LUXURY DESIGNERS CO-BRANDING

WITH MAINSTREAM RETAILERS:

DESIRABLE OR DANGEROUS?

by

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<u>INTRODUCTION</u>

Louis Vuitton handbags, Chanel cosmetics and Burberry scarves are just a few of the most popular luxury accessories. Despite consumers' increasing price consciousness in some aspects of their spending, they are willing to spend thousands of dollars on these luxury brand goods. Millennials are leading this trend by "increasing their spending on premium luxury fashion by 33% in 2011, outpacing every other demographic" (Halpert, 2012). While the more affluent baby boomers have been constraining their luxury spending, millennials are increasing their purchases of these products ("Luxury Report").

However, these millennials can only rarely afford to indulge in such high-dollar, luxury offerings so they often purchase brands' lower priced offerings like accessories and cosmetics. This has contributed to the growing brand values of renowned luxury brands including Louis Vuitton, Hermes, Rolex, Chanel, Gucci, Prada, Cartier and Burberry. Millennials are also the critical customer segment for relatively more affordable "accessible luxury brands" such as Coach, Tiffany, Kate Spade, and Michael Kors because they outnumber ultra luxury consumers nearly 10 to 1 ("Luxury Report").

This increase in demand for both ultra and accessible luxury is proven by luxury brands' and retailers' "positive earnings, with most seeing double-digit growth year after year" (Lamb, 2012). The luxury conglomerate LVMH, responsible for brands such as Louis Vuitton and Christian Dior, "saw a 16 percent increase reaching $31.1 billion. Luxury retailer Saks Fifth Avenue reported a 7.8 percent year-over-year increase in profits and Nordstrom reported a 7.2 percent increase…with total retail sales of $10.5 billion" (Wahba, 2012). While the luxury market is growing impressively, many mass merchandisers, discount retailers and department stores, including Target, Gap, and

JCPenney, experienced little to no growth in 2011 (Lamb, 2012). Specialty department stores like Nordstrom and Saks are even enjoying better sales performance than similar, although somewhat less pricey, department store competitors like Macy's or Dillard's (Wahba, 2012).

With evidence proving today's millennials desire products that portray luxury prestige without paying "ultra luxury prices," it is increasingly common for luxury brands to make some of their offerings more affordable. While some brands like Michael Kors and Vera Wang are consistently positioned for accessible luxury, other luxury brands are achieving this accessibility by forming a co-brand relationship with a mainstream retailer. This allows consumers to buy a product endorsed with a luxury brand name but sold at a lower price in the retailer's location.

This paper examines whether co-branding tactics are beneficial for either brand in the long run. While this strategy has many short-term benefits including increased distribution, heightened awareness and shared costs, does partnering with a brand of lesser prestige damage the luxury brand's image and dilute its equity? Will the co-brand confuse or deter the brands' core customers? Overall, this study aims to determine if the benefits outweigh the risks of co-branding or if this increasingly popular tactic is a shortsighted strategy soon to backfire by quickly damaging the hard earned reputation of luxury brands.

LUXURY AND VALUE BRANDS

The American Marketing Association (2012) believes a "brand is a customer experience represented by a collection of images and ideas; often, it refers to a symbol such as a name, logo, slogan, and design scheme." Consumers are willing to pay a

premium to purchase brand name goods because they are not merely buying a product. They are also receiving the intangible benefit of brand recognition. A brand can signal a person's values and lifestyle. These brand associations are what come to mind when you compare consumers who shop at Walmart instead of Target or prefer Chili's over Applebee's. Brands have their own personality and image: Harley Davidson is free and rebellious, Coke is authentic and Nike is energetic and athletic (Aaker, 1996). People desire each of these brands because they believe they share similar characteristics. The customer who spends hundreds of dollars on designer brand jeans is projecting a very different image than one who buys $20 Wranglers. The retailers who sell either brand will also be very different.

The co-brand partnerships discussed throughout this paper will be comprised of two distinct categories: retailers targeting a broad audience and luxury brands targeted towards a niche, high-end market and smaller, more fashion-oriented retailers. Customers desire luxury brands for vastly different reasons than typical retail shoppers who value low price, functionality and practicality. Luxury brands are coveted for the status symbol they represent and perceived high level of quality. Most importantly, luxury brand names are desired for emotional response they elicit in consumers and their ability to help project users' personal identity. Examples of well-known luxury fashion brands include Armani, Chanel, Hermes, Louis Vuitton and Versace.

Specifically, luxury brands have hedonic potential, meaning that luxury brands provide intangible emotional benefits like pleasure in addition to the functional benefits non-luxury brands provide (Hagtvedt & Patrick, 2009). These "high symbolism, high functionality" brands are typically associated with exclusivity and superiority in addition

to high quality and high prices (Magnoni & Roux, 2012, p. 597). As a result, the driving motivation in purchasing luxury products is the status it signals to others rather than practical use (Uggla & Lashgari, 2012). These brands allow owners to signal their social and economic status to others due to their inherent prestige (Uggla & Lashgari, 2012). Moreover, the hedonic potential makes luxury brands extendable into other categories, which makes them an ideal co-brand partner (Hagtvedt & Patrick, 2009, p. 608).

On the opposite end of the spectrum, mass-market retailers provide functional benefits. Value brand consumers are more concerned with how the product will perform when used. These consumers are far more price-sensitive than their luxury shopper counterparts because they are motivated by value and frugality, not exclusivity and brand recognition. Mass retailers provide sufficient goods at an affordable price and consumers expect to get the best deal for their money. A core benefit these retailers offer is convenience and wide selection, the very opposite of luxury brand attributes. Hagtvedt and Patrick (2009, p. 610) put it best: "Luxury brands appeal to emotions and decision based on 'what feels right' while a value brand appeals to sensibility and 'what makes sense.'" However, this clear division is starting to blur as "the democratization of the luxury sector has attracted more price sensitive customers to lower end products. To meet these new market trends, more and more companies have decided to stretch down brands" (Magnoni & Roux, 2012, p. 596).

