in the interior and the most important design elements of the vehicles including the design of the head lights and the grill, both brands regard the measures of uniqueness and exclusivity to be negatively impacted by the less refined technological equipments of the cars. These differences are primarily expressed in the less sophisticated front-wheel drive concepts of the EA1 and the next generation of the EA2, as well as in the availability of the high-technology features of bigger and more expensive cars in only downgraded variants. In addition to that, the luxurious appearance of the EA1 partly suffers through the very youthful interior design concept, which is very revolutionary to the brand.

Even though the aforementioned dissimilarities impede the fit between parent brand and extension product regarding the luxury level of the four brands, the use of distinct communication and distribution strategies partly restore the coherence between parent brand and the extension product (Catry, 2003; Truong et al., 2009). Regarding the distribution activities, EP1 and EP2 benefit from the positive feedback effects of the selective distribution strategy of their parent brand, which compensates the easier access for the mass given through the extension products. Additionally, in those cases where EP1 and P1 are distributed in the same stores, EP1 benefits from the noble and classy promotion of its parent brand thanks to the very close positioning and the difficulty of consumers to actually differentiate between P1 and EP1. The importance of the radiating effects of the selective distribution strategy of the parent brand and the right positioning at the POS are also advocated by the pre-study with C1. A1 and A2, on the other hand, purposefully distribute the EA1 and the EA2 in either wholly owned or selectively licensed sales branches, in which the entire product portfolios of the companies are exhibited and sold as well. Accordingly, both entry models are placed side by side with larger and much more expensive models of their brands, which is why the luxury of these models is directly radiated onto the EA1 and the EA2 creating a rather special and sophisticated environment at the POS for the extension products.
Besides the distribution activities, the communication strategy of all four companies also helps the brand to keep their luxury level. In this regard all marketing communication efforts of A2 and A1, are rounded up by the slogan of the parent brand, which creates the direct connection to the luxury level of the parent brand. In line with that, the trademark of P2 is presented in all communication efforts and is very prominently placed on the flacon of EP2, in order to indirectly illustrate the elite picture of P2 on the extension product and to create a strong connection to the high-end fashion roots of the parent brand. In the case of P1, the extension product highly benefits from the extensive brand building communication efforts towards high-end luxury fragrances since the EP1 consumer is not highly aware of the different brand concepts. The comparison of theory with the case study supports the idea that through the clever management of information the missing luxury attributes in the extension product can still be represented but rather on a virtual than on a product level - leading to an increasing transfer of positive associations from the parent brand to the extension (Aaker & Keller, 1990; Boush & Loken, 1991; Catry, 2003; Smith & Park, 1992).

However, while theory only concentrates on communication and distribution strategies in order to keep the luxury image of the parent brand, findings from the automobile brands in this case study reveal that there are further possibilities to preserve the luxury level. A1 and A2 can additionally counter the misfit of the luxury attributes by interacting on further touch points with their consumers through a comprehensive offer of after sales services subsequent to the actual purchase of the cars. Accordingly, consumers of the EA1 and the EA2 are embraced with the same services that consumers of the upper-end of the portfolios receive, which supports the striving for generating a high luxury level for the extension products. Concluding these findings, the conceptual fit cannot only be increased by communication and distribution strategies (Catry, 2003; Truong et al., 2009), but also through leveraging the perception of luxury at all consumer touch points available to the firm, which specifically embrace the post-purchase interaction with the consumers. Since the business model of the perfume brands is rather narrow and does not impose any consumer touch points after the actual purchase of the perfume, this is only applicable to the automobile industry.

While theory regards a high level of conceptual fit as a prerequisite condition for the success of brand extensions (Arikan, 2010; Kapferer & Bastien, 2012), the findings in the case study demonstrate that differences in the extent of this fit do not necessarily compromise the performance of the extension products. Whilst P1 and A2 predominantly try to minimise the dissimilarities on the luxury level through the aforementioned communication and distribution strategies, P2 and A1, on the other hand, also strive to preserve distinct dissimilarities. This clear pattern in shaping and emphasising similarities and dissimilarities between parent brand and extension product may be again traced back to the aforementioned primary strategic goal of the brand extension. In accordance to what was argued in connection to the legitimacy of the brand extension, A1 and P2 intended to rejuvenate and extensively shape the perception of the brand, which is why the companies pursue an ambiguous approach of creating substantial overlaps in the concepts of the brand extension and the parent brand while purposefully emphasising distinct differences. P1 and A2, on the other hand, primarily strove to strengthen their parent brands from a financial point of view by keeping the brand’s core concept, and therefore focus on minimising the dissimilarities in order to remain as close as possible to the original essence of the brand. This explains the future aspirations of P1 to prospectively remove EP1 from the product portfolio in order to only have true high-end luxury products on offer, and of P2 seeking to annually launch new and younger versions of their current product portfolio in order to achieve the repositioning of the overall brand.

**Brand Concept Consistency** - While the conceptual fit is concerned with creating the coherence between the parent brand and the brand extension, the brand concept consistency
refers to the fit between the brand extension and the brand positioning (Burkhardt, 2011). In more detail, the brand concept consistency refers to the brand extension’s ability to clearly integrate the luxury brand’s concept in the market in order to avoid dissonances in the consumer’s brand perception and therefore negative feedback effects (Kaufmann, 2006; Park et al., 1991). As all four case companies are concerned about the right integration of the extension product in the parent brand’s concept, they use sub-brand names in order to emphasise the different positioning of the brand extension and the parent brand. This is in line with previous research stating that the use of sub-brand names is the most popular technique to express the distance between the brand extension and the core brand, to which is also referred as distancing-techniques (Kim & Lavack, 1996). In this context, all four brands utilise non-generic names, which enables the companies to directly express the link between the extension product and its positioning regarding the coverage of different price points (Kapferer & Bastien, 2012). In this context A1 and A2 use sub-brand names that can easily be classified in an numerical and alphabetical order, which crafts a hierarchy to communicate the relative price positioning of the extension products within the portfolio - accordingly, the EA2 and the EA1 express the lowest entry possibilities into both luxury automobile brands. This hierarchical thinking is further emphasised by the full naming of the models demonstrating the size of the engine and therefore the price of a certain model, allowing the consumers to precisely communicate what they are driving and to express status and achievement. P1 and P2 use rather abstract names adopted from the fashion lines of the brands and do not as obviously express the hierarchical price positioning of the extension products within the product portfolio. This requires consumers to be familiar with the brand structures in order to understand the intended differentiation in the positioning of the parent brand and the extension product. In this context the pre-study further justifies the hierarchical order within the product portfolios to enable the companies to demonstrate an increasing marginal utility along the product portfolio and therefore tempting consumers to satisfy their growth need by upgrading their purchases within the brand. The sub-brand names adopted from the fashion line do not only demonstrate a certain price level, but also enable consumers to directly transfer the story behind the names from the fashion to the perfume business. In this context, EP2 is already linked to a kitschy and conspicuous product concept, while the fashion line of EP1 represents a more modern and trendy design, which is then automatically transferred to the same-named fragrances.

