The impact of branding strategies on horizontal and downward line extension of luxury brands

A cross-national study

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Abstract

Purpose – The purpose of this paper is to empirically assess the impact of branding strategies on horizontal and downward line extensions of French luxury brands in a cross-national context (France vs USA).

Design/methodology/approach – This study is based on a two line extensions (horizontal/downward) × three branding strategies (direct brand/sub-brand/standalone brand) × two country (France/USA) between-subjects ANOVA design.

Findings – The study shows that the subtyping effect created by a sub-branded luxury downward line extension tends to be rated similarly to a direct branded extension which oppose previous beliefs put forward in non-luxury settings. In contrast, a new independent/standalone extension fully uses the subtyping effect which helps attenuate this risk related to luxury downward stretches. The study also found that the effect of gender in cross-national settings must always be taken into consideration as significant variations occur in the process.

Research limitations/implications – The study covers two countries but should be replicated in other cross-national contexts.

Practical implications – This study helps marketing managers of luxury brands make a better decision when it comes to launching vertical line extensions (upscale/downward) by carefully using types of branding strategies and relevant communications whether women and/or men are targeted in cross-national contexts.

Originality/value – This study breaks new ground in the international luxury literature by providing key theoretical and managerial insights in terms of launching new downward line extensions with the proper use of branding strategies when targeting specific genders.

Keywords Country of origin, Luxury brands, Branding strategies, Downward extensions, Horizontal extensions

Paper type Research paper

1. Introduction

In recent years, the worldwide market for luxury products has experienced significant growth reaching €317.5bn in 2015 from €153bn in 2009 (Euromonitor International, 2015). Luxury brands are synonymous with high-end products that are characterized by better quality, higher prices and distinct features that are often influenced by factors such as cultural and historical heritage (Chevalier and Mazzalovo, 2012; Kapferer and Bastien, 2012). Known as horizontal line extensions, a traditional strategy of luxury brands is to launch new products at similar quality/price levels. Such extensions also refer to a new product with an existing brand name that launches into an existing product category or product class (Keller, 2013; Wilkie et al., 2015; Reddy et al., 1994). However, intense competition in the luxury sector in the last decade (Ko et al., 2016), and the growing trend toward the “democratization” of luxury has attracted price-sensitive consumers to lower-end products (Kapferer and Bastien, 2012). As a result, many luxury product manufacturers have been lured in by a volume-driven, stretched-down market and have considered the launch of downward line extensions to increase sales.

When faced with a line extension, consumers are likely to accept it as part of the parent brand category because, over time, brands as categories have become associated with a
series of product-related attributes (Baek and King, 2015). The success of an extension relies on its similarity with the parent brand (Batra et al., 2010; Loken and John, 1993), but also on other factors such as quality of distribution strategy, quality of positioning, quality of product development strategy, extent of promotional investment and extent of market research (Athanasopoulou et al., 2015). These conclusions are certainly true for luxury brands, although limited research exists regarding the impact of branding strategies on the extension. Conversely, when the level of perceive similarity decreases, that of perceived risk increases and this negatively impacts the evaluation of the extension (Baek and King, 2015). Yeo and Park (2006) find that perceived risk is particularly high when the extension is dissimilar (e.g. downward extensions) to the parent brand because the transferability of parent brand associations is debatable.

The current study is motivated by the desire to better understand the risks associated with the launch of line extensions in the luxury sector by testing the impact of different types of branding strategies on luxury consumer purchase intentions. Scholars have addressed direct brands vs sub-brands (Boisvert and Burton, 2011; Jo, 2007; Kim et al., 2001; Milberg et al., 1997; Rahman and Areni, 2014) or new independent brands (Aaker and Joachimsthaler, 2000; Rahman and Areni, 2014). A direct brand extension predominantly maintains the parent brand name with an additional name or label (e.g. HSBC Premier). In contrast, a sub-brand is based on the creation of a new brand name that uses the parent brand as a secondary label to help differentiate the new product line for the desired target group (Jo, 2007). Two examples of this are Vaio by Sony or Courtyard by Marriott. A new independent brand is based on the parent brand’s willingness to “separate” the parent brand’s effect (e.g. Toyota) from that of its line extension (e.g. Lexus). Despite these nuances, most brand or line extension research focuses on non-luxury brands that largely overlook the specific effects of branding strategies (He et al., 2016; Milberg et al., 1997; Tsai et al., 2014). However, the principles that apply to non-luxury goods may not be directly inferred to luxury brands. The current study aims at clarifying this situation by generating new insights specific to luxury brands.

Our study is also motivated by the desire to better understand the effects of different types of branding strategies on luxury consumer purchase intentions in different country markets. While research has addressed the concept of brand or line extension strategies from an international perspective (Basu and John, 2007; Bluemelhuber et al., 2007; Bottomley and Holden, 2001; Han and Schmitt, 1997; Martinez et al., 2008; Xie, 2012), there are few studies on line extensions of luxury brands in a cross-national context. For instance, according to D’Antone and Merunka (2015), critical challenges still exist in understanding how a French luxury brand’s cues influence brand origin identification in terms of transfer mechanisms. Studies have presented overall differences in attitude toward luxury brands between French and American consumers (Dubois and Paternault, 1995; Lageat et al., 2003; Kapferer and Laurent, 2016). However, the literature lacks empirical evidence on differing perceptions about horizontal and downward line extensions of a luxury brand originating from France between French and American consumers. With the growing trend of downward extensions in the luxury sector, such limited knowledge can hinder sound decision making regarding the launch of new masstige products in both France and America.

In summary, many luxury manufacturers in recent years have embarked on a strategy to massify their market without considering the tactical value of using different types branding strategies when launching new extensions. The unfortunate consequence is the risk associated with losing their luxury positioning. At the same time, there is limited research in the luxury literature on the role branding strategies can play on the evaluation of luxury line extensions, despite key theoretical and managerial implications for luxury brands. The current study makes a major contribution to our theoretical understanding of these luxury market dynamics, in a cross-national context. Such a contribution would not be possible by conducting research in a single country.
The remainder of this paper is organized as follows. First, the theoretical background and proposed hypotheses are presented. Next, the research methods, data collection, analysis and results are described. The final section discusses the findings, the study’s contribution to the field, managerial implications, limitations and directions for further research.