<div align="center">THE VALUE OF A CO-BRAND</div>

A "co-brand" is when at least two brands come together to jointly introduce an offering or cooperate in marketing activities with the goal of transferring the brands' individual, positive associations to the new co-brand product (Sreejesh, 2012, p. 21;

Aghdaie, Dolatabadi, & Aliabadi, 2012, p. 94). Companies leverage co-brands, also known as brand partnerships, to change consumers' perceptions of the offering. These relationships are often categorized by level of brand involvement. Two of the most common partnerships are endorser brands, where one is more prominent than the other, and co-master brands, where both equally contribute to the new offering (Aaker, 2004).

Co-brands can be categorized by partner type: retailer and retailer, brand and retailer, as well as brand and brand. While this analysis focuses on one type of brand, luxury brands known for high quality and exclusivity, it encompasses many types of retailers. These retailers are divided into three categories: mass market retailers, like Target and Walmart, who sell a variety of brands across diverse product categories; fast fashion retailers, which include stores like JCrew and H&M that offer fashionable apparel at affordable prices; and department stores. (Luxury Brands and Co-branding, 2011). Department stores offer a wide spectrum of luxury status, ranging from JC Penney's and Sears to Nordstrom and Neiman Marcus. This analysis will focus mainly on the latter: high-end department stores choosing to engage in co-branding.

Many luxury brands are partnering with these retailers to move down-market through step-down line extensions. A step-down line extension occurs when a brand forms a partnership with a lower priced retailer. This is an increasingly common strategy used to increase growth and sales volume through heightened accessibility. In today's constantly changing business environment, companies must employ strategies like these to increase brand awareness, boost sales and gain new customers. With the vast number of both luxury brands and value-based retailers, fashion companies often use brand partnerships to differentiate themselves and gain a competitive advantage.

One aspect of a step-down line extension is greater distribution. However, this is just one part of a co-brand relationship. For example, Target did not merely serve as a distributor for Issac Mizrahi by Target. Rather, Target is very involved in the research, development, design, and promotion of the products that would be sold in their stores (Miller & Adler, 2003). The labels inside each of the co-brand offerings display both the Target and Mizrahi's brand names, conveying the collaborative nature of the co-brand. Both partners newly create a co-brand product exclusively to be sold specifically at the retailer location, while distribution is simply selling products designed and produced by an outside brand that can typically be found at a variety of retailers. Co-brand relationships are short term, typically one-time relationships compared to long-term distribution agreements that can last for years and are consistently available on store shelves. Overall, the main difference between co-branding and distribution is that in a co-brand both partners are involved in the design and product development of the offerings rather than the brand creating the product on its own and the retailer merely agreeing to carry it in stores.

Differing Co-brand Roles

There are two types of co-branding extensions: upward with a luxury brand or downward with a partner of lower prestige (Aaker, 2004). The luxury brand typically serves as the 'modifier' or 'secondary' brand in the co-brand relationship. These terms emphasize the luxury brand's role in the cobrand: it does not intend to be modified or change its core brand image through the collaboration. Instead, the luxury partner seeks a supportive, secondary role by lending its popular brand name to the co-branded products. The goal of this collaboration is to help move the mainstream or discount retailer

upmarket through offerings that now have a new, luxury association. The luxury brand is responsible for moving the 'primary' or 'header' brand into a higher quality, more exclusive category in the minds of consumers. The primary brand in this alliance is the mainstream retailer that defines the "category and customer base" (Uggla, & Åsberg, 2010, p. 10). For example, in the H&M by Lagerfeld co-brand, H&M is the primary brand because the offerings are available at its stores and the target audience is H&M's existing customer base. Luxury designer Lagerfeld would be the modifier brand helping to increase the quality and high-fashion perception of co-brand products.

The co-brands must be positioned in two different markets to significantly impact consumer perception. If both partners were luxury brands or both value brands, a co-brand between the two would not alter quality perception or brand image of either brand. When an extension is completely cohesive with the core brand, its existence has relatively no effect. This is known as assimilation (Magnoni & Roux, 2012, p. 597). Contrastingly, accommodation occurs when the extension is inconsistent with the core brand and, as a result, the extension successfully modifies it (Magnoni & Roux, 2012, p. 597). A successful co-brand acknowledges the fine line between assimilation and accommodation. The participating brands need to be similar enough to seem logical and consistent with each brand's core offerings. However, they must be different enough that a co-brand between the two is unique and beneficial. This is how to achieve the optimal level of fit. This paper researches accommodation between two brands differentiated by quality. Specifically, it investigates the success of vertical line extensions, known as a step down line extension, from the perspective of the luxury brand. This type of line extension attempts to move the non-luxury brand upmarket by using the luxury brand's

name and reputation. Most luxury brands make efforts to ensure their positioning or brand image is not negatively effected, or moved down, in the process.

In a partnership, both brands are important, but each contributes their own unique characteristics to the collaboration. The secondary brand contributes its brand equity to modify the leader brand either upward or downward. This 'modifier' should not be underestimated, as it can drive the entire purchase decision. For example, consumers who would regularly never dream of shopping at Target may be motivated to do so upon hearing of its partnership with Neiman Marcus for the holiday season. The primary brand, Target, is modified up market to reach a higher end target audience than the typical Target customer or introduce its existing customers to higher price point products.

Partner brands can engage in two types of collaboration: asymmetrical or symmetrical. Asymmetrical collaboration occurs when one brand is more dominant in the co-brand image, while symmetrical collaborations involve both brands contributing more equally to the co-brand (Uggla & Lashgari, 2012, p. 20). A 'dominance effect' or 'asymmetrical collaboration' is common in co-brands where the joint product "derives its features and attributes more from the dominant concept" or brand (Kumar, 2005, p. 3).

An example of symmetrical collaboration would be Target and Neiman Marcus' holiday line. Both brand names are present on all products. Moreover, these products are sold at both retailer locations, making the brands equal partners. An example of an asymmetrical collaboration would be the co-branded ultra luxury sports car, Maserati GranCabrio Fendi (Lamb, 2012). Maserati is the dominant brand because it is providing the primary customer base. While consumers may appreciate the added benefits of this co-brand, it is doubtful a consumer would buy this Maserati solely because of its

partnership with Fendi, a luxury retailer known for its purses and accessories. Fendi will still benefit from this alliance by forming positive relationships with Maserati owners in hopes of gaining new customers that fit with the brand's existing customer base. Regardless of the degree of symmetry, both brand names are retained in a co-brand to achieve increased customer recognition (Uggla & Lashgari, 2012, p. 20). These brand names contribute their own reputation, image and personality to the co-brand offering.