The use of sub-names serving the hierarchical distinction within the product portfolio enables A2, P1 and P2 to substantially protect the selective concept of the parent brand from the extension product, while A1 does not consider the pure alphabetical distinction of the EA1 to be strong enough to prevent negative feedback effects. The idea of protecting the parent brand is in line with theory noting that the use of sub-brand names weakens the connection between parent brand and extension product and therefore decreases the transfer of negative associations from the extension to the parent brand (Aaker & Keller, 1990; Kim & Lavack, 1996; Pitta & Katsanis, 1995). In this context, P1 wants to avoid that the trendy, modern and less luxurious image of EP1 harm the high-end luxury image of P1, while P2 seeks to prevent the transfer of the kitschy image of EP2 to the established product lines of the brand. Following the idea of protecting the parent brand from negative effects of vertical brand extensions, A2 is greatly influenced by negative experiences in the past. When the company introduced a compact version of the model directly above from the EA2, the entire product line suffered as it was perceived to be too cheap and of minor quality, which is why this compact version was eventually discontinued and reintroduced as the EA2 allowing the consumers to better understand and appreciate the concept and enabling A2 to further differentiate the model from larger cars. Through creating a distance between the next higher model and the EA2, the company could therefore manage to diminish the negative feedback
effects among the existing consumer franchise and immensely support the success of the EA2 in the market, which is in line with previous research stating that the parent brand is less harmed through the justified positioning of the extension product (Kim & Lavack, 1996).

Regarding the construction of the brand extension names, all four companies still keep a substantial part of the parent brand name represented in the extension products, which enables the transfer of positive associations from the parent brand to the brand extension. Taking theory one step further, the intelligent use of keeping a part of the parent brand name and adding a second name, prevents that consumers evaluate the extension product less favourably, since negative effects for the parent brand are decreased and positive associations from the parent brand are transferred to the extension product (Kim & Lavack, 1996).

Risk Evaluation - A further factor for the success of vertical brand extensions is seen in the risk evaluation carried out prior to the extension product’s introduction (Burkhardt, 2011; Kapferer & Bastien, 2012). In the core of each risk evaluation stands the balancing of investments required and potential outcomes for the overall brand of each strategic option of the company (Kapferer & Bastien, 2012). Following the influence of the of the brand extension’s strategic goal on the risk evaluation carried out, the companies in this study can be categorised in two groups; P1 and A2 predominantly aim to strengthen the parent brand financially and A1 and P2, on the other hand, primarily striving to shape the perception of their brands by rejuvenating the overall brand in the long term. Comparing these two categories with the classification in existing theory, it is obvious that the strategic choices in this case study are by far not as polarising as it is depicted by previous research. While theory only differentiates between strengthening either the parent brand or the extension product and simultaneously neglecting the counterpart (Kim & Lavack, 1996), the findings from this case study indicate that both ways are reconcilable. In the case of P2 and A1, the companies primarily aim to rejuvenate their parent brand, while also focusing on the financial contribution by the extension product in the long term. With regards to A2 and P1, the strategic goal setting is rather clear as both brands only aim to strengthen their parent brand from a financial point of view without prominently supporting the extension products.

Even though previous research considers the strategic goal as the defining factor for the kind of risk evaluation carried out (Kapferer & Bastien, 2012), the findings in this case study additionally outline a branch-specific impact. All case brands regard the conducting of risk evaluation as crucial for the success of their brand extensions, however, there is a considerable difference in the extent to which perfume and automobile brands carry out risk evaluation. In this context, both P1 and P2 see great potential for extending risk evaluation measures for the management and introduction of brand extensions, as these activities are only carried out to a very low extent prior to the extension product’s introduction. The major intention behind risk evaluation activities is to capture the trade-off between image and sales volumes, however, historically it has always been the sales to decide whether the brand extension shall be introduced to or eliminated from the product portfolio. While P2 still perceives the low price strategy as the best option for the company, P1 had to take severe consequences from their frivolous attitude towards compromising the brand image over the generation of sales. In contrast to the low significance of risk evaluation activities in the perfume industry, A1 and A2 are very careful when dealing with the trade-off between image and sales, since the companies are aware of the huge risk resulting from a failure of the extension product for the parent brand. Accordingly, both automobile brands evaluate all major decision made in connection to introducing and developing the EA1 and the EA2 multiple times in order to make sure that the extensions of both companies hit the actual core of the brands.
This branch-specific pattern can be traced back to differences in the market place regarding the different amount of financial risk and the different length of product lifecycles which were already explained in the above. Following this reasoning, it is suggested that the enormous fixed expenditures involved in the product development and the comparatively long lifecycles in the automobile industry require A1 and A2 to act much more in the long term, since the financial and reputational consequences of the extensions’ failure would be much more severe than for P1 and P2. Therefore, they are supposed to maximise the probability of their extensions’ success through a much more careful evaluation of potential risks and negative effects than perfume brands appear to be obliged to. In the final analysis, it can be concluded that the branch-specific characteristics outweigh the primary strategic goal of the brand extension as the defining factor for the extent of risk evaluation activities conducted in this study, which is contradicting theory acknowledging the strategic goal of the firm to be most important (Kapferer & Bastien, 2012).