2. Theoretical background and hypotheses development

2.1 Luxury, premium and masstige brands
Mark et al. (2016) explain that when a consumer, who desires a luxury handbag (e.g. Louis Vuitton), cannot afford it and yet continues to desire the product category, the same consumer is likely to choose a premium version from a more affordable brand to achieve this goal. Furthermore, there appears to be a consensus in the literature that if too many consumers own a luxury brand, it may lose its exclusivity and prestige (Kapferer, 2012; Vigneron and Johnson, 1999). To this effect, Kapferer (1997) states “luxury brands must be desired by all, consumed only by the happy few.”

Alleres (1991) proposes three categories of luxury, i.e. inaccessible luxury, intermediate luxury and accessible luxury. In a similar fashion, Vigneron and Johnson (1999) sub-categorize luxury products into three types of brands: up-market brands, premium brands and luxury brands. The authors also use the term “prestige” as a point of reference to define the top category. Similarly, the concept of a luxury brand is further defined by Wiedmann et al. (2007) as the highest level of prestigious brands that embody several types of physical and psychological values.

However, the definition of luxury has evolved over time by distinguishing luxury and premium brands. Luxury brands can be described as varying on a vertical continuum of accessible, intermediate and inaccessible luxury (De Barnier et al., 2012), seen as high and low luxury (Vigneron and Johnson, 2004), or old and new “luxe” (Miller and Mills, 2012). Luxury brands that use to be exclusively for the rich and elite are now purchased by the masses, as luxury manufacturers have developed specialized premium product lines (e.g. Armani has Emporio Armani, Armani Exchange) to cater to different market segments who aspire to be a part of the elite class (Shaikh et al., 2017).

The emergence of masstige brands is part of the “democratization of luxury” (Kapferer and Bastien, 2012) and refers to the consumers’ tendency to buy “popular luxury brands” with the aim of getting approval from the social groups they belong to (Tsai et al., 2013). Authors such as Truong et al. (2009) highlight the emergence of masstige brands at the lower end of the luxury spectrum. These new versions of a luxury brand represent a downward extension (see Dall’Olmo-Riley et al., 2013).

2.2 Country-of-origin effect and luxury brands
Research on country-of-origin effects largely focuses on the extent to which a product’s distribution and manufacturing in a particular country impacts preferences. For instance, the perceived value of luxury appears to be the same across countries as a result of internationally standardized marketing strategies and their strong synergy effects (Hennigs et al., 2012). Moreover, Seo et al. (2015), in their qualitative study on the impact of multicultural marketplaces on luxury brands in New Zealand, find that the consumers emerged as contextual cultural shifters. More specifically, consumers within a single national market are influenced by a shift between local and foreign cultural beliefs. In other words, if a luxury brand enters an emergent multicultural market, such as New Zealand, it could face consumer resistance, given the dominant influence of Kiwi Brands.

The literature also presents comparative studies on the impact of product and non-product associations and effect of county of origin on product evaluations (Chen et al., 2014), and brand authenticity and distribution location (Newman and Dhar, 2014).
More specifically, Newman and Dhar (2014) posit that products from a company’s original manufacturing location encompass the essence of the brand, and this belief in effect leads consumers to view products from the original factory as more authentic than identical ones made elsewhere. Research also suggests that a product’s country of origin has affective meaning for consumers because of the non-product-related exposure to the country vs unrelated product stereotypes (Batra et al., 2000; Maheswaran and Chen, 2006; Newman and Dhar, 2014).

Since the USA is the largest market for personal luxury goods by proportion (28.8 percent; Bain and Company, 2016), a better understanding of American luxury consumers is of key importance. This study applies this notion to luxury brands produced in France and sold in both the USA and France. While Russell et al. (2011) performed a country-of-origin study on French consumers’ perception toward American brands, they did not do so for luxury brands or compared French luxury brands with those in the USA. Furthermore, Dubois et al. (2005) explore consumer’s attitude toward luxury using data from 20 countries. While their sample includes American consumers and French brands (among others), there is no specific conclusion on American consumers’ perception of French luxury brands.

Finally, in their cross-cultural research, Kapferer and Laurent (2016) reveal significant differences in perceptions of minimum prices for luxury products among consumers across seven countries. Their findings show that American consumers perceive a lower price for luxury watches than French consumers. Conversely, American consumers recognize the value of a French luxury brand, but evaluate it less positively owing to the cultural perceptions of the brands in comparison to American-made products (Dubois and Paternault, 1995). In both cases, however, no empirical test can be found pertaining to how US consumers react to a downward line extension of a French luxury brand vs the type of branding strategies used. This study attempts to bridge this gap in the luxury literature.

The next section reviews the literature on luxury horizontal and downward line extensions and cross-national effects in France and the USA.

2.3 Horizontal and downward line extensions of luxury brands and cross-national effects in France and the USA

Vertical extensions are based on the differentiation of quality within the same product category (Randall et al., 1998) where upward extensions entail a superior version of the parent brand that targets upward market segments (Kimani et al., 1999). In the context of luxury parent brands, products are already positioned as upscale so “horizontal” line extension is the proper label used in the context of this study.

The use of line extensions has been a prevalent growth strategy for not only consumer goods (Aaker and Keller, 1990; Ambler and Styles, 1997; Volckner and Sattler, 2007) but also luxury brands (Dall’Olmo-Riley et al., 2013; Kim and Wingate, 2017; Rahman and Areni, 2014). The key objective of a line extension is to leverage the equity of the core brand by launching new products that share the same brand name. Research on brand/line extension suggests that brands can be viewed as categories (Aaker and Keller, 1990; Boush and Loken, 1991) and such categorizations can influence a series of subsequent information processes underlying inferences and memory processes (Bless and Greifeneder, 2009). More specifically, when faced with a line extension, consumers are likely to accept it as part of the parent brand category because over time, brands as categories have come to be associated with a series of product-related attributes (Baek and King, 2015).