Single and Dual Co-brand Personalities

David Aaaker (1996, pg. 141) defines brand personality as "the set of human characteristics associated with a given brand." Co-brands can have single or dual personalities depending on the partner brands' image and values. In a single personality brand, "both parent brands have strong traits associated with the same personality dimension," while a dual personality brand is composed of "two parent brands associated with different personalities" (Monga & Lau-Gesk, 2007, p. 389). For example, if Louis Vuitton and Hermes entered into a co-brand, the two are so similar that the co-brand would have a single dimension personality based on sophistication and class. However, a Cole Haan and Nike co-brand has two distinct personalities: "sophistication and excitement" (Monga & Lau-Gesk, 2007, p. 390).

Studies have shown that perception of a brand's personality differs greatly between users and non-users: users are more likely to consider the brand to have a strong personality (Aaker, 1996, pg 142). Brand personalities are formed based on product attributes as well as non-product attributes. Non-product attributes are particularly important in contributing to luxury brand personalities, including company image,

advertising style and celebrity endorsements (Aaker, 1996, pg. 146). Brand personality

and all of its accompanying attributes can be critical factors to co-brand acceptance.

<u>THEORIES</u>

Many theories explain the possible effects of branding- both for the brand and the

consumer. The following theories explain how consumers process and respond to new

co-brand information and how personal motivation levels effect their reactions. They

also detail how consumers' existing perceptions and feelings towards one brand transfer

to the co-brand offering. Each of these theories provides valuable insight into consumers'

evaluation and response to co-brand offerings between brands of different luxury status.

Categorization Theory

Many theories attempt to explain how consumers evaluate brand partnerships and

extensions. One of the most influential is the categorization theory. This theory states

that the product category, or parent brand, has a significant impact on co-brand

evaluation when consumer motivation is low, while the specific extension attributes are

more influential when consumer motivation is high (Dens & Pelsmacker, 2010, p. 178).

Low motivation occurs when consumers do not make an effort to analyze or evaluate the

extension and are more willing to passively accept the offering based on their

associations of the brand name. This theory is based on consumer's tendency to take the

path of least resistance by putting forth little effort when it comes to information

processing. Instead, they rely on predetermined beliefs to put forth less effort in product

evaluation (Gierl & Huettl, 2011). Consequently, the parent brand has a more positive

effect in low involvement situations. (Dens & Pelsmacker, 2010, p. 178). When

motivation is high, fit between the co-brands is more important as consumers actively

consider and evaluate the brand with increased scrutiny. Less fit results in more extensive consumer evaluation of the brand.

This demonstrates that consumers value moderate incongruity between the personalities of the co-brand contributors. When the brands are congruent or very similar, consumers will evaluate the co-brand "based on the category or overall attitude towards the brands" (Sreejesh, 2012, p. 23). This is category-based evaluation and is a result of consumers' low involvement (Gierl & Huettl, 2011; Sreejesh, 2012, p. 24). On the other hand, incongruence occurs when the two contributing brands differ in some noticeable aspect. In an incongruent co-brand, consumers have higher involvement and, therefore, evaluate the co-brand more thoroughly "based on product attributes" (Sreejesh, 2012, p. 23). For a co-brand to differentiate itself effectively, the brands involved must reside in between these two extremes by striving to be "complementary rather than redundant" (Aaker, 2004, pg. 163).

Affect Transfer Model

The affect transfer model is critical in determining consumers' perception of a co-brand. According to this theory, extensions into categories similar to the primary brand will result in good 'fit' in the brand partnership (Hadjicharalambous, 2010, p. 21). Consumers' attitudes towards the core brand will play a significant role in their evaluation of the co-brand (Guoqun, Jiali & Riliang, 2009, p. 231). For example, consumers who have a favorable opinion of Kmart will transfer this opinion to the store's Martha Stewart Everyday line. This co-brand is logical because Kmart carries household items so it does not trigger skepticism in consumers' minds and they transfer their positive affect for the original brand to the co-brand.

However, in an example by Aaker and Keller (1990), the Betty Crocker attribute association might be viewed as negative if the name were used on a fashion product designed to appeal to young women." In consumers' minds, these two brands are inconsistent due to their vastly different brand images. This poor fit will likely cause a negative consumer reaction as the consumer questions the co-brand's ability to produce reliable, desirable offerings (Aaker & Keller, 1990). Overall, the more favorable opinions consumers have towards the primary brand, the more likely this positive perception will be applied to its extension or partnership.

Mere Ownership Effect

Mere ownership effect explains why luxury brand owners typically have stronger feelings towards a brand partnership than non-owners. This theory states that personal, previous interaction with the dominant brand may result in increased involvement and liking (Volckner & Sattler, 2006; Hadjicharalambous, 2010). This ownership effect is especially prominent for luxury brands because they are used as a way to project one's desired self-image to others. People purchase luxury goods based on the belief that congruency exists between the owner and brand personalities (Hem & Iversen, 2003). Further, owners and non-owners possess varying degrees of knowledge and experience with the brand. This contributes to their different perceptions of quality, prestige or functionality (Guoqun, Jiali & Riliang, 2009).

This explains the difference in luxury extensions with a lower quality partner: owners of the luxury offerings will more strongly dislike the co-brand because it dilutes the exclusivity and social status that accompanies the luxury brand name. As a result, luxury owners are more hesitant towards co-brand relationships because "they care more

about maintaining brand value and benefits" (Hadjicharalambous, 2010, p. 29). This effect does not occur for non-prestige brands engaging in an upward co-brand because exclusivity is not a motivation for non-prestige consumers, so the higher quality co-brand adds no perceived value.