In the following, the results of the analysis will be summarised and presented in exhibits 4 and 5.
### Exhibit 4: Summary of Analytical Findings 1/2 (own illustration)

<table>
<thead>
<tr>
<th>Positive Effects</th>
<th>Financial Contribution</th>
<th>Increase of Brand Awareness</th>
<th>Consumer Development</th>
<th>Reinforcement of Brand Image</th>
<th>Revitalisation/Repositioning of Parent Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Positive contribution</td>
<td>• Slight increase of brand awareness</td>
<td>• High importance of consumer development</td>
<td>• Reinforcement through novel associations while keeping brand's core</td>
<td>• Rejuvenation as by-product of brand extension</td>
</tr>
<tr>
<td></td>
<td>• Additional sales</td>
<td>• Perceived raise of other product lines sales due to high POS visibility</td>
<td>• Consumer development not considered important</td>
<td>• Reinforcement through existing associations</td>
<td>• No intended repositioning</td>
</tr>
<tr>
<td></td>
<td>• Low marketing expenditures</td>
<td>• No increase of brand awareness</td>
<td>• High importance of consumer development</td>
<td>• Reinforcement through existing associations</td>
<td>• Consumer identification with parent brand</td>
</tr>
</tbody>
</table>

#### Negative Effects

<table>
<thead>
<tr>
<th>Financial Contribution</th>
<th>Increase of Brand Awareness</th>
<th>Consumer Development</th>
<th>Reinforcement of Brand Image</th>
<th>Revitalisation/Repositioning of Parent Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No perceived cannibalisation of other product lines</td>
<td>• Concerned about keeping high prestige</td>
<td>• Concerned about keeping high prestige</td>
<td>• Concerned about keeping high prestige</td>
<td>• Concerned about keeping high prestige</td>
</tr>
<tr>
<td>• Differentiation through formula and packaging quality</td>
<td>• No negative consumer reactions on prestige</td>
<td>• No negative consumer reactions on prestige</td>
<td>• No negative consumer reactions on prestige</td>
<td>• No negative consumer reactions on prestige</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tarnishing of Parent Brand Prestige</th>
<th>Dilution of Parent Brand Image</th>
<th>Negative Feedback Effects Among Existing Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No perceived brand dilution</td>
<td>• No perceived brand dilution</td>
<td>• Sporadically perceived negative feedback effects with potential consumer loss</td>
</tr>
<tr>
<td>• High risk due to adding existing associations in brand extension</td>
<td>• High risk due to adding existing associations in brand extension</td>
<td>• Consumer categorisation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dilution of Parent Brand Image</th>
<th>Negative Feedback Effects Among Existing Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No perceived brand dilution</td>
<td>• Only irritation about brand extension without serious consequences</td>
</tr>
<tr>
<td>• High risk due to adding existing associations in brand extension</td>
<td>• Consumer categorisation</td>
</tr>
<tr>
<td>• No risk due to using existing associations in brand extension</td>
<td>• No perceived negative feedback effects</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Negative Feedback Effects Among Existing Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sporadically perceived negative feedback effects with potential consumer loss</td>
</tr>
<tr>
<td>• Consumer categorisation</td>
</tr>
<tr>
<td>• No perceived negative feedback effects</td>
</tr>
</tbody>
</table>

### Financial Contribution
- Positive contribution
- Additional sales
- Low marketing expenditures

### Increase of Brand Awareness
- Slight increase of brand awareness
- Perceived raise of other product lines sales due to high POS visibility

### Consumer Development
- High importance of consumer development

### Reinforcement of Brand Image
- Reinforcement through novel associations while keeping brand's core

### Revitalisation/Repositioning of Parent Brand
- Rejuvenation as by-product of brand extension
- No intended repositioning
- Consumer identification with parent brand
<table>
<thead>
<tr>
<th></th>
<th>P1</th>
<th>P2</th>
<th>A1</th>
<th>A2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Success Drivers</strong></td>
<td><strong>Strategic Marketing Abilities</strong></td>
<td><strong>Operative Marketing Abilities</strong></td>
<td><strong>Legitimacy</strong></td>
<td><strong>External Success Drivers</strong></td>
</tr>
<tr>
<td></td>
<td>• Minor market research activities in local branches</td>
<td>• Different marketing strategy for parent brand and brand extension</td>
<td>• High direct influence by founder and country of origin in the extension</td>
<td>• Acknowledgement of parent brand strength as important</td>
</tr>
<tr>
<td></td>
<td>• Consumer categorisation within identified target group</td>
<td>• Marketing focus on parent brand</td>
<td>• Very close connection to historic and cultural heritage of parent brand</td>
<td>• Market dominance as most crucial, followed by quality</td>
</tr>
<tr>
<td></td>
<td>• Minor market research activities in local branches</td>
<td>• Different marketing strategy for parent brand and brand extension</td>
<td>• High direct influence by founder and country of origin in the extension</td>
<td>• Slight distance to historic and cultural heritage of parent brand</td>
</tr>
<tr>
<td></td>
<td>• Consumer categorisation within identified target group</td>
<td>• Marketing focus on parent brand</td>
<td>• Slight distance to historic and cultural heritage of parent brand</td>
<td>• Focus on similarities and dissimilarities on luxury level</td>
</tr>
<tr>
<td></td>
<td>• Extensive market research activities</td>
<td>• Different marketing strategy for parent brand and brand extension</td>
<td>• Indirect influence by spirit of engineering and pioneering in the extension</td>
<td>• Generation of conceptual fit through high quality but suffering of exclusivity, uniqueness and rarity</td>
</tr>
<tr>
<td></td>
<td>• Extensive market research activities</td>
<td>• Marketing focus on parent brand and extension product</td>
<td>• Slight distance to historic and cultural heritage of parent brand</td>
<td>• Communication, distribution and service strategies restore fit</td>
</tr>
<tr>
<td><strong>Strength of Parent Brand</strong></td>
<td>• Acknowledgement of parent brand strength as important</td>
<td>• Acknowledgement of parent brand strength as important</td>
<td>• Slight distance to historic and cultural heritage of parent brand</td>
<td>• High focus on similarities on luxury level</td>
</tr>
<tr>
<td></td>
<td>• Market dominance as most crucial, followed by quality and product portfolio strength</td>
<td>• Market dominance as most crucial, followed by quality and product portfolio strength</td>
<td>• Focus on similarities and dissimilarities on luxury level</td>
<td>• Generation of conceptual fit through high quality but suffering of exclusivity, uniqueness and rarity</td>
</tr>
<tr>
<td><strong>Conceptual Fit</strong></td>
<td>• Generation of conceptual fit through high quality but suffering of exclusivity, uniqueness and rarity</td>
<td>• Communication and distribution strategies restore fit</td>
<td>• Communication, distribution and service strategies restore fit</td>
<td>• Communication, distribution and service strategies restore fit</td>
</tr>
<tr>
<td></td>
<td>• Sub-brand as protection of parent brand</td>
<td>• Focus on similarities and dissimilarities on luxury level</td>
<td>• High focus on similarities on luxury level</td>
<td>• High focus on similarities on luxury level</td>
</tr>
<tr>
<td><strong>Brand Concept Consistency</strong></td>
<td>• Use of abstract sub-brand names with fashion link to express price positioning</td>
<td>• Sub-brand as protection of parent brand</td>
<td>• Use of alphabetical sub-brand name to express price positioning</td>
<td>• Use of numerical sub-brand name to express price positioning</td>
</tr>
<tr>
<td></td>
<td>• Sub-brand as protection of parent brand</td>
<td>• Preservation of parent brand name essence</td>
<td>• Sub-brand no protection of parent brand</td>
<td>• Sub-brand as protection of parent brand</td>
</tr>
<tr>
<td></td>
<td>• Use of abstract sub-brand names with fashion link to express price positioning</td>
<td>• Preservation of parent brand name essence</td>
<td>• Preservation of parent brand name essence</td>
<td>• Preservation of parent brand name essence</td>
</tr>
<tr>
<td><strong>Risk Evaluation</strong></td>
<td>• Risk evaluation only carried out to low extent</td>
<td>• Risk evaluation only carried out to low extent</td>
<td>• Risk evaluation carried out comprehensively</td>
<td>• Risk evaluation carried out comprehensively</td>
</tr>
</tbody>
</table>

