



How far can luxury brands travel? Avoiding the pitfalls of luxury brand extension

Mergen Reddy^a, Nic Terblanche^b, Leyland Pitt^{c,*}, Michael Parent^c

^a Capgemini Consulting, P.O. Box 785827, Sandton, 2146, South Africa

^b Stellenbosch University, Private Bag X1, Matieland, 7602, South Africa

^c Segal Graduate School of Business, Simon Fraser University, 500 Granville Street, Vancouver, BC V6C 1W6, Canada

KEYWORDS

Luxury brands;
Brand extensions;
Degree of adjacency;
Premium adjacency
matrix

Abstract Brand extensions are always tempting to marketers, and in the case of luxury brands the allure is particularly strong. While the path to luxury brand success may be partly paved with extensions, there are even more examples of brand extension disasters that litter the way. Brand extensions continue to be among the most researched and studied phenomena in marketing. When it comes to luxury brands, however, the factors that lead to successful extension have received far less attention. In this article, we consider the notion of perceived premium degree of the brand as a function of its category, and what we term the *degree of adjacency* between its product categories. Building on our research, which found that a luxury brand's perceived premium degree has a different impact on profitability depending on whether or not the brand is spread across adjacent product categories, we demonstrate when luxury brand extensions work—and when they fail. Perhaps most importantly, we herein introduce the premium adjacency matrix as a tool for luxury brand managers to consider in formulating extension strategies.

© 2008 Kelley School of Business, Indiana University. All rights reserved.

1. The temptation of luxury brand extension

While there are almost as many opinions on fine wines as there are wines and wine critics, most

would agree that Château Margaux, the famous Bordeaux first growth, is up there with the very best. It is a wine of which author William Styron (1992) wrote, in the novel *Sophie's Choice*, "when you live a good life like a saint and die, that must be what they make you to drink in paradise" (p. 151). It would be a marketer's dream to extend the Château Margaux brand. It could perhaps be broadened to less rare, more readily available early drinking wines. Or, partnerships with wineries in other countries

* Corresponding author.

E-mail addresses: mereddy@deloitte.co.za (M. Reddy), nst@sun.ac.za (N. Terblanche), lpitt@sfu.ca (L. Pitt), mparent@sfu.ca (M. Parent).