

# **Does Upward Product Line Extension Hurt or Benefit a Firm's Competitive Advantage? The Case of Honda's Acura, Nissan's Infiniti, and Toyota's Lexus Brands**

**Abhay Shah**  
**Colorado State University – Pueblo**

*When a company extends its product line (and brand name) upwards to premium products, it hurts its overall demand, market share and competitive advantage (Caldieraro et al. 2015). However, the three most successful line extensions in the luxury segment of the auto industry, Honda's Acura, Toyota's Lexus, and Nissan's Infiniti contradict their findings. This study proposes that if a company pursues upward or downward line extension, it can gain competitive advantage only if the marketing mix is consistent with its target market, i.e., a completely new brand name, product, pricing, distribution, and promotion.*

## **INTRODUCTION**

Line extensions can be categorized as follows: extensions where a firm extends its brand horizontally (similar quality) or vertically (upward or downward) using the current brand name, and line extensions, where a firm extends its product line horizontally or vertically (upward or downward) using a different brand name(s).

This author contends that the strategy of using a different brand name (than the parent) for upward and downward line extension has been very successful and has given firms a very big competitive advantage (e.g., Ralph Lauren, Hyatt, Marriott, etc.). The study uses data from the auto industry to show that upward line extension is very successful when using a different brand name. In 1986, Honda was the first Japanese auto maker to introduce their brand (Acura) in the luxury segment of the U.S. auto industry. Acura's success led Toyota to launch its luxury brand Lexus in 1989. Nissan also launched its luxury brand, Infiniti, in 1989. These three new brands were introduced in the luxury segment of the auto industry, which was dominated by Mercedes Benz, BMW, Cadillac, and Lincoln. Within a few years of launching their luxury brands, the three Japanese automakers started dominating the luxury segment very quickly and took a large market share away from established brands like BMW, Mercedes Benz, Cadillac and Lincoln. Lexus became the market leader displacing Mercedes Benz in just three years. Infiniti and Acura also became major players in the luxury segment.

## **LITERATURE REVIEW**

Line extension is when an existing brand offers a new product within the same product category or class (Keller, 2013). Firms extend their product lines horizontally at the same price/quality level, or vertically at different price/quality levels (Draganska & Jain, 2005). Most line extensions are minor

variations of the parent brand (Desai & Keller, 2002); however, some extensions have innovative features (Loken et al., 2010). Ninety percent of the new products introduced in the consumer packaged goods category are line extensions, and 20-25% of these extensions offer new benefits or features (Neff, 2005). Consumers view horizontal line extensions very positively and they are helpful to a company (Berger et al., 2007; Draganska & Jain, 2005). However, results for vertical line extensions are mixed. Lei, et al. (2008) find that brand evaluations improve with higher-quality extensions, while Kirmani et al. (1999) find that brand evaluations fell with lower quality brand extensions.

Firms use brand/line extension strategy to give their brand more exposure and attract a wide variety of consumers, which helps increase sales (Quelch & Kenny, 1994; Reddy et al., 1994), increase demand (Axaroglou, 2008), increase market share and efficiency in advertising (Smith & Park, 1992). The cost of launching a premium line extension is negligible, however, when a premium brand is launched, there is significant negative spillover effect to the parent brand, and there is decline in sales, market share, and profit (Caldieraro et al., 2015). Findings of researchers like Bayus & Putsis (1999), Draganska & Jain (2005), Horsky & Nelson (1992), support the findings of Caldieraro et al. (2015) in that a broader product line creates higher customer satisfaction and higher market share, but firms may see higher costs of manufacturing and supporting a broader product line.