**Exhibit 5: Summary of Analytical Findings 2/2 (own illustration)**
5.6 Outcome of the Analysis

Based upon the above analysis, a model presenting the main outcome of the analysis and in particular the relationship between success drivers and effects of vertical brand extensions in the luxury sector is illustrated in exhibit 6. In comparison to the theoretical framework that was developed in section 2.3, adaptations have been made according to the purpose of this thesis, which are illustrated in red colour in the model. From a macro perspective, these adaptations lie in the creation of new connections between the examined domains, the editing of existing categories as well as the creation of a new domain and categories.

Exhibit 6: Relationship Between Success Drivers and Effects (own illustration)
Based on the theoretical framework in section 2.3, it was intended to not only focus on the success drivers in an isolated manner but to also take potential positive and negative effects of vertical brand extensions into account as the success driver domains were said to be dependent on the effect domains. This dependence can be explained by the fact that success drivers can only be defined from a company perspective when both positive and negative effects of vertical brand extensions have been experienced in the past. Deriving from the findings in the analysis, the unilateral connection cannot only be confirmed but a bilateral dependence between effects and success drivers can be established. In this context it could be demonstrated that not only success drivers can be deduced from the existing effects, but that these success drivers influence the aforementioned effects in turn, which is illustrated by the red left-directed arrow. Only through setting up this bilateral connection, it can be understood that the implementation of success drivers enables the firms researched to achieve positive and avoid negative effects to a large extent. As the companies subject to this study are successfully implementing the researched success drivers in their business to a certain extent, negative effects including brand cannibalisation, tarnishing of brand prestige, dilution of brand image and negative feedback effects among existing consumers can be mainly prevented, even though their existence is acknowledged by all companies in practice. This is the reason why these categories of negative effects are exhibited in red dotted lines in the model in exhibit 6.

Besides establishing the bilateral relationship between effects and success factors, the actual domains effects and success drivers from the theoretical framework were amended by adding and erasing categories and sub-items within these domains. The developed categories and sub-items are presented in red in exhibit 6. In this context, the positive effect of financial contribution with the sub-item “synergy effects” was narrowed down and replaced by the sub-item “economies of scale”, which especially occurred in the automobile industry. These economies of scale are caused by the extension product increasing the sales volumes of the brand, across which the fixed costs can be distributed, which eventually leads to increasing profits. Furthermore, the positive effects have been extended by the category “consumer development” as an additional facet of vertical brand extensions positively affecting sales of other product lines. In this context, the consumer development describes the process of attracting novice consumers with the brand extension in order to develop them upwards to higher priced products over the consumers’ lifecycles. This is rendered possible by spreading the brand portfolio across a price- and utility-spectrum in order to siphon off continuously increasing payment reserves of consumers. With regard to the category of negative feedback effects, the factor “irritation” was added to the existing terms of “antipathy” and “migration” as a third and weaker peculiarity of dissatisfaction resulting from the introduction of the vertical brand extension. This irritation is characterised by existing consumers not understanding the new positioning of the brand extension without putting their misunderstanding into active practice. Concerning the domain of internal success drivers, the realm of strategic marketing abilities was modified by appending the sub-item “categorisation” as major concern of the marketing function. This raises the importance of capturing not only the external environment in terms of market research, target grouping and positioning but also the internal perspective by identifying different consumer types within the brand. The categorisation of the brand’s consumers in distinct income and status groups enables the brand to purposefully address the individual needs and concerns of these consumer groups easing the consumers’ acceptance of the vertical brand extension. Regarding the external success drivers, the sub-item “brand awareness” replaced the “portfolio strength” as major element in the category of parent brand strength, since a brand’s popularity is regarded as a very important constituent of the parent brand strength, while the amount of former brand extensions within a product portfolio can be neglected in this coherence. Within
the category of conceptual fit, the item of “services” was added as a substantial factor to restore the coherence between the vertical brand extension and the parent brand in the luxury sector by providing exceptional services besides leveraging communication and distribution strategies. As last but not least important element of external success drivers, the category of risk evaluation is complemented by the image factor as a second element next to the return on investment that needs to be taken into consideration when assessing the benefits and the downsides prior to the introduction of the vertical brand extension. Following this reasoning, the originally bilateral balance between financial investment and outcomes advances to a trilateral relationship in this study, since image effects have a high impact on luxury brand’s sales.

The final conclusion from the analysis is the creation of a further domain called “framework conditions”, which take influence on positive and negative effects as well as internal and external success drivers. These framework conditions can be defined as essential conditions that influence vertical brand extensions in the luxury sector without being in the focal point of the research carried out. Even though these framework conditions have not been identified by prior research and were therefore not included in the theoretical framework, their incorporation enabled the authors to give the soul description of success drivers an actual meaning and substance by unveiling distinct patterns between the luxury companies subject to this research. Accordingly, the influence of these framework conditions turned out to be substantial with regard to the purpose of this study not only with regard to the description of success drivers but also in terms of crafting a model depicting the relationship between success drivers and effects of vertical brand extensions in the luxury sector. Accordingly, they are arranged at the bottom of the model in exhibit 6 with top-directed arrows to both effects and success drivers.

The framework conditions can be divided into factors that can be influenced by the firms to a certain extent, including company-specific characteristics in terms of the company’s primary strategic goal, and factors that are fully independent from the company’s sphere of influence, including industry-specific characteristics and the country-specific characteristics. In the following, these framework conditions will be examined on a rather general level.