Bookkeeping, Typicality and Sub-Typing Models

Models are useful in understanding how consumers process new brand partnership information. The addition of new information alters their beliefs about the core brand. If Lexus and Hyundai entered a partnership, consumers' beliefs about the luxury Lexus brand would change. According to the bookkeeping model, these changes occur incrementally as consumers receive additional information (Loken & Roedder-John, 1993, p. 72). On the other hand, the typicality model asserts that category members share attributes, like Lexus and Hyundai both residing in the automobile producer category. Using this model, consumers assign more weight to the inconsistent information according to how typical it is within the category (Loken & Roedder-John, 1993, p. 73). Little weight would be assigned to a Lexus-Jaguar co-brand because the brands are similar within their category and therefore consistent. However, much weight would be given to the Lexus-Hyundai co-brand because these two brands have vastly different luxury status within the automobile industry. The large inconsistency causes the infuriation of Lexus owners regarding the potential Hyundai partnership (Hadjicharalambous, 2010, p. 29). This leads to dilution by interfering with the brand connection and commitment of luxury owners to the brand.

The bookkeeping model asserts that the addition of inconsistent information alters the existing schema, which is the core brand, and that the more inconsistent the

information, the more it is modified in consumers' minds. Alternatively, the sub-typing model asserts that, "a different schema stores an inconsistent extension… it does not affect the core brand and its original products" (Magnoni & Roux, 2012, p. 597). In the Lexus-Hyundai example, the potential co-brand effected consumers' perception of the entire Lexus brand. They did not consider the co-brand to be an endeavor separate from the core Lexus brand. This spillover effect supports the bookkeeping model and refutes the sub-typing model.

<div align="center">DRIVERS OF CO-BRAND SUCCESS</div>

Co-branding can help both brands and retailers achieve heightened awareness and increased sales. However, these collaborations are risky and can result in dilution and loss of brand equity for the luxury brand if it does not take precautions prior to implementation. These recommendations should be taken into consideration to increase the chance of success for both parties involved.

Synergy, the partnering brands' ability to combine and create an offering greater than either could have produced individually, is critical (Shrine, Park & Wyer, 2007). The benefits of the co-brand to consumers must be obvious, appropriate and logical. This fit will "enhance each brand's core business, the initial area of expertise for which the brands [are] respected" (Stankeviciute & Hoffmann, 2011, p. 31). Two partners with very different core values will be incompatible in the long run. A company that is solely profit-oriented and concerned with cutting costs will not work well with a company that places high value on sustainability and paying a premium for environmental benefits. Even an incongruity in leadership style or simple miscommunication can derail a co-brand. For example, Karl Lagerfeld vowed never to work with H&M again after

disagreeing on production volume, as well as the range of women's sizes to offer. This co-brand was incredibly popular amongst consumers, but still received lots of negative publicity due to the dispute between the companies that negatively impacted the reputation of both.

For the luxury brand to maintain its standing in the partnership, it must not sacrifice its premium status. The brand should maintain its "luxury status like outstanding quality, exclusive distribution, high price point or limited availability" (Stankeviciute & Hoffmann, 2011, p. 28). To enhance the exclusivity of the co-brand and contribute to its luxury image, smart partnerships offer their products for only a predetermined, limited amount of time. Neiman Marcus has done this with success by launching lines solely for the holiday season. This helps emphasize that the step-down alliance is not typical of the luxury brand.

Perception of a co-brand as an infrequent or rare event allows current luxury customers to continue relying on their existing beliefs instead of altering them to incorporate this new, possibly incompatible, information (Loken & Roedder-John, 1993, p. 82). This technique is used to greatly reduce the risk of the luxury partner. For this reason, it is not wise for luxury brands to continually engage in partnerships with various lower price retailers. Doing so increases the likelihood of brand dilution and distrust from previously loyal luxury consumers.

Luxury brands must make a conscious effort to avoid brand dilution by partnering with a retailer that also has a positive reputation and signals some level of quality. Consumers will view a strategic partnership more favorably if both brands have goodwill, which will lessen the negative perception effects on the premium partner. Luxury brands

should be advised not to enter partnerships with retailers who are renowned for cutting corners, competing solely on cost or who have recently been associated with any sort of scandal or bad publicity. For these reasons, entering a co-brand with Target, as opposed to Walmart, would make more business sense for a luxury brand. A partnership with Walmart would signal drastically conflicting values to luxury buyers who would no longer benefit from the prestige and exclusivity in the products.

Brand credibility and perceived quality are "the most important attribute(s) of a brand that can signal positioning" and in a brand partnership, each party contributes their own level of both (Aghdaie, Dolatabadi & Aliabadi, 2012, p.95). This is a culmination of consumers' past experiences as well as each brand's past marketing efforts and overall public image. A luxury brand should work with a strong partner respected as an expert in its product category known for producing reliable, high quality products. (Aghdaie, Dolatabadi & Aliabadi, 2012).

Overall, co-brand success depends on: "parent brands' equity, consumers' brand conviction, level of congruity, desirable reputation and high levels of brand awareness" between partners (Uggla & Lashgari, 2012, p. 19). If these are achieved, the co-brand is more likely to be accepted by consumers. Uggla & Lashgari (2012) outline a plan to successfully introduce a co-brand: The partners should start by understanding the objectives of the leader brand or retailer. What is its goal? Does the retailer want to increase its quality perception, expand its offerings or heighten awareness amongst a new target market? Based on this, the partnership should establish a clear role and strategy for the new product based on consumer insights. Both parties must understand one another, for luxury consumers have far different motivations and purchase intentions than the

traditional value-oriented shopper. The partners must also understand their respective roles for the brand to succeed: Which will be primary vs. secondary? While the luxury brand typically plays a secondary role, this is still a topic that needs to be evaluated and agreed upon. Will the collaboration be symmetrical or asymmetrical? All of these factors must be considered strategically by both partners to launch a collaboration with potential for long term success and to avoid possible pitfalls.

<div align="center">TYPES OF CO-BRAND RELATIONSHIPS</div>

Different types of co-brand relationships exist in the retail industry depending on the roles of participants. Brands are typically well-known offerings that encompass a family of products. Examples include Chanel, Nike and Marc Jacobs. Retailers are the outlets that sell a wide variety of brand products to consumers and examples include Saks Fifth Avenue, Macy's and even Walmart. Retailers fall into a range of categories, from mass merchandisers to upscale department stores.