As for dynamics related to country of origin, abstract levels of knowledge include a country’s overall image and the knowledge of a country as a manufacturer or in terms of a specific product category (Pappu et al., 2007). Consumer perceptions about brands from different countries can be generated by people’s cultural experiences with the manufacturing country or through targeted advertising campaigns designed to entice a
positive effect. Research suggests that a luxury brand originating from a specific country will be evaluated more positively by consumers originating from that country as compared to those from elsewhere (Chen et al., 2014).

Country of living may also have an affective meaning for consumers given their non-product-related exposure to the country and unrelated product stereotypes (Batra et al., 2000; Maheswaran and Chen, 2006). D’Antone and Merunka’s (2015) theoretical study suggests that the field still faces limited understanding of how the cues of a French luxury brand influence brand origin identification in terms of transfer mechanisms. Their study, however, does not present arguments regarding the extent to which Americans could react to the same French brands. By contrast, research suggests that American consumers are likely to recognize the value of a French luxury brand but evaluate it less positively because of specific perceptions about France and the pride they have toward American-made products (Overby et al., 2004).

Factors such as licensing and distribution networks used by French luxury makers in the USA may also impact their acceptance (Dubois and Paternault, 1995). In addition, Dubois et al. (2005) find that American consumers are more “democratic” than French consumers who are more “elitist” in their attitude toward luxury. However, there is little empirical evidence on the impact of luxury line extensions and types of branding strategies used in this cross-national context. We argue that this attitude pattern should apply to a horizontal line extension. Thus, the following hypothesis is proposed and tested:

**H1a.** A new horizontal line extension of a French luxury brand is rated less positively by American consumers than French consumers.

In contrast, downward extensions often involve the launch of lower quality and lower price points, which suit the needs of the value market (Aaker, 1997; Kirmani et al., 1999; Liu, 2002). However, in such cases, the level of congruity is said to be low (Kim et al., 2001). Magnoni and Roux (2012) test the reciprocal impact of luxury downward line extensions on self-brand connections, brand attachment, brand trust and brand commitment. The authors find that in the luxury marketplace, discounting on price is a tactic that manufacturers generally avoid owing to possible negative effects. However, the literature presents limited research on such effects.

Dall'Olmo-Riley et al. (2013) measured the effects of downscale extensions of luxury brands and price discounts on brand image, status and conspicuousness. They posit that a low-price discount has a larger negative effect than a higher price discount. In addition, they suggest that the differences in the results between premium and luxury brands indicate that the simple contrast between luxury and functionality is inadequate (e.g. Kim et al., 2001; Kirmani et al., 1999). A luxury line extension that is developed downward and becomes part of the luxury value market (or masstige) is likely to be evaluated less positively than its horizontal counterpart. Unfortunately, the current luxury brand literature does not allow for this conclusion, given the lack of empirical evidence (Dall'Omo-Riley et al., 2015). Moreover, there are few empirical studies on the effect of vertical extensions in a cross-national context.

Research suggests that because of the low congruity between both consumer groups, a downward line extension can be rated less positively than an upward version (Kim et al., 2001). Allman et al. (2016) argue that when functional (non-luxury) brands pursue a downward vertical line extension, country of origin has little or no effect on consumers. In the luxury literature, however, there is limited research on the overall effect of the downward vertical line extension of a luxury brand compared to that of country of origin in a cross-national context. It is, thus, reasonable to assume that this differential effect holds true for American and French consumers. Therefore, the following hypothesis is proposed and tested:

**H1b.** A new downward line extension of a French luxury parent brand is evaluated similarly by French and American consumers, but less positively than a horizontal line extension.
The next section addresses the issue of limited research on the effect of branding strategies in cross-national contexts by comparing the extent to which French and US consumers react to branding strategies in relation to downward luxury line extensions.

2.4 Branding strategies, country of origin and cross-national effects in France and the USA

One way of compensating for an unwanted outcome from a downward extension is applying different branding strategies that may prevent consumers from directly linking the new downward extension to the parent brand. The service and durable goods literature highlight choice of branding strategy as a key factor in the development of line extensions (Boisvert, 2012; Boisvert and Burton, 2011; Kim et al., 2001; Milberg et al., 1997).

When considering the launch of a line extension, three types of branding strategies can be used: direct brand, sub-brand and independent brand. However, the specific effects of branding strategies applied to the line extensions of luxury brands have been seldom investigated. This study tests the effect of the three branding strategies at varying levels for each extension type (i.e. horizontal and downward).

A direct branding strategy is defined as a new extension that is strongly linked to the parent brand’s name, colors and/or symbols, which appear in a prominent position in the brand name (Milberg et al., 1997; Boisvert and Burton, 2011). This type of strategy may entice a book-keeping effect, which posits that most of the information about the parent brand in the extension will be considered during the latter’s evaluation (Rumelhart and Norman, 1978; Weber and Crocker, 1983). This study also proposes that American consumers tend to rate French brands less positively than French consumers (Dubois and Paternault, 1995; Kapferer and Laurent, 2016).

Second, a sub-brand is said to have a filtering effect on negative associations for dissimilar extensions, thus improving the evaluation of the extension (Milberg et al., 1997; Sood and Keller, 2012; Tsai et al., 2014). In such a case, the use of a sub-branding strategy is claimed to create a “distance” between the extension and parent brand (Jo, 2007; Kim et al., 2001; Milberg et al., 1997). This is consistent with the subtyping effects created by items atypical of a target object and which are processed by consumers as “sub-types” of the original object. In the subtyping process, individuals automatically categorize those uncharacteristic target objects using a distinct set of beliefs (Sujan and Bettman, 1989; Taylor, 1981). In cases like this, the extension’s set of associations would be treated differently from those of the original object.

The fact that the parent brand name occupies a separate space in the extension’s name makes consumers deduce that the extension has exclusive features while keeping some characteristics of the parent brand (Kirmani et al., 1999). However, these effects may vary between the non-luxury and luxury sectors.