**Company-Specific Characteristics** - Starting with the company’s primary strategic goal, it turned out that two primary strategic goals of the four companies for carrying out the vertical brand extension exist, namely the financial strengthening of the parent brand on one hand, and the long term shaping of the brand perception on the other hand. Even though the goal settings have some influences in all identified factors, it is of highest importance in the fields of financial contribution, revitalisation/repositioning, operative marketing abilities, legitimacy and conceptual fit. Regarding the brand extensions’ financial contribution, the strategic goal as framework condition affects the extent of marketing support investment for the extension products. Consequently, those companies intending to shape the perception of their brand invest higher amounts in marketing support activities than those companies, which only intend to financially strengthen the parent brand. At the same time, the legitimacy and the conceptual fit are highly influenced by the strategic goal in terms of the extent to which similarities and dissimilarities are shaped. Accordingly, those companies with the primary strategic goal of only financially strengthen the brand, aim to fully retain their historic and cultural heritages in the extension product and rather emphasise similarities. On the other hand, those companies that primarily aim to rejuvenate or partly reposition their brand underline not only overlaps but also dissimilarities between extension product and parent brand in order to create a mixture of keeping and distancing from the original brand concept. Deriving from these aspects it can be concluded, that the strategic goal setting substantially
influences major decisions of the brand and therefore continuously shapes the effects and success drivers of vertical brand extension on an individual company level.

**Industry-Specific Characteristics** - Proceeding with the uninfluenceable framework conditions, industry-specific characteristics composed of the product lifecycle, fixed costs and the competitive environment are identified in a first instance. The impact of these industry-specific factors is especially severe in the fields of reinforcement of brand image, dilution of brand image, negative feedback effects among existing consumers, strategic marketing abilities and risk evaluation. In this context, it must be captured that the product lifecycles in the automobile industry are comparatively long and entry barriers through enormous fixed costs for product development rather high, which is why the market features a rather long term orientation, a low amount of competitors and in consequence low market dynamisms. In contrast to that, the market for perfumes is much more short term oriented and dynamic, which can be traced back to relatively low fixed costs, short product lifecycles and a high amount of competitors. Having identified these factors in this study, the effects of reinforcing and diluting the brand image can be comprehensively understood on the branch level. As the perfume brands are required to act much more in the short term and to constantly give consumers reasons to purchase their products, they are obliged to adjust associations by adding up-to-date values resulting in using especially novice associations for their extension products. The mix of novice and old associations might lead to an ascending dissonance between the values of the parent brand and the brand extension, which is why the risk of brand dilution effects is more applicable to the perfume than to the automobile industry in this study. In contrast to that, automobile brands rather aim to reinforce their brand image by stressing existing associations such as design and comfort, since these associations are unlikely to ever become out of fashion in the automobile industry, which roots back to low market dynamisms and long product lifecycles. Consequently, this decreasing discrepancy in the values between parent brand and brand extension lead to a lower risk of dilution effects for automobile brands. As a result of the comparatively high fixed costs and long product lifecycles, automobile brands are required to conduct more market research and a higher scope of risk evaluation prior to the introduction of the extension products, since the financial and reputational consequences of the extension failure would be much more serious than for perfume brands.

**Country-Specific Characteristics** - Besides the industry-specific characteristics, the country-specific characteristics represent a further framework condition that needs to be considered as an uninfluenceable factor for vertical brand extensions in the luxury sector. Here it needs to be differentiated between the saturation of the market and the country-specific perception of the brand, which is why companies are required to not see their brands as a whole but as a diversified asset. With regard to the market saturation, the introduction of a brand extension appears to be more fruitful for a brand in saturated markets rather than emerging markets, which is represented by the German market in this study. This is due to the fact that saturated markets do not allow companies to achieve high growth rates with their existing product portfolio and therefore requires companies to enter and compete in new market niches by extending their brand. Furthermore it can be argued that companies firstly have to create a favourable brand image in order to be literally able to build up intangible brand substance that can be transferred to a step-down brand extension. In this context emerging markets are less likely to provide such conditions and are therefore less suitable for vertical brand extension strategies.

Not only is the degree of a market’s saturation but also the country-specific perception of the brand of major importance. Even though the country-specific characteristics as a framework condition have some influences in all identified factors, it is of highest importance in the
fields of revitalisation/repositioning as well as strategic and operative marketing abilities in this study. In the context of revitalisation, it is more fruitful for companies to introduce vertical brand extensions in those countries, where they are currently not well positioned or where they see the prospective risk of the parent brand losing attractiveness for consumers. Here, the cultural differences are of high importance for the brand perception, as these differences influence the consumer evaluation of the brand leading to identification with the brand in one country and non-identification in another country. Following these fundamental ideas, the revitalisation or repositioning of a brand through a vertical extension is only fruitful countries, where a mismatch between desired positioning and actual perception exists. Moreover, strategic and operative marketing abilities employed for vertical brand extensions also need to be adapted to the local market conditions in order to directly address and respond to different consumer types in different countries.
6. Conclusion

In this chapter the final conclusions are drawn from the cases studied in this thesis. In this context, the research question is answered, implications for theory and practice are elaborated and starting points for further research proposed.

6.1 Conclusion

The purpose of this study was to describe the success drivers for vertical brand extensions in the luxury sector and to further craft a model depicting the relationship between success drivers and effects of vertical brand extensions. In order to pursue this purpose, the authors of this thesis did not investigate the success drivers in an isolated manner, but also took potential effects from the past into account as the success drivers were regarded as being dependent on the effects. In the course of this study it was possible to identify and describe the main success drivers that enable the investigated firms to achieve positive and avoid negative effects. In this context, the positive effects are financial contribution, increase of brand awareness, reinforcement of brand image, revitalisation/repositioning of parent brand and consumer development, while the negative effects are composed of brand cannibalisation, tarnishing of brand prestige, dilution of brand image and negative feedback effects among existing consumers. Starting from these effects, the internal success drivers identified legitimacy, strategic marketing abilities and operative marketing abilities, while the external success drivers are composed of parent brand strength, conceptual fit, brand concept consistency and risk evaluation.

The study also implies that the focus within certain categories of effects and success drivers differs in practice from theory. In this context, the economies of scale were identified as an additional element of the positive effect financial contribution besides media costs and additional sales. The negative feedback effects in this study could be complemented by a further feedback reaction, called irritation, in addition to the existing reactions of antipathy and migration. Furthermore, the consumer categorisation was added as a substantial element of the internal success driver strategic marketing abilities apart from market research, target grouping and competitive positioning. Lastly, the external success drivers were amended to the extent that brand awareness replaced the product portfolio strength as a crucial element of the parent brand strength, services were added as another constituent of conceptual fit besides communication and distribution strategies, and the image was appended as a substantial factor to the risk evaluation complementing the ROI.