Retailer & Retailer

Retailers can co-brand with other retailers. Generally this would include a high-end retailer and a mass retailer. Neiman Marcus, a specialty department store, & Target, a discount retailer, debuted their co-brand for the 2012 holiday season. This can be advantageous because the offerings can gain greater distribution and awareness by being sold in both retailers' locations. A retailer/retailer co-brand can also contain a wider variety of offerings because large retailers often sell a wide variety of product categories. They don't just sell clothes or accessories but furniture, housewares and electronics.

Nordstrom & Topshop

Nordstrom, another specialty department store, and Topshop, a fast-fashion specialty retailer, recently formed a unique alliance. Nordstrom, an upscale department store has agreed to carry British fast-fashion retailer, Topshop. Topshop is known for being trend-focused and edgy, while Nordstrom's brand image is classic and high end. This unexpected, and currently exclusive, agreement could help Nordstrom appeal to a younger customer base or alienate its existing loyal consumers… only time will tell.

Nordstrom is very excited about the Topshop line it is currently testing in fourteen stores across the country, as well as online. In addition to carrying apparel found in Topshop's stand-alone stores, there are also designs sold exclusively at Nordstrom. The retailer hopes to attract a younger, more trend focused customer with Topshop's 'street' fashion style. Nordstrom also hopes this new partnership will increase recently stale apparel sales.

With women shopping less for apparel and becoming increasing price focused, the department store jumped at the opportunity to offer consumers a product they could find no where else. According to Businessweek, "The goal is threefold: drive sales, deprive rivals of the goods, and make it harder for discount-addicted consumers to compare prices" (Timberlake, 2012). Kate Phelan, Topshop's creative director, explained that the companies have complimentary goals and achieve great fit by mixing the old and the new: Nordstrom customers are conservative, so Topshop aims to "make them feel it's very easy to understand how to mix a combat jacket with a lace skirt" (Clifford, 2012).

Topshop is benefiting from greater brand awareness and an increasing customer base in the United States. It is a "low risk, inexpensive way for Topshop to expand its

presence (Timberlake, 2012). Currently, there are only three Topshop stores in the US,

so the opportunity to sell in Nordstrom's 237 stores will dramatically increase Topshop's

retail sales.

This seems like a win/win situation for both parties: Nordstrom gains a younger,

trendier customer and Topshop builds its brand in the United States. However, there is

the chance of backlash from Nordstrom's typically traditional and conservative customers.

Bringing a new target audience in the store may confuse and alienate current Nordstrom

loyalists. Timberlake (2012) described the possible consequences best: "It's the sort of

fashion people don't expect to find at Nordstrom. And it could draw in new customers --

or turn off existing ones."

Retailer & Brand

A more common form of co-branding is between a retailer and brand. In this case,

the luxury brand partners with a retailer. The retailer sells the products in their stores. The

reverse, luxury brand selling co-branded products in their own stores, typically does not

occur because the luxury brand wants to distance the co-brand from its purist luxury

consumers paying top dollar. As a result, a step-down partnership would not be

advertised on the luxury brand's website or found on its store shelves. The retailer

provides the primary opportunity for consumers to purchase the co-brand.

H&M and Lagerfeld

Many well-known luxury brands have taken this approach and partnered with

popular fast fashion retailers. This trend gained popularity due to the success of luxury

designer Karl Lagerfeld's partnership with fast-fashion retailer H&M, which paved the

way for other co-brands to follow suit. This case study will demonstrate the benefits reaped, and potential negative backlash, companies experience when opting to co-brand.

Lagerfeld and H&M was the first high profile brand partnership between a luxury fashion label and retailer. Both parties benefitted from, and had concrete reasons for, engaging in this collaboration. H&M was able to "address consumers' changing needs and expose them to luxury fashion in anticipation of 'trading up'" (Okonkwo, 2007). On the other hand, Lagerfeld had the opportunity to reach a new, younger target market that cannot yet afford full priced, luxury brands (Okonkwo, 2007). This co-brand facilitated the creation of customer relationships that could result in new customers of Lagerfeld's luxury products.

H&M and Lagerfeld succeeded in producing a dual-personality co-brand. H&M represented trendy, cool, affordable clothing. Part of its core identity is that people who want to be fashionable should have the right to be it" (Okonkwo, 2007). Lagerfeld added glamor, sophistication and luxury status to the H&M line. This dual-personality partnership appealed to the target audience and aligned with both companies' strategic objectives. The two brands complemented each other and established a cohesive fit, in consumer' s minds, instrumental to the line's success.

This co-brand increased H&M sales significantly. The popularity of 'accessible luxury' was undeniable: "the stores were flooded with crazy crowds and the entire collection was sold out in a day across the world" (Altan, 2011). This brand partnership was implemented in a smart and strategic way that did not damage either's brand image. The co-brand was controlled: "Karl Lagerfeld's design for H&M was a thirty-piece one-off collection" (Okonkwo, 2007). The luxury brand's reputation remained intact because

there was no misunderstood notion that Lagerfeld would continue to produce non-luxury items. Contrastingly, H&M consumers were aware the line was a unique opportunity and that H&M was not to be mistaken for a luxury retailer. The store maintained its typical low prices to emphasize its fashion for the masses philosophy.

H&M and Lagerfeld had synergy and a business savvy reason for the collaboration. Both contributed in creating a mutually beneficial relationship. "The H&M venture had the advantages of endearing mass fashion consumers to luxury designs and embracing mass fashion brands as complementary brands of luxury brands rather than being viewed as competitors" (Okonkwo, 2007).

However, this collaboration later experienced the negative effects a co-brand can create. While a successful fit was achieved in offering fashionable and affordable product offerings, there was less of a 'business fit' between H&M and Lagerfeld's management. Despite the overwhelming success of the line, Lagerfeld publically "accus[ed] the Swedish retailer of "snobbery" for producing minimal numbers of his designs, which sold out in a matter of hours when they went on sale in 20 stores across Europe" ("Lagerfeld's High Street Split," 2004). Lagerfeld wanted to make his offerings available to far more people, while H&M chose to produce a relatively more limited number. Lagerfeld claimed he would never work with the company again because he was embarrassed "H&M let down so many people" by "not mak[ing] the clothes in sufficient quantities" ("Lagerfeld's High Street Split," 2004). Völckner & Sattler (2006) warn against this potential problem by emphasizing that co-brand success is contingent upon having sufficient distribution.