Third, in the case of an independent brand, a new brand is created with the objective to separate or distinguish perceptions from those of the parent brand to avoid any possible inference to the original brand (Aaker and Joachimsthaler, 2000; Rahman and Areni, 2014). Rahman and Areni (2014) argue that the use of a sub-brand may hinder the equity of the parent brand, where fit or congruity is extremely low, from where the company should consider launching a completely new independent brand. The authors further suggest that when the similarity of the positioning strategy for the parent brand and fit of the new product extension are low, the development of a new independent brand that has no association with the parent brand may be a strategic option. However, Rahman and Areni’s (2014) study is based on propositions and lack empirical tests on luxury brands. Aaker and Joachimsthaler (2000) observed that the launch of an independent brand is intended to avoid any connection with the parent brand (e.g. Saturn and General Motors or Lexus and Toyota). See also McCarthy et al. (2001).

When introducing a line extension for a luxury brand using an independent brand, one can assume that the intended strategy will help limit, if not eliminate, the transfer of the
parent brand’s knowledge or equity (positive or negative) to the new brand. Thus, it is reasonable to assume that this absence of equity associated with an independent luxury brand may entice American consumers to evaluate it less positively than French consumers. Accordingly, the following hypotheses are thus proposed and tested:

H2a. A new direct branded horizontal line extension of a French luxury brand is rated less positively by American consumers than French ones.

H2b. A new sub-branded horizontal line extension of a French luxury brand is rated similarly by both American and French consumers.

H2c. A new independent brand of a French luxury parent brand is evaluated less positively by American compared to French consumers.

Research on the non-luxury sector suggests that an increase in product quality in a family brand portfolio raises the value of a sub-brand as a predictive cue if the sub-brand is associated with high-quality products (Janiszewski and Osselaer, 2000). Jo (2007) suggests that sub-brands enhance the perceived quality of weak and strong brands but provide greater enhancement for weaker brands. In addition, the author states that quality sub-brands differentiate themselves from their parent brands to prevent inferential beliefs. In addition, Jo (2007) tests the position of the sub-brands in advertising (i.e. before or after the parent brand name) and posits that matching quality sub-brands with the right product category may be necessary to achieve effective outcomes. However, the results provide limited insight on its application to luxury brands.

In their study which assess brand elasticity vs styles of thinking, Monga and Roedder-John (2010) compare direct and sub-brand extensions for products unrelated to the parent brand in the context of prestige and functional brands. The authors suggest that not all consumers are positively influenced by sub-brands and functional and prestige brands significantly differ from each other. Sood and Keller’s (2012) research on sub-branding posit that minor changes to the structure of the extension name can produce large changes in consumer response. Here, while family branding consistently results in more favorable evaluations of similar extensions than dissimilar ones, sub-branding is said to neutralize these category similarity effects through a subtyping strategy. Keller (2009) suggests that a sub-branding strategy can facilitate access to associations and attitudes regarding the parent brand as a whole and allow for the creation of specific brand beliefs for the extension.

In contrast, for a sub-brand of a luxury brand, the subtyping effect may not isolate the extension on the basis of the intended distinct set of beliefs, given the prevalence of the main brand on the labeling (e.g. advertising and packaging). Thus, the strong connection consumers have with the parent brand may lead to the transfer of parent brand-specific beliefs to the sub-brand. This study argues that this effect should hold true for French and American consumers. Therefore, we propose the following hypotheses:

H3a. A new sub-branded horizontal line extension of a French luxury parent brand is evaluated similarly to a direct branded line extension by American consumers but significantly less by French consumers.

H3b. A new independent brand, launched as a horizontal line extension, of a French luxury parent brand is evaluated similarly to a sub-branded line extension by French consumers but significantly less by American consumers.

Contrary to previous findings in the non-luxury sector (Milberg et al., 1997), a sub-branded downward line extension with similar positive associations to those of a luxury parent brand is likely to be rated similarly to a direct brand line extension. Hagtvedt and Patrick (2009) suggest that luxury brands are generally more extendible than non-luxury brands due to their hedonic potential. Monga and Roedder-John (2010) also show that luxury
brands are more extendible than functional brands. In this regard, consumers of luxury brands are more sensitive to line extensions than non-luxury brand consumers which can make transfer of associations with more strength (Albrecht et al., 2013). Previous studies, however, provide limited insights into the extent to which a sub-brand can be applied or inferred to downward line extensions of luxury brands. Thus, a sub-brand downward extension of a luxury parent brand is likely to create a strong connection for consumers by carrying over the positive parent brand-specific beliefs and reducing the negative perceptions to a minimum. H1b stipulates that a new downward line extension of a French luxury parent brand will be evaluated similarly by both French and American consumers, but less positively than a horizontal luxury line extension. We argue that this relationship will also apply to sub-branded downward extensions which leads to the following hypothesis:

**H4a.** A new sub-branded downward line extension of a luxury parent brand is evaluated similarly to a direct branded line extension by French and American consumers.

Research suggests that French consumers are more sensitive to luxury on several dimensions than American consumers (Overby et al., 2004). In addition, from a country perspective, Kapferer and Bastien (2012) argue that European and American consumers have different perspectives toward luxury brands. First, Europeans are more concerned with the quality of the product and the heritage behind French brands. In contrast, Americans appear to be more sensitive to invented brand stories (with an “American” emphasis) as well as the atmosphere created by the retail outlets dedicated to the luxury brands. Given these observations, Americans should be less brand-sensitive toward French brands compared to French consumers (Granot et al., 2013). Here, as per the previous hypothesis, American consumers should be less open to a new independent brand made by an unknown French luxury brand than French consumers. The following hypothesis is thus proposed:

**H4b.** A new independent brand of a French luxury parent brand is rated less positively by American compared to French consumers.

### 3. Methodology

**3.1 Sampling procedures and data collection**

Given the objectives of this study, a between-subjects experimental ANOVA design based on two line extensions (horizontal and downward) × three branding strategies (direct brand, sub-brand and new brand) × 2 country (France and USA) was established. It resulted in a total of 12 randomly assigned cells (6 cells within France and 6 for the USA). The frame of reference is illustrated in Figure 1.
The 12 experimental cells were assigned based on a series of quotas for US and France demographics. An initial request for participation was sent to thousands of potential participants. After eliminating straight-liners (halo effect), a total of 1,920 participants completed the questionnaires. Respondents were randomly assigned to each of the 12 experimental cells (quota of 160 subjects per cell), which were evenly spread between France (960 respondents) and the USA (960 respondents).