Sinapuelas et al. (2015) investigate the effect of innovation, brand name, and marketing mix variables on line extensions, and find that line extensions that are innovative have higher trial probability. The authors also report that innovative line extensions that are the most successful tend to have very strong parent brand, lower distribution, and prices that are not very high. Steenkamp & Gielens (2003) suggest that the strength of the parent brand affects the success of an innovative line extension, and extension specific advertising increases the brand awareness of the extension (Martinez et al., 2009). Some scholars like Stotegraaf & Pauwels (2008) have studied the effects of individual marketing mix variables on the success of new products, however, Ataman et al. (2008, 2010) suggest that scholars should study the effect of the marketing mix variables on the success of a new product as a whole, not individual line extensions. Tafani et al. (2009) use the Central Nucleus Theory to investigate the halo effect of the image of a brand on vertical product line extension and find that brand associations are transferred to upward or downward extensions regardless of the range of extension. Tafani et al. (2009) report that the automobile manufacturer Peugeot was successfully able to extend its brand to the mid-price range, but was not successful in extending it to the higher-end range, and conclude that consumers perceive a range of products that are differentiated based on price and perceived value. When retailers extend their product lines upwards (upscale extension), the price image of retailers decreases, instead of increasing (Hamilton & Chernev, 2010).

A number of scholars like Batra et al. (2010), Baumbauer-Sachse et al. (2011), Carter & Curry (2013), Cutright et al. (2013), Heath et al. (2011), Kim & Roedder (2008), and Monga & Roedder (2010), have studied the necessary conditions that need to exist for the success of line extensions. On the other hand, other scholars like Balachander & Ghose (2003), Dens & De Pelsmacker (2010), Knapp et al. (2014), Sood & Keller (2012), and Zimmer & Bhat (2004) have studied the relationship between the parent brand and the success of extension. Völckner & Sattler (2006) investigate ten factors that lead to successful brand extensions and find that the most important factor for brand extension is the fit between the parent brand and the extended brand, followed by marketing support, parent-brand conviction, retailer acceptance, and parent-brand experience. However, Milberg et al. (2010), state that a number of successful brand extensions had no/bad fit between the extended brand and the parent brand, and brands failed even though they had very good fit with the parent brand. Extending a brand into a category that is not a good fit will dilute the brand's image, damage the evaluation of the extension and even damage the parent brand (Ahluwalia, 2008; DeVecchio & Smith, 2005; Zimmer & Bhat, 2004; and Loken et al., 2010). Consumers adopt extensions based on their experience with the parent brand (Kim & Sullivan, 1998; Swaminathan et al., 2001, 2003; Völckner & Sattler, 2006).

Higher quality brand extensions are more relevant to consumers than lower-quality brand extensions (Heath et al., 2011). When firms extend to higher quality, it has a neutral to positive effect while it has a neutral to negative effect if they extend to lower quality (Ahluwalia & Gürhan-Canli, 2000; Heath et al.,

2011). If a firm wants to send a signal of higher quality to its consumers through a line extension, then consumers should already perceive the existing product to be of high quality (Moorthy, 2012). Brand extensions to the lower quality could tarnish a brand's image, but it could also attract value-oriented customers to the brand (Janiszewski & Van Osselaer, 2000), while brands extending upwards increase sales and attract a wider variety of consumers (Quelch & Kenny, 1994). However, if an established brand's extension is innovative and it fails, it could be costly and risky to the parent brand due to spillover effect (Bloodgood & McFarland, 2004).

Reddy, Holak & Bhat (1994) study line extensions in one product category as opposed to brand extensions across product categories. Researchers like Smith & Park (1992) study brand extensions across product categories while Moorthy (2012) investigates firms extending their brands through lines extensions or extending to other product lines using the same brand name. If a firm is extending to different quality levels and is worried about image dilution, it could use a completely different brand name than the current brand, i.e., multi-branding, where the new brand is produced by the firm, i.e., sub-branding, middle ground between multi-branding and sub-branding to new product categories, i.e., brand extensions (Heath, et al., 2011).

Line extensions change consumers' perception of the brand in their perceptual map (Chintagunta, 1996). Line extensions that are based on an existing brand are associated with a high degree of success for the brand, even though this could lead to brand dilution (Salinas & Pérez, 2009). Consumers' perceptions of the parent brand change when a new sub-brand is introduced (Lei et al., 2008), and consumers use categorization to evaluate line extensions (Keaveny et al., 2012). The brain associates higher quality extensions with better products and therefore the overall evaluation of the brand improves, but the overall evaluations of the brand decreases with lower-quality extensions (Heath et al., 2011). Line extensions could prove risky for a firm if consumers perceive the cheaper product to be of similar quality and prestige as the more expensive product and this could lead to cannibalization (Desai, 2001). Line extensions should reinforce the parent's brand image in the minds of consumers instead of confusing them, and if line extensions cause cannibalization of the parent brand, it may still benefit the company if it prevents customers from switching to one of its competitors (Kadiyali et al., 1999).