The heightened brand awareness that resulted from advertising the H&M and

Lagerfeld co-brand generated increased demand but sales were impeded because the product was not available on store shelves. To further contribute to this co-brand's many obstacles, the companies also disagreed on the sizes the clothes would be sold in, and H&M chose to sell the clothes in larger sizes than Lagerfeld wanted.

Moral of the story: Make sure both partners are on the same page. From quantity to sizing disputes, discuss every issue and reach an agreement documented in writing. The negative publicity following such a successful co-brand launch overshadowed the positive accomplishment of the line. However, H&M went on to partner with many other luxury brands including Jimmy Choo, Stella McCartney, Roberto Cavalli and Lanvin and Lagerfeld created a line for Macy's (Luxury Brands and Co-branding, 2011). The decision to engage in subsequent brand partnerships proves the strategy resulted in more benefits to both brands, outweighing the possible brand dilution (Altan, 2011).

H&M's vast array of co-brand partners may seem alarming after the previous forewarning against entering into numerous brand partnerships. However, that 'best practice' applies only to the luxury brand whose goal is to maintain its brand equity and exclusive image. For a fast fashion retailer, like H&M, any opportunity to appeal to its consumers with more of exactly what they desire, the latest fashions from popular designers, is good business strategy. The more luxury brands H&M can align itself with, the more H&M's consumers view the retailer as high end and fashion forward.

Target and Missoni

In the fall of 2011, Target and Missoni launched a partnership giving Target customers access to luxury designs for a fraction of the price. One of the most interesting aspects of this alliance actually preceded the launch of the line itself: the advertising.

Missoni had the challenge of creating awareness for an entirely new target customer than the Italian fashion brand was accustomed to. Undoubtedly, most customers paying Missoni's premium prices would not be buying the Target line. The luxury brand needed to reach an entirely new audience that was price conscious in addition to fashion forward. In its advertising, Missoni made the conscious decision to keep its Target line separate from the original Missoni to prevent any possible dilution in brand image or equity. As a result, the brand created a new blog targeting potential Missoni by Target customers who were "younger, aspirational Missoni fans" (Hutzler, 2011).

In Missoni's advertising for their own products, they did not promote the co-brand with Target on their website, Facebook page or Twitter (Hutzler, 2011). According to Luxury Daily, this was a very smart move because "keeping the lines completely separate from each other is the best way for luxury brands to retain their high-class status while opening the brand to mass consumers" (Hutzler, 2011). Missoni also made it clear that the luxury brand wasn't "concerned about going mass…it [was] a one-shot deal" (Zimmerman, 2011). By presenting the line as a limited edition, consumers on both ends understand neither company is making permanent changes to its strategic direction or target consumer.

Target by Missoni implemented many of the success factors described earlier. These two brands achieved great fit. It was smart for Target to pair with a luxury designer who could provide not only apparel, which accounts for a small but popular part of Target's offerings, but also home goods and furnishings. Missoni provided Target customers its "trademark zigzag patterns for between $2.99 for stationary and $599.99 for patio furniture" ("Missoni Craze Crashes Target Website," 2011). This highlights the

importance of congruent goals and vision in a co-brand- it would have been strange if Missoni partnered with H&M to sell patio furniture because that is not typical of H&M's offerings or brand image. Target on the other hand, is known for its wide variety of products, so it made a perfect fit.

Another factor contributing to Target by Missoni's success was their pricing strategy to stay between each individual brands typical price points. As discussed early, consumers expect a co-brand's prices to reflect increased quality and for popular brands to charge higher prices. Target customers expected to pay a slight premium for the Missoni name attached to their purchases. Contrastingly, Missoni had to lower its luxury prices drastically to appeal to Target customers' price sensibility. The end product: Target by Missoni's 400 piece-line ranged from $3 to $600 compared to "the price of the designer's real duds that can go for $595 to $1,500" ("Missoni Craze Crashes Target Website," 2011). This co-brand succeeded in raising prices enough to signal the quality of the luxury partner while still keeping prices low enough for Missoni's offerings to remain in price-conscious Target customers' consideration set.

This collaboration proved to be a great success, probably too much so. With an unexpectedly high demand and crazed consumers trying to get a piece of the limited edition, Target's website crashed due to high traffic, the physical stores had long lines and many sold out of Missoni in minutes (Clifford, 2011). This infuriated customers and this co-brand, that initially generated great publicity, took a negative turn as shoppers shared their disappointment on various social media outlets.

This case study proves once again Völckner and Sattler's (2006, p. 24) assertion that "positive effects of consumer advertising on extension success depend on the

distribution support of the extension." A popular co-brand with intriguing advertising will raise awareness and increase demand for the product, but consumers only have the opportunity to act on their purchase decision if it is on the shelf. The companies must cohesively work together across different business divisions to ensure goals and objectives are aligned internally. "Target put considerable marketing effort behind the launch of its Missoni line — from events during New York's Fashion Week, to a 20-page insert in the September issue of Vogue and 1960s-inspired television spots" but the orders placed to suppliers did not reflect the forecasted demand created by this co-brand's launch (Green, 2011). Internal communication can facilitate accurate demand forecasting as well as more strategic coordination of how to handle the expected increase in customers to the website as well as brick and mortar stores.

Brand & Brand

Two brands can even form a co-brand, lending both their names to a single product. This allows the signaling of multiple qualities and attributes to consumers. This relationship can have varying degrees of brand involvement. In an ingredient co-brand, one of the brands has a smaller, contributory, like if Hershey's chocolate was used in Betty Crocker brownie batter (Aaker, 1996). Both brands have the potential to benefit from the other's established customer base. Hershey's fans are more likely to purchase this cake batter and after enjoying the baked goods, Betty Crocker fans may establish greater brand loyalty and preference for Hershey's chocolate over competitors.

Increasingly common, especially in the fashion industry, is co-master branding where both partners are equally represented. Co-master brands include Asus and Lamborghini laptops and Absolute and Swarovski vodka (Luxury Brands and Co-

branding, 2011). Each brand is contributing their unique personality, brand image and loyal customer base to the new product. The partnering of two different brands can elicit a range of strong responses from consumers.

