The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands

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The challenges of luxury branding

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Introduction: The irresistible growth of luxury

Whereas once it was a niche research domain, attracting mainly historians, philosophers, moralists, sociologists and economists, luxury has become a prolific research theme in equally as many managerial domains, including marketing, finance, human resources, sustainable development, strategy, supply chains and law. Luxury research even has its own journal (*Luxury Research Journal*). What prompted this shift in academics' attention?

Perhaps the most compelling reason is that luxury is no longer a small sector, aimed only at the happy few. Luxury offerings and their ubiquitous brands are highly visible facets of globalization and consumption societies. A simple observation pertaining to retailing reveals just how pervasive luxury brands have become: There are luxury brand stores in every major capital city of the world, as well as in China's second and third tier cities, most airports, and other hubs. Luxury department stores and commercial centres have opened in emerging countries, signalling their growth and desire to enter consumption society. As a sector, luxury also is highly successful, steadily growing since 1990.

According to estimates by Bain & Co. (2014), the luxury consultancy company, in 2013, the overall luxury market reached 800 billion euros (B€), including 319 B€ for cars, 138 B€ devoted to hotels, and 218 B€ in personal luxury goods (e.g. watches, jewels, leather, clothing, fragrance). In 1990, personal luxury goods accounted for only 90 B€. But in 2013, Ferrari sold only 6,950 cars, and Rolls-Royce sold 3,500, suggesting that growth in the luxury segment results from its appeal to a broader swath of society (Nueno and Quelch, 1998).

The Chinese middle class represents 300 million people (Wang and Wei, 2010), so the prospects for this sector are compelling. They might not buy private islands, yachts, Bentleys or Lamborghinis, but they can purchase a Hermès bag, a Rolex watch, some Chanel accessories, a few nights in a five-star hotel or a birthday dinner at a Michelin three-star restaurant, anywhere in the world. Western countries have exhibited steady growth in their consumption of luxury goods over time; emerging countries, such as Brazil, Russia, India and China (the BRICs), have fallen rapidly and deeply in love with luxury (Chadha and Husband, 2006). What might have been described as superfluous consumption in the past has become a seeming necessity to upper-middle-class households throughout these countries.

The rise of the luxury sector also offers a sign of the growth of an economy, moving from production to consumption. Bernstein Research (2014) has shown that the best predictor of luxury market growth in any country is gross domestic product growth, and this sort of economic growth is most remarkable in emerging countries (BRICs, Korea, Nigeria, South Africa). In 20 years, none of the countries that currently constitute the European Economic Community are likely to remain part of the G8. Emerging countries are the future for the luxury market, because their middle classes want to take a seat at the world's consumption banquet and buy the same symbols of wealth that they see in Hollywood movies or on Western celebrities. Although the United States remains the world's top luxury market for now (Bain & Co., 2014), China has reached fourth place, having just bypassed France. Chinese consumers, both at home and while travelling abroad, as approximately 22 million do each year, represent 29 per cent of the global personal luxury goods market (Bain & Co., 2014).

In mature countries, which feature market saturation, luxury growth also has been made possible by the 'accessorization of luxury,' a process by which inaccessible brands become more accessible. Not everyone can buy a Chanel or Dior dress for 20,000 €, but millions can access Gucci sunglasses, sporting its famous logo, at 350 € or buy Chanel N°5 fragrance for 85 €. This growth is why Wall Street loves the luxury sector, noting its substantial margins and high rate of growth. Virtually every venture capitalist and investment fund seeks to reproduce the successful fishing expedition of B. Arnault, CEO of LVMH, the world's top luxury group. He bought an industrial fabrics company called Bidermann for a small sum, just because it owned the rights of an old lady named Dior. Then he took full control of Louis Vuitton (LV), itself once an old lady brand too, turning it into the world's most valuable luxury brand (Interbrand, 2013), worth $24.90 billion. It is the seventeenth-ranked global brand in terms of financial value, considering all product categories (Apple is the leader, worth $98 billion).

The challenges of luxury management today

This section introduces the main challenges facing the modern luxury industry. In Western countries, because of their history, the word 'luxury' typically evokes the dreamed of lifestyle of high net worth individuals (HNWI, with at least $1 million in cash) or even ultra-HNWI (with at least $30 million). Surveys of Western consumers reveal that the word luxury is associated with dreams: superb yachts or mansions, private islands, private jets, gorgeous diamond collars, and so on, all out of reach for everyone except the happy few. But the reality of the luxury industry consists of brands that make products and services much more accessible to the happy many of the world. Chinese consumers thus associate the word with items they find in all premium department stores. In this context, the following challenges face the luxury industry today:

- Can the cornerstone luxury value of rarity reconcile with Wall Street demands for constantly more growth from luxury companies (Kapferer, 2015)? Is rarity still part of the essence of luxury today or just a communication signal, illustrated by a few exceptional products, while most profitability comes from mass products? This distinction is becoming increasingly critical (Silverstein and Fiske, 2003; Thomas, 2008).
- Because 'luxury' is a word that prompts sales, it is becoming one of the most overused words in business and marketing. But are all the companies and brands that call themselves 'luxury,' or that are perceived as such by the general public, actually implementing a luxury

strategy? Some of them actually seem to be adopting a masstige approach (mass marketing, embellished with imitations of luxury codes), a fashion strategy, or even a premium strategy. Porsche sold 162,000 cars in 2013, Lexus sold 520,000, and BMW, Mercedes and Audi each moved more than a million cars. Are they still luxury brands, or are they actually premium brands?