The regional span was established on the basis of the following three criteria: participants should have a minimum annual income of US$50,000, be a minimum of 25 years of age and should have purchased a luxury product in the previous year. The demographic breakdown of the sample is shown in Table I.

Data collection was conducted across a two-week period using a large-scale private commercial online database (sample frame) that includes participants from both the USA and France. Notably, an increasing number of academic studies have been published in top marketing journals using online sampling procedures (Balabanis and Siamagka, 2017; Boisvert, 2012; Chernev, 2006; Mimouni-Chaabane and Volle, 2010).

### 3.2 Pretests and manipulation checks

**Questionnaire design.** The ANOVA design led to the development of 12 distinct questionnaires (two extension types × three branding strategies × two countries) translated for French and American consumers. The questionnaires were submitted to an English-to-French translator but also a French-to-English translator to identify any inconsistencies. No issues were raised. Following this procedure, a pretest was conducted with 80 French and American respondents, with equal proportions of men and women, to ensure a proper questionnaire design and formulation of questions. As a result, no issue was identified (France and USA).

**Distance between horizontal vs downward extensions.** The first experimental manipulation was to control for the level of extension, i.e. horizontal vs downward where the downward version was expected to be perceived of lesser quality than the horizontal (Dall’Olmo-Riley et al., 2013; Kirmani et al., 1999). We measure the quality differences between horizontal and downward extensions with a three-item bipolar horizontal scale of 1 to 7 (poor quality – high quality, not good quality – very good quality, inferior product – superior product). The results show that for both France (\(\bar{x} = 5.51\) vs 4.11, \(p < 0.01\)) and the USA (\(\bar{x} = 5.32\) vs 4.17, \(p < 0.01\)), the levels of perceived quality were confirmed to be significantly different between horizontal and downward extensions in both the pretest and final data collection.

**Semantic validity of branding types.** Given the objective of this study and high familiarity with the case brand, stimuli development was elaborated using semantic descriptions (Goetz et al., 2014; Jo, 2007; Sood and Keller, 2012). With regards to the descriptors of the

<table>
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<tr>
<th>Educationa</th>
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<th>Age groupa</th>
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<tr>
<td>Elementary</td>
<td>20</td>
<td>1.0</td>
<td>25–34 yrs</td>
<td>286</td>
<td>14.9</td>
<td>$50,000–$74,999</td>
<td>947</td>
<td>49.3</td>
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<tr>
<td>Secondary</td>
<td>114</td>
<td>5.9</td>
<td>35–44 yrs</td>
<td>447</td>
<td>23.3</td>
<td>$75,000–$99,999</td>
<td>532</td>
<td>27.7</td>
</tr>
<tr>
<td>College/some college</td>
<td>303</td>
<td>15.8</td>
<td>45–54 yrs</td>
<td>331</td>
<td>17.2</td>
<td>$100,000 and more</td>
<td>441</td>
<td>23.0</td>
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<tr>
<td>University – undergraduate</td>
<td>330</td>
<td>17.2</td>
<td>55–64 yrs</td>
<td>411</td>
<td>21.4</td>
<td>Total</td>
<td>1,920</td>
<td>100.0</td>
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<tr>
<td>University – graduate</td>
<td>376</td>
<td>19.6</td>
<td>65–74 yrs</td>
<td>407</td>
<td>21.2</td>
<td>Total</td>
<td>1,920</td>
<td>100.0</td>
</tr>
<tr>
<td>University – post graduate</td>
<td>375</td>
<td>19.5</td>
<td>More than 75 yrs</td>
<td>38</td>
<td>2.0</td>
<td>Total</td>
<td>1,920</td>
<td>100.0</td>
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<tr>
<td>Other</td>
<td>402</td>
<td>21.0</td>
<td>Total</td>
<td>1,920</td>
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**Notes:** aThe proportions between the two countries are similar. In terms of gender, 50/50 quotas were established between both countries.
branding strategies (vs extension types), we initially conducted a series of 12 face-to-face interviews where subjects were explained the meaning of a direct brand, sub-brand or an independent brand was with the help of real world examples. They were then asked to read different descriptors randomly ranked and indicate which one corresponds to a direct brand, a sub-brand or an independent brand. Tables II (horizontal line extension) and III (downward line extension) describe the various semantic descriptions used as stimuli for each line extension questionnaire.

Regarding the semantic validity of the direct brands, sub-brands and independent brand, respondents were exposed to them during the initial qualitative phase. Furthermore, to control for the branding types, it was expected that the fit of the extension with the parent brand would implicitly score a lower fit for a sub-brand compared to a direct brand (Chang and Tseng, 2015; Goetz et al., 2014; Rahman and Areni, 2014; Tsai et al., 2014). In a similar thinking, an independent new “unknown” brand that is not related to the parent brand is logically expected to score lower on fit than a direct or a sub-brand (Chang and Tseng, 2015). Adapted from previous studies (Michel and Donthu, 2014; Monga and Roedder-John, 2010), perceived fit was measured with a three-item bipolar horizontal scale of 1 to 7 (a good fit for the Cartier brand – a bad fit for the Cartier brand, very logical for the Cartier brand – not at all logical for the Cartier brand, very appropriate for the Cartier brand – not at all appropriate for the Cartier brand). As expected, the difference between direct and sub-brands ($\bar{x} = 4.77$ vs $4.39$, $p < 0.01$), as well as between sub-brands and independent brands ($\bar{x} = 4.39$ vs $3.99$, $p < 0.01$) confirms that the branding semantic is valid. Results apply for both France and the USA.

