Range Effects on Vertical Brand Extensions

Colin Jevons, Monash University, Australia
Mauricio Palmeira, Monash University, Australia
Nicolas Pontes, Monash University, Australia

Drawing on research on range-frequency theory we investigate the effects of price point distance and parent brand’s price range on evaluations of vertical extensions. In a series of three experiments we firstly show that price distance has an asymmetric effect of extension evaluation, such that for step-up extensions as the price distance between extension and its parent brand increases, the perception of risk also increase, however this effect is not found for downscale extensions. Then, we show that extension price distance is relative to the parent brand’s width of price range for upscale but not for downscale extensions.

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Nicolas Pontes, Monash University, Australia*
Mauricio Palmeira, Monash University, Australia
Colin Jevons, Monash University, Australia

EXTENDED ABSTRACT

Vertical line extensions, both step-up and step-down, are common occurrence in consumer products. For example, Timex recently launched its luxury high-end Valentino line. On the other hand, many companies use downscale extensions to increase the overall sales volume. For instance, a number of luxury watch brands recently introduced watch collections with lower price points, like TAG Heuer’s affordable watch the Aquaracer Calibre 5.

Previous literature on vertical extensions has investigated how number of products in the line (Dacin and Smith 1994), the direction of the extension, brand concept (Kim, Lavack, and Smith 2001), and perceived risk (Lei, de Ruyter, and Wetzels 2008) affect extensions’ evaluation. Common to this literature is the use of models based on adaptation-level theory, which states that all relevant price information is integrated into a single prototype value and used in consumer judgments of price (Helson 1947; Mazumdar, Raj, and Sinha 2005).

In the current research we argue that, while adaptation-level theory can be viewed as a useful simplification to understanding consumers’ evaluations, it misses out important contextual influences caused by a brand’s price range. Drawing on research on range-frequency theory (Mellers and Cooke 1994; Parducci 1965) we investigate the effects of price point distance and parent brand’s price range on evaluations of vertical extensions. Our reasoning leads to two important predictions that we test in a series of three experiments.

First, we argue that price distance has an asymmetric effect of extension evaluation. We propose that for upward extensions, evaluations decrease as price distance increases. In other words, a new product that is a little more expensive that a company’s usual range of prices will be better received than one that is considerably more expensive. In contrast, for downward extensions, evaluations will be unaffected by price distance. In other words, the impact of the parent brand on a step-down extension will be same regardless of whether the new product a little below the brand’s price range or a lot below. Second, we argue that extension distance is not relative on the parent brand’s average price. Rather it is influenced by the width of range of prices. For step-up extensions, wide parent brand’s price range will lead to more favorable extension’s evaluations than narrow parent brand’s price range. This leads to the counter-intuitive proposition that a brand that only manufactures high-end products may have more difficulty introducing an upward extension than one that has a broader positioning manufacturing mid and high-end products. Consistent with our first proposition, range size affects upward extensions, but not downward.

Experiment 1 was an online study that tested our predictions that price distance is impactful in high risk situations, namely upscale extensions, but not on low risk scenarios, namely downscale extensions. Participants read a brief scenario describing either two car manufacturers introducing a step-down extension, or two car manufacturers introducing a step-up extension. Upon reading the scenarios, respondents were asked to evaluate companies’ price positions and relative risk perceptions on seven-point scales adapted from Kaplan, Szybillo, and Jacoby (1974). We found that evidence that there is a difference between upward and downward vertical extension risk perception. We also found that for upscale extensions, the bigger the distance between the parent brand and its extension, the bigger the risk perceived by the consumer. On the other hand, when extending downwards, consumers’ perception of risk of the extension is the same regardless of its price point distance of the parent brand.

Study 2 was conducted to test the hypothesis that vertical extension evaluations are dependent on the price range size of the parent brand and not on average price. Participants read a brief scenario providing a brief description of the core brand and its extension and price information. Next, respondents assessed their perceptions regarding the price information of the parent brand and then they evaluated the extension favorability and willingness to buy. This experiment supports the predicted effect of price range width on evaluations of vertical extensions such that, evaluations of step-up extensions are more favorable in wide versus narrow condition. On the other hand, we did not find any significant difference between wide and narrow price ranges in evaluations of step-down extensions. Our manipulation of range keeping the average fixed was important to contrast range-frequency theory to adaptation-level theory, however, it allowed room for a potential alternative explanation. Therefore, experiment 3 was designed to rule out this alternative explanation providing stronger evidence for our predictions.

Study 3 was aimed to test the robustness of the findings of experiment 2 by using a different manipulation of parent brand’s price range. While in experiment 2, average prices were kept constant. In experiment 3, we manipulate the parent brand’s price range in a way that step-up extensions of narrow price ranges have higher price averages, leading to a more stringent test of our predictions. We found only stronger support for our predictions. As hypothesized, evaluations of step-up extensions are more favorable in wide versus narrow condition even when the narrow condition has a higher price average. We also replicate results of the previous experiment for step-down extensions such that no significant difference was found between wide and narrow conditions. Finally, our results reveal that participants do perceive price point distance to be relative in step-up conditions and that individuals rely on the parent brand’s price range and not on its end-prices to make evaluations of the extension.

The three studies presented provide strong evidence that evaluations of step-up extensions are affected by the parent brand’s price range and that the effect of price point distance is influenced by perceived risk associated with the extension. First, we argue that price distance has an asymmetric effect of extension evaluation. Secondly, we have not only shown that extension distance is not relative on the parent brand’s...
average price but also that the parent brand’s price range has a much stronger effect on evaluations of upscale extensions than the parent brand’s average.

REFERENCES
Lei, Jing, Ko de Ruyter, and Martin Wetsels (2008), "Consumer Responses to Vertical Service Line Extensions," *Journal of Retailing*, 84 (September), 268-80.