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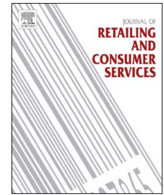

Brand expertise and perceived consistency reversals on vertical line extensions: The moderating role of extension direction

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A B S T R A C T

Vertical line extensions are a valuable growth strategy for many retail service sectors. Correctly positioning a new vertical line extension in the price/quality spectrum is an important decision that has considerable implications for bottom line profits. This paper examines the moderating role of extension direction on the effect of perceived consistency on vertical extension evaluations. In two studies, we show that a lack of perceived consistency acts as a reminder to consumers that the brand may be stretching beyond its expertise, increasing perceived performance and financial risks for upscale extensions but not for downscale extensions. As a consequence, higher consistency results in higher upscale extension favourability whereas evaluations of downscale extensions are similar regardless of their perceived consistency with the parent brand.

1. Introduction

Vertical line extensions are a common growth strategy that allow brands to cater for individual consumer differences in willingness to pay for quality (Moorthy, 1984). The aim is often to create new sources of brand equity and increase sales revenue by targeting current and potential customers with higher/lower prices, more/less features, and higher/lower levels of sophistication than current parent brand offerings (Lei et al., 2008). Correctly positioning vertical line extensions in the price/quality spectrum is extremely important given that small differences in price have sizable consequences for bottom-line profits (Garda and Marn, 1993; Marn and Rosiello, 1992). Yet, there has been little research examining the role of price on brand extension judgments (DelVecchio and Smith, 2005; Taylor and Bearden, 2002) and, particularly, in the vertical line extensions context (Musante, 2007; Riley et al., 2013). Surprisingly, there has also been little attention given to vertical service line extensions despite its wide use in the hotel and financial sectors (Boisvert and Ashill, 2011; Lei et al., 2008). For example, Mercure Hotels' introduction of the Grand Mercure, an upscale five-star hotel chain offering superior levels of comfort and style. Therefore, understanding the effects of price on extension evaluations in a service context represents a noticeable gap in the literature and provides the focus of our study.

In examining the influence of price on consumer judgments of vertical service line extensions, we draw on the premise that the higher the perceived consistency between the extension and its parent brand, the more positive the extension evaluation (Aaker and Keller, 1990; Broniarczyk and Alba, 1994; Park et al., 1991). In a vertical line extension context, prices do take on the special role of signalling consumers whether an extension is more or less consistent with its parent brand. Thus, the larger the price distance between the parent brand and the extension in the price/quality spectrum, the lower the perceived consistency between them (Lei et al., 2008).

However, prior research has shown that the extent to which perceived consistency is used to determine consumer extension evaluations is a function of the degree of risk present at the time of judgment (DelVecchio and Smith, 2005). Because upscale extensions carry higher inherent risks than downscale extensions (Lei et al., 2008), it is the extension's direction that determines how much consumers rely on perceived consistency to mitigate risks associated with the extension. Therefore, we predict that extension direction moderates the effect of perceived consistency on extension evaluations such that an effect is found for upscale but not for downscale extensions.

Drawing on the brand credibility-perceived risk literature (Erdem and Swait, 1998, 2004; Erdem et al., 2002) which states that it is the highest-end price that often signals the brand's level of expertise to consumers (Heath et al., 2011; Randall, Ulrich, and Reibstein, 1998), we reason that perceived risk becomes increasingly important in upscale scenarios because the introduction of an upscale extension signals a change in the brand's level of expertise to consumers. On the

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other hand, the perceived risk associated with a downscale extension is much lower, because a downscale extension implies no change to the brand's level of expertise. This paper proceeds as follows. First, we provide a discussion of the existing literature in the vertical line extension context contrasting key difference points between prior work and the current research. Next, we provide the theoretical backbone for our proposed hypotheses. Findings from two experiments are then reported. Finally, the implications of the findings for marketing theory and practice are discussed.

2. Literature review

A common finding in the brand extension literature is that the transfer of brand beliefs to an extension depends on its perceived consistency or fit with the parent brand. The higher the perceived consistency, the more positive the extension evaluation (Aaker and Keller, 1990; Broniarczyk and Alba, 1994; Park et al., 1991). Grounded in these findings, it might be thought that higher consistency leads to more favourable evaluations of vertical extensions. However, in the vertical line extension context, prior research examining a diverse range of distancing cues that can be used to increase or decrease perceived consistency has produced mixed results. Some researchers studying extensions' reciprocal effects on the parent brand found that placing a vertical extension closer to the parent brand may lead to positive (Lei et al., 2008), neutral (Heath et al., 2011; Riley et al., 2013), or negative (Heath et al., 2011; Kim et al., 2001; Riley et al., 2013) feedback effects on the parent brand; thus providing little insight into the effects of price as a distancing cue on extension evaluations.