The selection of the brand “cartier”. A literature search was conducted to identify a luxury brand that would a high awareness among consumers, be gender neutral and be strongly associated to a specific product category to control for any brand effect. Fortunately, the search revealed that “Cartier,” a French luxury brand mainly associated with their high-end luxury watches, is a brand with the highest unaided awareness (Geiger-Oneto et al., 2013; Kapferer, 2009). In addition, the initial questionnaire pretest revealed a high level of awareness about and familiarity with the luxury brand “Cartier” among the target respondents. Furthermore, Dubois and Paternault (1995) show that men

<table>
<thead>
<tr>
<th>Branding strategies</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct branded</td>
<td>The French luxury watch maker “CARTIER” intends to launch a new top-of-the-line watch. This new watch is an expensive watch and is the best in luxury</td>
</tr>
<tr>
<td>Sub-branded</td>
<td>A luxury watch maker (a division of Cartier) intends to launch a new top-of-the-line watch. This new watch is an expensive watch and is the best in luxury</td>
</tr>
<tr>
<td>Independent brand</td>
<td>A French luxury watch maker (a direct competitor of Cartier) intends to launch a new top-of-the-line watch. This new watch is an expensive watch and is the best in luxury</td>
</tr>
</tbody>
</table>

### Table II.
New extension descriptive (luxury horizontal extensions)

<table>
<thead>
<tr>
<th>Branding strategies</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct branded</td>
<td>The French luxury watch maker CARTIER intends to launch a non-luxurious watch. This new watch is a low-cost watch</td>
</tr>
<tr>
<td>Sub-branded</td>
<td>A luxury watch maker (a division of Cartier) intends to launch a new non-luxurious watch. This new watch is a low-cost watch</td>
</tr>
<tr>
<td>Independent brand</td>
<td>A French luxury watch maker (a Cartier’s direct competitor) intends to launch a new non-luxurious watch. This new watch is a low-cost watch</td>
</tr>
</tbody>
</table>

### Table III.
New extension descriptive (downward extensions)
and women perceive the brand “Cartier” as gender neutral. A separate qualitative pretest revealed that the “watch” category is a product category that is also generally not considered gender-specific.

Finally, Veg-Sala and Roux (2012) note that “Cartier” is anchored in high social status and a closed mastery contract related to the know-how of jewelry (and especially watches), and this confines “Cartier” into extension potential within this specific category. Therefore, given these observations, we concluded that the brand “Cartier” watches represents the ideal case brand for the purpose of this study and was selected as the main brand stimulus to be applied in the development of extensions vs branding strategies.

Semantic descriptors and respondent attention. In designing the online questionnaire, we specifically made sure that each description was maintained at the top of the screen to ensure constant exposure to respondents while they rated their purchase intention. Moreover, respondents could not continue if they had not provided their score for each question (linked to each extension). They were implicitly required to read the description.

Dependent variable. For the measurement of the purchase intentions (PB control and extension dependent variables), we draw on well-established scales used in the literature (Balabanis and Siamagka, 2017; Barone and Jewell, 2013; Dall’Olmo-Riley et al., 2013) and adapt them to our research context. The scale used three-items, and seven-point bipolar adjectives: improbable/probable, impossible/possible and unlikely/very likely. The Cronbach’s reliability score was high for both (α = 0.96), well above the suggested rule-of-thumb threshold of 0.70 (Hair et al., 2009).

4. Data analysis and results

The independent variables were ordered as follows: two types of vertical line extensions (horizontal or downward), two types of branding strategies (direct brand, sub-brand or independent brand) and two countries (France or USA). Purchase intention of the extension was chosen as the dependent variable and that of core brand as a covariate.

The data were thoroughly analyzed using SPSS v24. First, because an analysis of variance requires variance homogeneity, the Levene test was conducted as a verification check. The result proved to be non-significant ($F_{1,11} = 1.646$, $df = 1,908$, $ns → 0.08$) confirming homogeneity of variances. Second, the results in Table IV reveal that each factor under investigation is highly significant ($p < 0.01$), but a series of two-way key interactions was revealed ($p < 0.05$) in addition to a three-way interaction ($p < 0.05$).

<table>
<thead>
<tr>
<th>Source</th>
<th>T. III sum of squares</th>
<th>df</th>
<th>Mean square</th>
<th>$F$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrected model</td>
<td>1,614.485</td>
<td>12</td>
<td>134.540</td>
<td>52.977</td>
<td>0.000</td>
</tr>
<tr>
<td>Intercept</td>
<td>1,177.941</td>
<td>1</td>
<td>1,177.941</td>
<td>463.830</td>
<td>0.000</td>
</tr>
<tr>
<td>Pint (PBPre)</td>
<td>1,271.701</td>
<td>1</td>
<td>1,271.701</td>
<td>500.749</td>
<td>0.000</td>
</tr>
<tr>
<td>Country of living</td>
<td>22.596</td>
<td>1</td>
<td>22.596</td>
<td>8.897</td>
<td>0.003</td>
</tr>
<tr>
<td>Vertical directions</td>
<td>88.225</td>
<td>1</td>
<td>88.225</td>
<td>34.740</td>
<td>0.000</td>
</tr>
<tr>
<td>Branding strategies</td>
<td>69.983</td>
<td>2</td>
<td>34.991</td>
<td>13.778</td>
<td>0.000</td>
</tr>
<tr>
<td>Country × vertical directions</td>
<td>13.585</td>
<td>1</td>
<td>13.585</td>
<td>5.349</td>
<td>0.021</td>
</tr>
<tr>
<td>Country × branding</td>
<td>35.234</td>
<td>2</td>
<td>17.617</td>
<td>7.070</td>
<td>0.001</td>
</tr>
<tr>
<td>Vertical × branding</td>
<td>16.327</td>
<td>2</td>
<td>8.164</td>
<td>3.215</td>
<td>0.040</td>
</tr>
<tr>
<td>Error</td>
<td>4,843.011</td>
<td>1,907</td>
<td>2.540</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39,480.444</td>
<td>1,920</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrected total</td>
<td>6,457.496</td>
<td>1,919</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: Dependent variable: purchase intentions of the extension, $R^2 = 0.250$ (adjusted $R^2 = 0.245$)

Table IV. Analysis of variance: tests of between-subjects effects
In terms of horizontal line extensions of luxury brands and cross-national effects (France and USA), $H1a$ stipulates that a new horizontal line extension of a French luxury brand is rated less positively by American consumers than French consumers. The results show (see Figure 2) that the difference in ratings for a horizontal line extension is significantly less for American consumers compared to French consumers ($\bar{x} = 4.17$ vs $\bar{x} = 4.64$, $t = 4.11$, $p < 0.01$). Thus, $H1a$ is therefore supported. Means and standard deviations are displayed in Table V.