Lexus & Hyundai

The effects of this co-brand are exemplified in-depth interviews conducted by Costas Hadjicharalambous (2010). The interviewer provided the participants information about a new car co-branded with Lexus; in one version the collaboration was Lexus-Jaguar and in the other it was Lexus- Hyundai. In the more prestige pairing, Lexus owners were interested or neutral in the new offering because they valued exclusivity, while they were furious at the Lexus-Hyundai alternative, demonstrating "disbelief, annoyance, irritation and anger" (Hadjicharalambous, 2010, p. 29). The step- down extension made them question the quality and exclusivity of the Lexus brand, which lead to brand dilution.

Non-Lexus owner reactions were neutral or positive when considering the possible co-brand (Hadjicharalambous, 2010). When talking about the Lexus-Hyundai co-brand, however, reactions varied all across the board. Overall, the results of these interviews concluded: "owners reacted more favorably than non-owners to the upward extension of the prestige brand. However, non-owners expressed more favorable evaluation than did owners of the downward extension of the prestige core brand" (Hadjicharalambous, 2010, p. 29).

These reactions show the power brands have over consumers through strong emotional ties. Two brands joining forces can result in a product consumers view as possessing added benefits. If the brands are complementary and have similar core values,

shoppers will embrace the opportunity to own two of their favorite brands in a single offering. However, if the brands are too dissimilar, consumers will instead feel like the partner brand is reducing the quality of their preferred brand. Consumers' reactions are strong and immediate, so brands must ensure they are compatible with each other.

<div align="center">CO-BRAND BENEFITS</div>

Benefits for Both Partners

A primary benefit of a co-brand is to expand the customer base and market share of both sides by increasing awareness, exposure and brand recognition amongst a new target audience by accessing the partner's customers. A Target customer may not be familiar with Neiman Marcus designers such as Tory Burch and Diane Von Furstenberg. However, a co-brand between Neiman's and Target introduces these high-end designers to mass retail customers. It presents the opportunity to increase sales in the short term and gain the loyalty of aspirational shoppers who may become valuable customers in the long run. This type of co-brand allows both parties to enter new market segments.

Another incentive to pursue this strategy is the sharing of resources, risk and associated costs. Brands often split marketing and promotional costs to increase co-brand awareness, which is a source of substantial cost savings. They also share in the risk of the extension's possible failure. Having two different companies working together to try and achieve a successful new offering spurs innovation for both companies.

Co-branding means greater access for both brands and more opportunities to sell the product, increasing sales potential for the offering. The Neiman Marcus/Target co-brand will be sold both in Neiman Marcus and Target stores as well as both retailers'

websites. This increased distribution results in increased brand reach and means customers will have far greater opportunity to purchase the co-brand.

Overall, this type of partnership can serve as a point of differentiation in the minds of consumers, which can increase sales substantially and allow the participating brands to stand out from competitors. A co-brand between well-known, strong brands with high customer awareness will be far less costly to introduce to the market and is more likely to result in greater "sales volumes, competitive clout and traffic-generating appeal" (Völckner & Sattler, 2006, p. 22).

Benefits for the Luxury Brand

The luxury brand can benefit from a relationship with a 'step-down' brand of lower prestige. The benefits to the luxury brand have been questioned but there are distinct advantages:

A co-brand increases the flexibility of the luxury retailer and often allows them to attract younger, trendier customers.   The partnership also allows the luxury brand to gain more knowledge of the environment and trends outside their typical, niche market. The luxury retailer can be proactive and use the opportunity to begin building brand loyalty early with aspirational consumers in hopes they will continue to support the brand when they gain the resources to indulge in high dollar offerings (Beyersdorfer, Dessain, Mentzelopoulos & de Rothschild, 2011). Grabbing the attention of customers who may not have previously considered the brand a viable option, or only did so for special occasions, will help the luxury retailer appeal to a broader customer pool.

The hope is that after having a positive experience with the co-brand products, the customer may eventually build loyalty toward the higher end brand. While the products

will be at a lower price point than typical of the luxury retailer, the co-brand offering can

increase sales volume substantially due to consumers increasing emphasis on value.

Moreover, these products are often produced at a lower cost to the retailer than its typical

higher quality, expensive items. The increase in sales volume and lower costs of

production makes these partnerships profitable for the luxury retailer.

Benefits for the Mainstream Retailer

One of the main benefits of a co-brand for the mass retailer is the positive brand

association it gains through the affect transfer process. The strong reputation and high

quality image of the luxury brand transfers to the partner brand through their joint

offerings. This allows the mass merchandiser to reach a high end, trend-oriented target

market. Image enhancement is a critical benefit in the partnership achieved by building

off of the luxury brand's established equity and perceived goodwill (Stankeviciute &

Hoffmann, 2011). This affect transfer effect is prominent when there is fit between

brands. Emerging or lesser-known mass retailers enjoy the "strongest spillover effect" in

a brand partnership (Uggla & Åsberg, 2010, p. 39). The luxury brand signals quality and

has considerable influence in gaining customer acceptance. The mass retailer is

"stamped with credibility and built-in endorsement from the underlying [luxury]

brand" (Dens & De Pelsmacker, 2010, p. 176).

Benefits for Consumer

Through a co-brand partnership, consumers are exposed to a greater variety of

brands in their frequented retailers. Many Target shoppers would never otherwise see

Diane Von Furstenberg products on store shelves. They may never have even heard of

the brand. Co-brand offerings increase customer options and allow them to experience brands for which they are not the typical target audience.

Consumers receive greater convenience by being able to purchase luxury co-brands at their convenient mass merchandiser. Contrastingly, at the luxury retailer consumers have access to lower price point products. The co-brand allows consumers to purchase goods with the clout of a luxury brand name at far more affordable prices. For the increasingly price conscious consumer, brand partnerships serve as strategy to be fashionable and frugal simultaneously.

Both brands in the partnership benefit by pulling their resources to market and produce their offering. Both gain recognition in new markets by accessing the other partner's target markets. This allows the brands to reach a wider audience of potential consumers. The luxury and mass retailer can use the co-brand to "capitalize on each others' strengths and reputations and communicate a unique set of products attributes that the parent brands alone cannot offer" (Monga & Lau-Gesk, 2007, p. 389).