With regard to the relationship between success drivers and effects of vertical brand extensions, a bilateral connection between the effects and success drivers was observed, since the case study yielded that the success drivers are not only derived from the effects companies experienced in the past, but in turn also shape the effects. This is due to the fact that the case companies implemented the aforementioned success drivers in response to their experiences with vertical brand extensions, which consequently increased the occurrence of positive and decreased the presence of negative effects. In this context, the negative effects certainly played a major role for building up success drivers in the past, but have lost relevance in the course of time, as nowadays the positive effects observed in this study clearly outweigh negative effects of vertical brand extensions.

The crafting of an entirely new domain, called framework conditions, forms another important contribution of the study to former research as these factors have not been identified by prior research. Their influence on positive and negative effects as well as internal and external success drivers, however, turned out to be substantial for their understanding. Only their incorporation allowed the authors to give the sole description of
success drivers an actual meaning and substance as well as enabled the authors to craft a model depicting the relationship between effects and success drivers by revealing distinct patterns and coherences between the luxury companies researched in this thesis. This domain of framework conditions is composed of the influenceable company-specific characteristics as well as the uninfluenceable industry-specific and country-specific characteristics. In this context, the company-specific characteristics are greatly determined by the companies’ primary strategic goal behind the introduction of the vertical extension product, which is composed of the financial strengthening of the parent brand and long term shaping of the brand perception in this study. This framework condition predominantly influences the fields of financial contribution, revitalisation/repositioning, operative marketing abilities, legitimacy and conceptual fit. The industry-specific characteristics are composed of the product lifecycle, the fixed costs in the industry and the competitive environment, which particularly affect the fields of reinforcement and dilution of brand image, negative feedback effects among existing consumers, strategic marketing abilities and risk evaluation. Last but not least, the country-specific characteristics consist of the market saturation and the country-specific brand perception, which especially influences the areas revitalisation/repositioning as well as strategic and operative marketing abilities.

Concluding from the findings above, a theoretically anchored and empirically guided model depicting the interplay between success drivers and effects influenced by the framework conditions was crafted. This enables the authors to describe success drivers of vertical brand extensions in the luxury sector and to visualise the relationship between success drivers and effects in order to answer the research questions of this study.

6.2 Implications
While former research has predominantly concentrated on effects and success drivers with regard to horizontal brand extensions of non-luxury brands, this thesis elaborates both elements in relation to vertical brand extensions in the luxury sector. While effects and success drivers were seen as separated from one another, this thesis has successfully attempted to reconcile both subjects to understand the complex nature of vertical brand extensions. In this regard, it was found that not only success drivers build on positive and negative effects but in turn also influence these effects after having been implemented.

Moreover, this thesis contributes to existing theory to the extent that brands carrying out vertical brand extensions may not be seen as islands but as being highly influenced by framework conditions. Even though the lion’s share of the effects and success drivers identified and described in this thesis have already been acknowledged by previous research, these framework conditions shed an entirely new light on both effects and success drivers. The findings advocate that the nature of vertical brand extensions is so complex that it does not suffice to tackle the phenomenon superficially and that it is very delicate to really generalise theoretical findings. Instead company-, industry- and country-specific characteristics need to be considered in order to successfully interpret and elaborate effects and success drivers, which greatly impede the transfer of findings from one company to another.

Although it was not an actual element of this study and accordingly there are factually no solid data available, it is imaginable that the framework conditions not only influence success drivers and the effects of vertical brand extensions, but that the effects in turn also affect the framework conditions. Regarding the company-specific characteristics, for instance, the strategic goal of shaping the brand perception in the long term by rejuvenating the brand may lead to the risk of brand dilution, since the firm is distancing itself from the brand core through the extension. As a diluted brand image could negatively affect brand sales, the firm
would have to address the issue of declining profits in consequence and accordingly shift its strategic goal towards the financial strengthening of the parent brand. With regard to the industry-specific characteristics, the introduction of an extension product may lead to the reinforcement of the brand image as well as an increasing brand attention. This positive effect may then in turn encourage existing competitors to follow this strategy by extending their brands, which would consequently influence the competitive environment and product lifecycles in turn. Concerning the country-specific characteristics, companies tend to introduce brand extensions in saturated markets rather than in emerging markets, since the established product portfolio of the brand does not allow the filling of further market niches. This introduction of a brand extension may then in turn influence country-specific characteristics by filling new market niches and therefore further increasing the saturation of the market.

These findings are not only relevant for scholars but also for the managers of the brands subject to this study. Due to the fact that all four companies researched are considerably successful with their brand extensions, there is only limited potential for practical implications to be derived from the findings of this case study. Still the perfume brands P1 and P2 could despite low fixed costs and short product lifecycles pursue a rather long term orientation similarly to A1 and A2, by increasing their activities in the fields of market research and risk evaluation in order to ward off the threats imposed by brand dilution, tarnishing of the brand prestige and negative feedback effects among existing consumers. In this context they should change their mind and attitude towards their brands in terms of not always compromising image over promising sales figures as once the image is damaged it is even more costly to restore the original brand image and prestige level. In this regard, P1 and especially P2 should also more carefully handle the promotion of their brand extensions with inadequate GWPs, as they do not match the original luxury value of the brands and therefore potentially increase a perceived dissonance between the parent brand and the extension. In this context, both perfume brands could either drastically limit the extent of GWPs as a marketing support tool or, alternatively, substantially upgrade the quality of their GWPs.

These aforementioned contributions led to the creation and development of a model built upon the relationship between the effects and success drivers of vertical brand extensions, which provides a base for researchers and managers to drive the field of vertical brand extension forward.

6.3 Further Research

Since this thesis has researched success drivers and effects of vertical brand extensions in a qualitative study incorporating four companies in the luxury sector, a series of more focused quantitative studies appears to be fruitful to allow a generalisation of this thesis’s main findings. Furthermore, as this study is limited to the perfume and automobile industry only, it would be promising to further include other branches in the luxury sector such as fashion, accessories, tableware as well as watches and jewellery for instance in order to find additional patterns and to become able to make valid propositions for the entire luxury sector. In addition to that, it would be interesting to include the perspective of the demand side, as this study has only focused on the company perspective and accordingly only looked at the consumer through the eyes of luxury goods marketers. As it is imaginable that the identified framework conditions not only influence the effects and success drivers, but that the effects in turn also affect the framework conditions further research could strive to examine the interdependence between effects and framework conditions and the impact of this relationship on the success drivers for vertical brand extensions in the luxury sector.
References


Appendix

A.1 Semi-Structured Interview Guide in English

Introduction

1. Could you please introduce yourself?
2. What is the strategic goal behind the introduction of the extension product we refer to?
3. How was your overall experience with the introduction of product lines at lower price levels in the last years?