In terms of downward line extension, $H1b$ proposes that a new downward line extension of a French luxury parent brand is evaluated similarly by French and American consumers, but less positively than a horizontal line extension. The results reveal (Figure 2) no significant difference ($\bar{x} = 3.87$ vs $\bar{x} = 3.91$, $p = ns$) between French and American consumers for downward line extensions and a significant difference in comparison to horizontal line extensions (France, $\bar{x} = 3.91$ vs $\bar{x} = 4.64$, $t = 6.41$, $p < 0.0$; USA, $\bar{x} = 3.87$ vs $\bar{x} = 4.17$, $t = 2.59$, $p < 0.01$). $H1b$ is thus supported.

As for branding strategies, country of origin and cross-national effects (France and USA), $H2a$ proposes that a new direct branded horizontal line extension of a French luxury is rated less positively by American consumers than French ones. Figure 3(a) reveals a significant negative difference between consumers from the USA and France for a horizontal line extension.

**Figure 2.** Interaction effects between cross-national influences and vertical direction

**Table V.** Reported means for types of extensions and branding strategies

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>n</th>
<th>France</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizontal extension</td>
<td>4.17 (1.78)</td>
<td>480</td>
<td>4.64 (1.74)</td>
<td>480</td>
</tr>
<tr>
<td>Direct brand</td>
<td>4.48 (1.66)</td>
<td>160</td>
<td>4.97 (1.69)</td>
<td>160</td>
</tr>
<tr>
<td>Sub-brand</td>
<td>4.47 (1.78)</td>
<td>160</td>
<td>4.53 (1.67)</td>
<td>160</td>
</tr>
<tr>
<td>Independent brand</td>
<td>3.57 (1.76)</td>
<td>160</td>
<td>4.42 (1.66)</td>
<td>160</td>
</tr>
<tr>
<td>Downward extension</td>
<td>3.87 (1.91)</td>
<td>480</td>
<td>3.91 (1.80)</td>
<td>480</td>
</tr>
<tr>
<td>Direct brand</td>
<td>3.92 (1.97)</td>
<td>160</td>
<td>3.92 (1.82)</td>
<td>160</td>
</tr>
<tr>
<td>Sub-brand</td>
<td>4.20 (1.90)</td>
<td>160</td>
<td>4.00 (1.80)</td>
<td>160</td>
</tr>
<tr>
<td>Independent brand</td>
<td>3.47 (1.78)</td>
<td>160</td>
<td>3.80 (1.79)</td>
<td>160</td>
</tr>
</tbody>
</table>

**Note:** Dependent variable: purchase intentions
In contrast, $H2b$ states that a new sub-branded horizontal line extension of a French luxury brand is rated similarly by both American and French consumers. The results shown in Figure 3(a) are not significant ($\overline{x} = 4.47$ vs $\overline{x} = 4.53$). Moreover, $H2c$ states that a new independent brand of a French luxury parent brand is evaluated less positively by American compared to French consumers. The difference illustrated in Figure 3(a) is significant ($\overline{x} = 3.57$ vs $\overline{x} = 4.42$, $t = 4.43$, $p < 0.01$). $H2a$, $H2b$ and $H2c$ are thus supported.

The next hypothesis ($H3a$) suggests that a new sub-branded line extension of a luxury parent brand is evaluated similarly to a direct branded line extension by American consumers but significantly less by French consumers. Figure 3(a) illustrates that there is no difference between a sub-brand and a direct brand for American consumers ($\overline{x} = 4.48$ and $\overline{x} = 4.47$, $t = 0.98$, $p = 0.34$), thus supporting $H3a$. In contrast, $H3b$ states that a new independent brand of a French luxury parent brand is evaluated similarly to a sub-branded line extension by French consumers but significantly less by American consumers. Figure 3(a) illustrates that there is no difference between a sub-brand and an independent brand for French consumers ($\overline{x} = 4.42$ vs $\overline{x} = 4.53$) and a statistical difference for American consumers ($\overline{x} = 3.57$ vs $\overline{x} = 4.47$, $t = 4.52$, $p < 0.01$). The findings support $H3b$.

$H4a$ states that a new sub-branded downward line extension of a luxury parent brand is evaluated similarly to a direct branded line extension by French and American consumers. Figure 3(b) shows that this difference is not significant between sub-brands and direct brands of a downward extension for both French ($\overline{x} = 4.00$ vs $\overline{x} = 3.92$) and American consumers ($\overline{x} = 4.20$ vs $\overline{x} = 3.92$). The hypothesis is thus supported.

Finally, $H4b$ suggests that a new downward independent brand of a French luxury parent brand is evaluated less positively by American consumers than French ones. The results (see Figure 3(b)) suggest that American consumers rated a new downward independent line extension of a French luxury parent brand significantly less than French consumers ($\overline{x} = 3.47$ vs $\overline{x} = 3.80$, $t = 1.65$, $p < 0.05$). The hypothesis is thus supported.

5. Discussion
In periods of economic turbulences, more and more consumers are attracted by “good enough” substitute instead of the ideal product especially when the switching cost is low (Mark et al., 2016). Luxury manufacturers are not spared by this situation and while they expand their market in countries such as China, they have been tempted to tap into lower
end segments with the aim of expanding market share. In that context, it becomes essential to understand the theoretical and managerial effects of launching extensions that are either developed horizontally or downward. Acknowledging the shortcoming of existing literature to examine line extensions of luxury brands in a cross-national context, the objective of the current study is to investigate the effect of different horizontal and downward line extensions of a French luxury parent brand on luxury consumer purchase intentions in a cross-national context (i.e. France vs the USA).