In another stream of the literature, very few studies examined the influence of distancing techniques on extension evaluations. For instance, Kim et al. (2001) examined the effects of graphic or linguistic distancing techniques (e.g. the use of sub-branding) on extension evaluations. The authors show that higher consistency leads to more positive evaluations of upscale extensions but to more negative evaluations for downscale extensions. In contrast, Musante (2007) reports one small test demonstrating that a new product closer in price ($50) to the original offering (under $5) was perceived more favourably than a substantially more expensive ($150) upscale extension. In the context of downscale extensions, Riley et al. (2013) results indicate that an extension 25% cheaper than the parent brand was not perceived differently to an extension priced 50% lower than the parent brand, regardless of brand concept (luxury vs. prestige) or product category (car vs. fashion).[1]

Taken together, prior research suggests that upscale extensions may benefit from distancing techniques but not when price is used as a distancing cue (Lei et al., 2008; Musante, 2007). On the other hand, price (Riley et al., 2013) and quality cues (Heath et al., 2011) seem to have a neutral effect on evaluations whereas graphic or linguistic cues appear to be detrimental to downscale extensions (Kim et al., 2001). It is possible that this summary statement reflects the fact that distancing techniques indeed have a negative effect on upscale extensions and a neutral effect on downscale extensions when price is used as a distancing cue. However, it is also possible that these effects have arisen from the difference in methodological procedures and experimental conditions of different studies. For example, studies examining price as a distancing cue have taken a single-direction approach focusing only on an upscale (Musante, 2007) or a downscale scenario (Riley et al., 2013) which does not allow testing for interaction effects between extension direction and price cues on extension evaluations. To infer an interaction without proper testing is to ignore the importance that brand concept and product/service category have on consumers' judgments (Kim et al., 2001; Kirmani et al., 1999; Riley et al., 2013).

Furthermore, previous studies used either a very high (Riley et al., 2013) or a very low (Musante, 2007) parent brand price which could have restricted the brand's ability to transfer affect across price segments due to strong category-to-brand associations (Herr et al., 1996). Lastly, these studies did not follow the same price increase/decrease ratio when manipulating the extension's price point, possibly creating affordability effects. For example, Musante's (2007) far extension ($150) was three times more expensive than the close extension ($50) while the far extension was thirty times more expensive than the parent brand. It is possible that the closer extension received better ratings simply because it was perceived to be more affordable rather than more consistent with the parent brand. Therefore, this research takes a holistic approach that considers both upscale and downscale directions to test for the interaction effect between price distancing cues and extension direction on extension evaluations. We use a symmetrical price increase/decrease ratio to manipulate extension price distance, and real and fictitious middle-priced brands whose brand concept and product/service category are controlled.

Table 1 provides a summary of key studies investigating vertical line extensions, showing whether the study focused on extension evaluations or on reciprocal parent brand effects as well as the extension direction examined. Importantly, we list which studies have investigated the effects of distancing techniques, brand expertise, and perceived risk on either the parent brand or the extension. According to Table 1, only Heath et al. (2011) and Lei et al. (2008) have, respectively, examined the roles of brand expertise and perceived risk in consumer judgments of vertical extensions. None of these studies have taken a holistic approach to study how distancing techniques, brand expertise, and perceived risk influence vertical service line extensions' success. In this sense, our research is the first to study the interaction of distancing techniques and brand expertise on perceived risk and its subsequent impact on extension evaluations. In the next section, we provide a theoretical explanation for these effects and state our research hypotheses.

3. Hypotheses

The notion that extension direction moderates the effect of price as a distancing cue on extension evaluation has support on two important psychological processes consumers use to mitigate risks associated with vertical extensions: perceived level of brand expertise and perceived consistency. The concept of brand expertise has received attention from researchers across a range of disciplines (e.g., management, economics, psychology and marketing). It has been defined as the brand's ability to deliver the functional and emotional benefits required for a specific market (Conner and Prahalad, 1996; Erdem and Swait, 1998, 2004; Wernerfelt, 1984). According to signalling theory (Wernerfelt, 1988), consumer judgments and perceptions about the firm's expertise are made through extrinsic cues or signals that consumers learn through their experiences and contacts with the firm's branded offerings. For instance, in a price range, the highest-end price often signals the brand's level of expertise to consumers (Heath et al., 2011; Randall et al., 1998). But the extent to which a new highest-end price conveys brand expertise depends on its consistency with the current parent brand offering (Erdem and Swait, 1998). The lower the consistency, the less credible is the new brand signal because acquiring expertise demands a significant amount of time, research-and-development efforts, staff training, and accurate performance-related feedback (Dane, 2010; Ericsson et al., 2007; Helfat and Raubitschek, 2000). Consequently, the lower the perceived consistency the higher the perceived risk.

However, consumers' reliance on perceived consistency as a risk

[1] In their study, Riley et al. (2013) classified Porsche and Prada as luxury brands and Audi and Diesel as prestige brands following upon Truong et al. (2009). New luxury brand positioning and the emergence of masstige brands. Journal of Brand Management 16 (5–6), 375–382. classification of luxury brand types and based on a pre-test where 50 postgraduate students were asked to rate the brands' luxury/prestige on 7-point scales (1=not very prestigious/7=very prestigious).

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