Positive Effects of Vertical Brand Extension

4. How far does the introduction of a vertical brand extension contribute to the financial success of the company?
5. How do lower priced product lines help the parent brand to increase awareness in the market place?
6. Does this increased brand awareness positively influence sales of product lines apart from the extension?
7. How do you see the core associations of the parent brand represented in the extension product? Are there any novice associations to be represented?
8. To what extent would you consider the brand image positively or negatively influenced by the brand extension on the basis of new associations?
9. To what extent was it intended to reposition/revitalise the parent brand by enriching the overall brand image with new youthful associations?

Negative Effects of Vertical Brand Extensions

10. To what extent do you feel luxury attributes such as high quality, uniqueness, exclusivity and rarity represented by the vertical brand extension?
11. Did you receive negative feedback about the perceived prestige of the brand extension?
12. In case you received negative feedback about the perceived luxury attributes, to what extent did this contribute to the dilution of the parent brand image?
13. In what way does the extension product fill the need of a new market niche? Does it attract a new customer clientele?
14. To what extent were sales of established product lines negatively influenced by the extension product?
15. How was the feedback of the brand’s traditional clientele regarding the brand extension?
16. Did you experience a share of the existing consumers to be dislodged from the brand after the introduction of the transfer product? What conclusions did or can you draw from that?
17. Are there any other effects you would believe being fruitful to consider?
Internal Success Drivers

18. Why do you think is the brand extension successful in the market?

19. Which would you consider to be the most important historic and cultural attributes and legacies of the parent brand?

20. How are those attributes featured by the brand extension and how did they contribute to the brand extension’s success?

21. In what way did you conduct market research in order to identify niches and market potentials?

22. How did this market research help you to shape the extension product and to successfully position the brand extension?

23. How do you support your extension product?

24. How do these supporting strategies contribute to the extension’s success?

External Success Drivers

25. Where do you see similarities and dissimilarities between the parent brand and the brand extension? Why did you consider it fruitful to shape exactly these similarities and dissimilarities?

26. How do you manage to keep the luxury image despite the price and quality difference of the brand extension?

27. Having a look on the extension product names, it is obvious that you use sub-brand names. What is the main intention with these sub-brand names?

28. How does the strength of the parent brand contribute to the success of the brand extension?

29. The consumer perception of high quality, the influential market power and the amount of already established brand extensions are said to influence the success of the extension product. Which of these factors would you consider most important and why?

30. How do you manage risks and effects of a vertical brand extension before introducing the extension product to the market?

31. Are there any other factors apart from those mentioned, which you would consider important for the success of the brand extension?
A.2 Semi-Structured Interview Guide in German

Einleitung

1. Können Sie sich bitte kurz vorstellen?
2. Was waren Ihre Ziele mit der Einführung des Transferproduktes, über das wir heute sprechen?
3. Können Sie Ihre allgemeinen Erfahrungen mit der Einführung von Transferprodukten auf niedrigerem Preisniveau mit uns teilen?

Positive Effekte von vertikalen Markentransfers

4. Wie trägt die Einführung von Transferprodukten zum finanziellen Erfolg Ihrer Marke und des Unternehmens bei?
5. Wie steigern niedrigpreisige Transferprodukte den Bekanntheitsgrad der Muttermarke?
6. Wirkt sich eine solche Steigerung positiv auf die Verkaufszahlen anderer Produktlinien aus?
7. Wie sehen Sie die wichtigsten mit der Muttermarke verbundenen Assoziationen im Transferprodukt repräsentiert? Werden über das Transferprodukt neue Assoziationen auf die Muttermarke übertragen?
8. Inwiefern wird das Markenimage durch diese neuen Assoziationen positiv oder negativ beeinflusst?
9. Inwiefern war eine Umpositionierung bzw. Revitalisierung durch das Hinzufügen neuer, jugendlicher Assoziationen beabsichtigt?

Negative Effekte von vertikalen Markentransfers

10. Inwiefern sehen Sie klassische Merkmale von Luxusprodukten wie beispielsweise hohe Qualität, Einzigartigkeit, Exklusivität und Rarität vom Transferprodukt repräsentiert?
11. Haben Sie negatives Feedback zum wahrgenommenen Markenprestige des Transferproduktes erhalten?
12. Falls ja, wie hat dies zur Verwässerung des Images der Muttermarke beigetragen?
13. Auf welche Art und Weise wird durch das Transferprodukt eine neue Marktlinie besetzt? Wird dadurch ein bisher der Marke fernes Kundenklientel angesprochen?
14. Inwiefern werden die Verkaufszahlen anderer Produktlinien negativ durch das Transferprodukt beeinflusst?
15. Wie hat das bisherige Kundenklientel auf die Einführung des Transferproduktes reagiert?
16. Gab es bisherige Kunden, die aufgrund der Einführung des Transferproduktes von der Marke abgewandert sind? Welche Schlussfolgerungen haben Sie, beziehungsweise können Sie daraus ziehen?
17. Sehen Sie neben den angesprochenen Auswirkungen weitere Effekte von vertikalen Markentransfers, die Sie für wichtig erachten?
Interne Erfolgsfaktoren für vertikale Markentransfers

18. Warum ist Ihrer Meinung nach das Transferprodukt erfolgreich im Markt?
19. Welche sind aus Ihrer Sicht die wichtigsten geschichtlichen und kulturellen Merkmale und Vermächtnisse der Muttermarke?
20. Wie werden diese Merkmale vom Transferprodukt repräsentiert und wie tragen sie zum Erfolg des Transferproduktes im Markt bei?
21. Auf welche Art und Weise haben Sie vor der Einführung des Transferproduktes Marktforschung betrieben, um etwaige Nischen und Potentiale zu identifizieren?
22. Inwiefern haben diese Marktforschungsaktivitäten dazu beigetragen das Transferprodukt zu gestalten und es erfolgreich im Markt zu positionieren?
23. Wie wird das Transferprodukt unterstützt?
24. Wie tragen diese Unterstützungsmaßnahmen zum Erfolg des Transferproduktes bei?