There are spillover effects of the new line extension on the parent brand through direct consumption experience, advertising and other types of promotion of brands that are under the same umbrella brand (Erdem & Sun 2002; Balachander & Ghose, 2003). When a firm introduces a sub-brand, the spillover effects cause the brand's reputation and product attributes to lead to a loss in demand, loss in market share and profits (Caldieraro et al., 2015). Research on inter-brand spillover effects show that consumers tend to prefer the lower priced brand to the higher priced brand, especially when there are attribute similarities between the two brands, however, this leads to higher market share (Aribarg & Arora, 2008). Competing brands also experience spillovers, especially if there are similarities in product attributes. "Me-too" products also see an increase in their market share (Jankiraman et al., 2009). If a marketer of luxury brands extends its brand downwards, consumers may frown upon the idea that their brand is being consumed by the masses (Berger & Heath, 2007).

For the extension to be successful the original brand's attribute association should be viewed positively by customers, however, if the association is viewed negatively, the firm has to change its marketing mix and the brand name so that the new brand name is not associated with the parent brand name (Heath et al., 2011). Caldieraro et al. (2015) propose that better quality and higher price may be enough for upward line extension. However, this author disagrees with them. This author thinks that if a firm is extending its product upward or downward, then using the same brand name for the extension will not work. If a firm wants to extend its products upward (e.g., going to a luxury segment), then if the firm uses the same brand name (parent brand) as it is currently using, it may not be able to transfer the image/prestige to the upscale market. This author thinks that the firm will have to change its marketing mix: product quality, price, promotion, and distribution to match the needs of the new upscale target market. When Honda, Nissan and Toyota entered the luxury segment the parent company's brand name was nowhere on the car - they dropped the name of the parent company. The consumers did not associate the new prestige/image of Acura, Infiniti and Lexus with the parent brand, which targeted the lower and

middle-income segments (e.g., Honda's Civic & Accord, Toyota's Corolla and Camry, and Nissan's Sentra and Altima).

Similarly, for downward extension (going to a lower price segment), using the same brand name will tarnish the current brand name/image and there could be cannibalization from its current brand, or current consumer could be alienated. If consumers perceive that the quality of the brand in the downward extension is the same as the current brand, they will switch to the brand in the lower price range. In 1999, BMW introduced the 100 series with a price tag of \$ 19,900 (BMW's cars were typically in the \$ 35,000 to \$ 100,000 price range). However, BMW discontinued marketing/manufacturing the car in a year due to low sales and it experienced some backlash from its core group of customers who associated the lower price to a lower image. It is very likely that the core customers thought that the 100 series tarnished BMW's image/prestige, and they did not want to associate themselves with the lower income customers.

**PROPOSITIONS**

**P1a:** Upward line extension into a luxury segment will increase a *firm's revenue* if the company *markets to a segment (different from its current segment)* that is compatible to its new product (brand) offering.

**P1b:** Upward line extension into a luxury segment will increase a *firm's profits* if the company *markets to a segment (different from its current segment)* that is compatible to its new product offering.

**TABLE 1  
ACURA'S UNIT SALES IN THE U.S**

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994
Sales	52868	109470	128238	142061	138344	143708	120100	108291	112137
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales	97451	107908	108143	110392	118006	142681	170109	165552	170915
Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales	198919	209610	101223	180104	144504	105723	133606	123299	156216
Year	2013	2014	2015						
Sales	165436	167843	177165						

Table 1 above shows that Acura did not exist in 1985. It debuted in the luxury car segment in 1986, and sale in the first year was 52,868 units.

**TABLE 2  
INFINITI'S UNIT SALES IN THE U.S.**

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994
Sales	0	0	0						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales						88351	77365	87911	118655
Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales	130980	136401	121146	127037	112989	81089	103411	98461	119877
Year	2013	2014	2015						
Sales	116455	117330	133498						

Table 2 above shows that Infiniti debuted in the luxury car segment in 1989. However, Infiniti's sales figures are not available for the year 1989 – 1999.