The key objective of a line extension is to leverage the equity of the core brand by launching new products that share the same brand name (Aaker and Keller, 1990; Völckner and Sattler, 2007). The same applies for luxury brands (Dall’Olmo-Riley et al., 2013; Kim and Wingate, 2017; Rahman and Areni, 2014). However, it is not clear how different branding strategies may affect purchase intentions of the extensions. For instance, a sub-brand is a brand that has its own identity to differentiate it from the parent brand (Jo, 2007) which is consistent with the subtyping effect (Sujan and Bettman, 1989; Taylor, 1981). He et al. (2016) found that a non-luxury parent brand does in fact transfer to its sub-brand, and the effect is more noticeable for a sub-brand that is closer to the parent brand, as is the case in the current study. The current study confirms this finding for American consumers but not for French consumers who consider a sub-brand as an inferior version of the parent brand. The transfer of a French luxury parent brand to a sub-brand is ruled by the subtyping effect (Sujan and Bettman, 1989) for French consumers where a (negative) “distance” is perceived vs the parent brand.

Furthermore, an independent brand is created with the objective to separate or distinguish perceptions from those of the parent brand to avoid any possible inference to the original brand (Aaker and Joachimsthaler, 2000; Rahman and Areni, 2014). As compared to a sub-brand, this study reveals that a new independent brand of a French luxury parent brand is evaluated less positively by American compared to French consumers. The differences between French and American consumers could be explained by the effect of ethnocentrism. Dutta et al. (2017) found that Americans tend to rate foreign brands less favorably compared to local brands due to ethnocentric beliefs. In addition, from a country perspective, Kapferer and Bastien (2012) noted that European and American consumers have different perspectives toward luxury brands. First, Europeans are more concerned with the quality of the product and the brand’s underlying heritage whereas Americans are more sensitive to invented brand stories and the atmospherics created by the retail outlets dedicated to the luxury brands.

In the current study, although ethnocentrism was not measured, this factor may explain the reasons why Americans are less sensitive to a new unknown “independent” French luxury brand as compared to French consumers who see a new luxury brand from their own country as being as viable as a sub-brand of a well-known brand (i.e. Cartier). In their study on consumer ethnocentrism vs country of origin, Balabanis and Siamagka (2017) suggest that for expensive products (not necessarily luxury brands), for which expanded decision making is involved before purchase and absolute price differentials between foreign and domestic products are higher (sacrifice is involved), self-reported ethnocentrism by US consumers is relevant.

Regarding downward line extensions, the reason underpinning the creation of this type of brand is the use of an established luxury brand name to target potential mass segments motivated to purchase cheaper versions (Dall’Olmo et al., 2013; Kirmani et al., 1999; Liu, 2002; Magnoni and Roux, 2012). A downward luxury line extension is likely to be evaluated less positively than its horizontal counterpart. The study found that this assumption is confirmed which closes the gap in the literature noted by Dall’Olmo-Riley et al. (2013). In a cross-national context, the findings hold true for both French and American consumers. Consequently, it is important to know the extent to which different types of
branding strategies may “filter” the effect of downward extension. This research reveals that French and American consumers react similarly to both a sub-brand and a direct brand, but differently regarding an independent brand when it comes to downward extensions. American consider a new French “unknown” independent brand to be less desirable than a sub or direct brand compared to French individuals. Interestingly, French consumers do not distinguish between a sub-brand, a direct brand and an independent brand when it comes to purchase intentions. They seem to categorize downward luxury extensions based on the same underlying inferences and memory processes (Bless and Greifeneder, 2009), notwithstanding the branding strategy.

Previous research on luxury brands in the cross-national context has focused on perceptual differences based on diverse psychological factors or simple types of extensions. Seldom has research provided clarification regarding the launch of horizontal and downward luxury line extensions and the effect of the branding strategy used despite important theoretical and managerial implications. This study represents a first step forward in better understanding the impact of line extensions and the use of branding strategies in a cross-national context. Furthermore, our study shows that luxury consumers from different countries react differently to the type of extension, and how branding strategies are applied.

6. Managerial implications
Given the current context of democratization of luxury brands, this study helps luxury firms to carefully analyze decisions related to the launch of horizontal and downward line extensions, particularly if they are intended to gain additional sales. Thus, from a managerial perspective, French luxury manufacturers must be careful when launching downward line extensions in France and in the USA as consumers from both countries show a lower intention to purchase this type of extension. Horizontal line extensions of a French luxury brand are perceived positively by French consumers as compared to American consumers unless the marketing of it is “Americanized” at the retail level.

The fundamental goal of every manufacturer is to optimize their cost structure and maximize their profitability when launching new products/brands. Specifically, luxury horizontal vs downward line extensions are likely to lead to complications if branding strategies are not carefully planned before launch. In general, this study shows that sub-branded luxury line extensions are rated similarly by French and US consumers. Conversely, as compared to a direct brand, French consumers perceive a sub-brand less favorably. This indicates that the transfer of equity of a luxury parent brand is “filtered” by the sub-brand. Manufacturers must therefore adapt their marketing techniques depending on the branding strategy used.

The strategy of launching downward line extensions cannot be completely discarded because of the possibility of introducing new independent brands. Independent brands represent the creation of a distinct strategic business unit that would have to be managed without making any reference to the parent corporation to protect its equity. In a cross-national context, this type of branding strategy seems more viable in France than in the USA, whether a horizontal or downward luxury line extension is considered. Finally, this study helps managers of luxury brands that do business in cross-national contexts, to better allocate their resources in planning the launch of line extensions while increasing their ability to apply the right branding strategy when necessary.

7. Directions for future research
Further questions remain in terms of launching downward line extensions of luxury brands. First, future research should measure reciprocal effects on the parent brand, particularly for a French luxury brand. In future studies, it would be interesting to control for ethnocentrism
in terms of cross-national effects. Other countries such as China, Korea and/or Japan should be studies as approaches toward luxury brands may vary significantly from the luxury culture in the USA and France.

In addition, an examination of extension distance would offer unique insight in this context. Here, different versions of downward extensions could be experimentally tested using close, medium and distant versions for various branding strategies.

Finally, a study of “millennials,” those young adults in their 20s, warrants investigation because of their growing purchase power as luxury consumers. In the case of this segment, the impact of line extensions and branding strategies becomes important, given that luxury brands will be redefined by these young consumers.

References


**Further reading**


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