<u>CO-BRAND LIABILITIES</u>

While the main benefit of a brand partnership for mass retailers is the opportunity to capitalize on the luxury brand's equity and goodwill, it can have the opposite effect for the luxury brand by eroding its exclusive, high-end brand image. Customers who purchase the full-price line of luxury products may strongly dislike the co-brand and consciously shop at luxury companies who do not associate with low priced retailers.

Luxury consumers are emotionally attached to their preferred brands and believe they share similar characteristics. Often, they believe a mass retailer is inconsistent with this personal self-image. Luxury brands can lose brand trust and customer loyalty,

sometimes with its most valuable customers, by entering into a partnership with a less esteemed retailer.

A co-brand partnership also contradicts many of the qualities luxury consumers seek: exclusivity and extremely high quality. These varying messages and inconsistent cues from the retailer can confuse customers as to the brand's true brand personality and positioning. Loken and Roedder-John (1993, p. 79) believe that "unsuccessful brand extensions can dilute brand names by diminishing favorable attribute beliefs consumers associate with the family brand." When consumers feel betrayed or disappointed, they develop negative affect towards the brand. All of these factors can contribute to overall brand dilution that can be difficult for a luxury retailer to rebuild. According to Sood and Keller (2012, p. 378), "parent brand equity nurtured over decades can be at least temporarily eroded with just one negative trial."

An opposite problem may occur: the luxury brand may experience cannibalization. If its consumers see the co-brand as an opportunity to buy comparable brand name goods at a lower price, consumers may purchase the co-brand products instead of the full priced luxury products. This would result in less profitability and increased cannibalization because consumers are purchasing its less profitable products. Luxury retailers want its co-brands to appeal to a new, more price conscious target audience or possibly supplement current customers' luxury purchases, not serve as a substitute for them.

The luxury retailer loses sole control when engaging in a co-brand- from design to production and advertising; they now must collaborate with a mass retailer who may have conflicting priorities, goals or motivations. The luxury retailer also loses control of the environment its products are being sold in. While the brand is likely known for

aesthetically pleasing displays and impeccable customer service, many of these attributes are not typical of a mass retailer. As a result, poor fit between the two partnering brands often hinders the success of a co-brand, as you will see in the H&M and Target example.

A developing trend with these incredibly popular and fast-selling co-brand products are consumers who purchase them in mass quantities for the sole purpose of reselling them. This was evident in Target's Missoni collection: the day the line was placed on store shelves, there were already "1,591 listings for Missoni for Target on eBay.com that were selling for more than double the price found at the discounter. Travel totes were going for $169, while shoes were selling for $129.99" (D'Innocenzio, 2011). For the luxury retailer to retain its brand image, it is necessary that a co-brand is not indefinite. Typically, this is achieved by offering it through limited time only seasonal collections. However, this sense of urgency and limitability causes profit-seeking consumers to monopolize the products so consumers have to pay far more than the co-brand intended. In an attempt to avoid this problem, Neiman Marcus and Target limited customer purchase of their co-branded products of five per item (Trewe, 2012).

CONCLUSION

Do co-brand benefits outweigh the potential liabilities? The answer is not black and white. Rather, it depends on characteristics unique to the partnering brands. Each must consider their brands' current positioning and if an association with the potential partner would potentially help, or hurt, its current standing. A co-brand does not come without significant risks but it can also present the opportunity to strategically grow market share and awareness. Often, the luxury brand possesses the upper hand in co-brand negotiations because they are lending the desired prestige to the partnership.

Luxury designers should use this leverage to agree on terms beneficial to maintaining

their luxury status- limited time co-brand offerings sold exclusively at retailer's location

with advertising and promotions separate from core, ultra luxury offerings.

Most importantly, the co-brand must make sense to consumers. It must make

them excited about the possibility of purchasing one item with two of their favorite brand

names rather than causing consumers to scratch their heads in confusion. A logical fit

between brands is the difference between the success of the Missoni & Target collection

versus the likely failure, and resulting brand dilution, if Missoni entered a co-brand with

Walgreens. The partners must complement one another and have obvious similarities

while still contributing a unique quality or characteristic the other cannot possess

on its own.

The future possibilities for co-brands in the fashion industry are endless. Brands

are challenging each other to become more innovative and establish a sustainable

competitive advantage. Target and Neiman Marcus recently released a multi-designer

holiday collection that included an unexpected third party (White, 2013). The majority of

these purchases were not motivated by the prestige of the Neiman Marcus name, but

rather that of the ultra luxury contributors: exclusive designs by 24 designers including

Marc Jacobs, Caronia Herrera and Alice + Olivia (Thomas, 2012). Now that there are

multi-designer collections that go beyond two brands, co-brands may no longer be

considered a partnership typically limited to two brands.

The uses and types of co-brands will continue to evolve in the near future.

Companies like JCPenney are leveraging these partnerships to reposition themselves in

the market. JCPenney recently partnered with luxury designer Marchesa to release Pearl

by Georgina Chapman of Marchesa in stores this year (Krupnick, 2013). In JCPenney's efforts to redefine their brand and core customer, they believe Marchesa will enhance their offerings by bringing a newfound sophistication and style to the store. JCPenney's goal is to successfully leverage the red carpet designer's brand equity and attract a younger, more fashion-savvy customer.

Co-brands can help achieve great changes, both to brand image and consumer perception. However, the magnitude of success and potential consequences differs for each party. Brands must carefully search for and evaluate their optimal co-brand partner and then take the necessary precautions to protect their brand. This perfect combination is hard to achieve but if executed correctly can serve as a gateway to newfound customers who will be loyal to both the luxury designer and the retailer for life.

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ABSTRACT

As the democratization of fashion becomes increasingly popular, luxury designers have strategically partnered with a variety of non-luxury retailers to meet consumer demand for name brand goods at more affordable prices. While both co-brand partners can benefit substantially through the greater brand awareness and access to new customers this arrangement offers, there are significant risks to the luxury designer if the co-brand is not carefully controlled. This study examines consumer perception and evaluation of luxury and non-luxury co-branding. Using four case studies, we assess the historical successes and failures of co-brand partnerships in the fashion industry. After weighing the potential benefits and risks of this strategy, it is clear that following a few best practices and precautions will increase the likelihood consumers will respond favorably to the co-brand and, therefore, avoid the negative effects of brand dilution.