**TABLE 3  
LEXUS' UNIT SALES IN THE U.S.**

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994
Sales	0	0	0	16302	63534	71206	92890	94677	87419
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales	79334	81529	97593	156260	185890	206037	223983	234109	259755
Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales	287927	302895	322434	329177	260087	215975	229329	198552	213559
Year	2013	2014	2015						
Sales	273847	311389	344601						

Table 3 above shows that Lexus debuted in the luxury car segment in 1989. Sales in the first year hit 16,302. Unit sales have steadily climbed since then.

When Honda, Nissan and Toyota were marketing cars to the lower and middle price segment, the profile of the target market was very different from the profile of the target market of their luxury brand Acura, Infiniti and Lexus. The target market profile for Acura, Infiniti, and Lexus were the younger, higher income, professionals, upwardly mobile, and higher educated people.

**P2a:** A company's revenue (market share) will increase if it extends its product line upwards to a luxury segment using a new brand name that is different from its current (parent) brand name.

**P2b:** A company's profits will increase if it extends its product line upwards to a luxury segment using a brand name that is different from its current (parent) brand name.

Acura's unit sales increased from 52,869 in its debut year of 1985 to 177,165 in 2015. Infiniti's unit sales from 88,351 in 2000 (unit sales for its debut year, 1989 were not available) to 133,498 in 2015. Lexus' unit sales increased from 16,302 in its debut year of 1989 to 344,601 in 2015. Acura's, market share increased from 0 in 1985 to 8.4% in 2015. Infiniti's market share increased from zero in 1998 to 6.3% in 2015. Finally, Lexus' market share increased from zero in 1998 to 16.4% in 2015.

**P3a:** A company's sales (market share) will increase if it extends its product line upwards to a luxury segment charging a higher price than its current brand.

**P3b:** A company's profitability will increase if it extends its product line upwards to a luxury segment charging a higher price than its current brand.

Average price of Honda, Nissan and Toyota before they ventured into the luxury segment was around \$20,000. The average price of their luxury fleet was around \$50,000.

**P4a:** A company's market revenue (share) will increase if it extends its product line upwards to a luxury segment using a different distribution system than its current (parent) brand name.

**P4b:** A company's profits will increase if it extends its product line upwards to a luxury segment using a different distribution system than its current (parent) brand name.

When Honda, Nissan and Toyota ventured into the luxury segment, they did not use the same distribution/dealerships that they used for their lower to mid-priced segment. Their new dealers were very exclusive to their Acura, Infiniti and Lexus brand of cars.

**P5a:** A company's market revenue (share) will increase if it extends its product line upwards to a luxury segment using different promotion (advertising) than its current (parent) brand name.

**P5b:** A company's profits will increase if it extends its product line upwards to a luxury segment using promotion (advertising) than its current (parent) brand name.

Acura, Infiniti, & Lexus' advertising were completely different than the advertising of the parent company's low to mid-priced segment. For instance, when the three auto manufacturers targeted the lower to middle-income segment, they showed families with middle income in their commercials. However, when they moved to the luxury segment, their commercials showed younger, upper-income, active professionals.

## CONCLUSION

The success of a line extension is measured by its profitability, market share, and how long the extension survives in the market. The marketing mix that supports the extension is a big factor that affects the success of the extension (Reddy et al. 1994). Based on these metrics, Honda's Acura, Nissan's Infiniti and Toyota's Lexus have met/exceeded the criteria for success for their upward line extension. The upward extension was supported by its marketing mix that was completely different from the marketing mix of its other brands in the non-luxury segments. For Honda, Nissan and Toyota, customers had a very favorable attribute association for quality and reliability, however, the association with image/prestige was not as favorable. The three automakers had to overcome the negative image/prestige association of the parent brand, i.e., the parent brand names did not convey prestige/image in the luxury segment. To overcome this problem, Honda, Toyota and Nissan came up with new brand names - Acura, Lexus, and Infiniti respectively, which worked wonderfully for them.

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