Externe Erfolgsfaktoren für vertikale Markentransfers

25. Wo sehen Sie Ähnlichkeiten und Unterschiede zwischen der Muttermarke und Transferprodukt? Warum haben Sie es als vielversprechend angesehen genau diese Ähnlichkeiten und Unterschiede zu schaffen?
26. Wie erhalten Sie das Luxusimage trotz des niedrigeren Preises des Transferproduktes im Vergleich zur Muttermarke aufrecht?
27. Beim Betrachten des Transferproduktes fällt auf, dass Sie es unter einer Sub-Marke im Markt eingeführt haben. Was waren Ihre Hauptgründe hierfür?
28. Wie trägt die Markenstärke der Muttermarke zum Erfolg des Transferproduktes bei?
29. Der Wahrnehmung von hoher Qualität, Marktdominanz sowie der Anzahl bisheriger Transferprodukte wird nachgesagt, sich positiv auf den Erfolg des Transferproduktes ausüben. Welcher dieser Faktoren ist Ihrer Meinung nach der wichtigste und warum?
30. Inwiefern setzen Sie sich mit den potentiellen Risiken sowie negativen und positiven Effekte eines Transferproduktes vor dessen Einführung auseinander?
31. Sehen Sie neben den bereits angesprochenen, noch andere Erfolgsfaktoren, die aus Ihrer Sicht wichtig sind?
A.3 Semi-Structured Interview Guide for Pre-Study in English

Introduction
1. Could you please introduce yourself?
2. What are the main strategic goals behind the introduction of extensions of luxury brands?

Positive/Negative Effects of Vertical Brand Extensions
3. How far does the introduction of a vertical brand extension contribute to the financial success of luxury brands?
4. How do vertical brand extensions help the luxury parent brand to increase awareness in the market place? Does this increased brand awareness positively influence sales of product lines apart from the extension products?
5. To what extent would you consider the brand image of luxury brands to be positively or negatively influenced by the brand extension?
6. In the negative scenario, to what extent can a dilution of the luxury parent brand image be expected?
7. How can the extension product contribute to the reposition/revitalisation of the parent brand?
8. In what way do extension products fill the need of a new market niche?
9. How do existing consumers of luxury brands react in response to the introduction of a brand extension?
10. Are there any other effects you would believe being fruitful to consider in relation to vertical brand extensions in the luxury sector?

Internal Success Drivers
11. Why do you think are brand extensions of luxury brands successful in the market?
12. To what extent do you consider it important for the success of extension products that important historic and cultural attributes and legacies of the parent brand are represented in the extension product?
13. In what way do luxury brands conduct market research in order to identify niches and market potentials prior to the introduction of brand extensions? To what extent do these market research activities contribute to the success of the extension products?
14. How do luxury brands support their extension products?

External Success Drivers
15. How do luxury brands manage to keep their luxury image despite the price and quality difference of the brand extension?
16. Having a look on the extension products of luxury brands, it is obvious that they are frequently introduced under a sub-brand name. What is the main intention with these sub-brand names?
17. How does the strength of the parent brand contribute to the success of brand extensions?

18. The consumer perception of high quality, the influential market power and the amount of already established brand extensions are said to influence the success of the extension product. Which of these factors would you consider most important and why?

19. To what extent do luxury brands evaluate the risk as well as positive and negative effects prior to the introduction of the extension product?

20. Are there any other factors apart from those mentioned, which you would consider important for the success of brand extensions in the luxury sector?
A.4 Semi-Structured Interview Guide for Pre-Study in German

Einleitung

1. Können Sie sich bitte kurz vorstellen?
2. Was sind Ihrer Meinung nach die Hauptziele von Luxusmarken mit der Einführung von vertikalen Markentransfers?

Positive/negative Effekte von vertikalen Markentransfers

3. Wie trägt die Einführung von Transferprodukten zum finanziellen Erfolg von Luxusmarken bei?
4. Wie können Luxusmarken durch Transferprodukte den Bekanntschaftsgrad der Muttermarke steigern? Kann sich eine solche Steigerung positiv auf die Verkaufszahlen anderer Produktlinien auswirken?
5. Inwiefern kann das Markenimage einer Luxusmarke positiv oder negativ durch einen Markentransfer beeinflusst werden?
6. Inwiefern ist im negativen Falle eine Verwässerung des Markenimages der Muttermarke zu erwarten?
7. Wie kann das Transferprodukt zu einer Umpositionierung bzw. Revitalisierung der Muttermarke beitragen?
8. Besetzen Luxusmarken aus Ihrer Sicht stets neue Nischen im Markt?
9. Wie reagieren bestehende Kunden von Luxusmarken auf die Einführung von Transferprodukten?
10. Sehen Sie neben den angesprochenen Auswirkungen weitere Effekte von vertikalen Markentransfers, die Sie für wichtig erachten?

Interne Erfolgsfaktoren für vertikale Markentransfers

11. Was macht Ihrer Meinung nach Transferprodukte von Luxusmarken erfolgreich?
12. Inwiefern erachten Sie es für den Erfolg von Transferprodukten als wichtig, dass geschichtliche und kulturelle Merkmale und Vermächtnisse der Luxusmarke vom Transferprodukt repräsentiert werden?
13. Inwiefern betreiben Luxusmarken vor der Einführung von Transferprodukten Marktforschung, um etwaige Nischen und Potentiale zu identifizieren? Inwiefern tragen diese Marktforschungsaktivitäten zum Erfolg des Transferproduktes bei?
14. Wie unterstützen Luxusmarken ihre Transferprodukte?

Externe Erfolgsfaktoren für vertikale Markentransfers

15. Wie schaffen es Luxusmarken ihr Image trotz der Einführung von Markentransfers auf niedrigerem Preis- und Qualitäts-Niveau aufrecht zu erhalten?
16. Beim Betrachten von Transferprodukten von Luxusmarken fällt auf, dass diese häufig unter einer Sub-Marke im Markt eingeführt werden. Was sind aus Ihrer Sicht die Hauptgründe hierfür?
17. Wie trägt aus Ihrer Sicht die Stärke der Muttermarke zum Erfolg des Transferproduktes bei?

18. Der Wahrnehmung von hoher Qualität, Marktdominanz sowie der Anzahl bisheriger Transferprodukte wird nachgesagt, sich positiv auf den Erfolg des Transferproduktes auswirken. Welcher dieser Faktoren ist Ihrer Meinung nach der wichtigste und warum?

19. Inwiefern setzen sich Luxusmarke aus Ihrer Sicht mit den potentiellen Risiken sowie negativen und positiven Effekten eines Transferproduktes vor dessen Einführung auseinander?

20. Sehen Sie neben den bereits angesprochenen noch andere Faktoren, die aus Ihrer Sicht für den Erfolg von Markentransfers einer Luxusmarke wichtig sind?