- Considering their unique traits, do luxury companies and brands require specific management skills? Such specificity naturally is disappearing as companies grow and face the need to hire managers outside of the founding family. Most of these outside hires come from fast moving consumer goods (FMCG) companies, where they learned how to master retail globalization trends, the international management of production, pricing, and communication tactics.
- If luxury becomes, instead of a rarity, a fashionable 'must have' for everyone, due to extensions of logo-typed accessories, how can these brands combat counterfeiting? And should they? In a sense, counterfeits represent an entry range of luxury brands for consumers with insufficient resources. They increase the fame and awareness of these brands. People who buy a counterfeit LV wallet today might want to access the real product when they gain greater success, to signal that they have 'made it', economically speaking.
- Can a luxury brand reduce its prices without losing its status, or does the prestige of the brand depend on the price, such that the industry moves subtly from actual product rarity to virtual rarity and brand prestige as levers of the luxury dream?
- Is the constant growth of luxury beyond the happy few sustainable? The insatiable demand for natural ivory will lead to the extinction of elephants; the demand for exotic rare woods for luxury furniture leads to deforestation of parts of Africa and Brazil (Bendell and Kleanthous, 2007). But sustainability involves more than ecology; it also is concerned with social harmony and equilibrated economic growth. Xi Jinping, the Chinese prime minister, launched 'frugality laws' in China in 2013 to combat corruption that relies on luxury sectors. Fine watches and rare spirits serve as gifts to buy specific favours, can be easily transformed into cash, and are not too visible (compared with a car).
- How will the luxury sector evolve if one-third of its clients come from a single country? China transformed Buddhism and Marxism; will it transform luxury too? And in what ways?
- Finally, how will Internet sales affect the concept of luxury? Although it represents less than 5 per cent of the personal luxury goods market, these sales likely will increase in the future. Luxury websites are accessible to anyone. Will this shift change the nature of luxury, whose stores long have been restricted to the happy few (Liu *et al.*, 2013; Okonkwo, 2010)?

To address these questions, we first must define the object of analysis: What is luxury? As we explain in the following sections, this simple word contains various meanings and disparate realities, which represents yet another challenge for luxury managers.

The many definitions of luxury

To define luxury, we must establish three key notions:

1. Luxury as a concept is debatable and subjective.
2. Luxury is an economic sector, once populated mainly by family firms but now more and more concentrated in publicly listed groups.
3. Luxury is a specific strategy, not to be confused with a premium or fashion strategy, even if consumers sometimes lump the different kinds of companies together (Kapferer and Bastien, 2012).

The luxury strategy, invented by the brands that constitute the sector, turns classical marketing rules, as established by FMCG brands to create mass markets, on their head. A luxury strategy obeys anti-laws of marketing, such as higher prices as a method to increase demand. Only true luxury brands can benefit from this Veblen (1899) pricing effect (Amaldoss and Jain, 2005). Sales by luxury brands also have largely recovered from the global economic crisis, such that today luxury is a micro-economic, small, but very visible and flourishing sector. This sector also has been affected by globalization trends, shifting focus from production to retail. For example, luxury brands are compelled to open stores all around the world, to cater to a travelling elite and local upper-middle classes. This demand for storefronts is very costly, which may be why so many family companies have sold to groups (Kapferer and Tabatoni, 2012). Despite continued references to mythical luxury 'houses,' as if they were still independent units, most brands are owned by vast luxury groups such as LVMH, Kering, Richemont, EPI or Prada Group.

On the basis of these various definitions, what companies can be considered part of the luxury sector then? Many experts argue that firms such as Ralph Lauren and Coach look like luxury but actually are masstige companies, managed according to classic marketing laws. In contrast, Wall Street often regards them as part of a broad premium sector, lumping together all companies and brands that sell premium products in premium stores and deliver premium margins. Some 50 years ago, the 'houses' were known by their speciality: LV was a leather trunks house, Fendi a fur house, Hermès a former saddler, Berluti a shoe maker. But today, all these names are referred to as luxury brands, illustrating that luxury has become a transversal qualification, regardless of former product specialization. Furthermore, the focus has moved to brands. Thus LVMH is a luxury conglomerate, as are Kering and others, even though LVMH owns and manages more than 60 brands, reflecting various specializations (e.g. wines and spirits). This conglomerate has unique know-how related to financing and managing the growth of luxury brands. Luxury is not business as usual. It requires unlearning classical marketing principles. But what about the *concept* of luxury? If we do not define it with precision, how can brands manage it?

A plethora of definitions is available. Each academic researcher offers his or her own, and the current language is full of nuance. Luxury thus can be an absolute concept, referring to an idealized, inaccessible lifestyle, or it can connote some kind of excess for the sake of pleasure, beyond what reason would anticipate. 'My luxury' even might imply an intimate, personal decision about how a person spends money or time for the sake of pleasure (e.g. an executive taking the time to go fishing with her or his children).

Similar to art, luxury is part of these concepts and can be approached from different angles, with highly subjective results: Your luxury is not my luxury. There is also a cultural dimension. The French for example tend to consider essential luxury as expensive objects bought for hedonistic and status motives – really, for any reason but functionality. In the United States, nothing can be non-functional, and each dollar spent should have a logical justification. Even limited editions are not bought solely for the sake of pleasure, because they create an aftermarket that offers prospects for a good, fast return on investment. In addition, US brands that claim to be luxury brands often are accessible in price, because their lack of intangibles prevent them from charging higher prices effectively.

Each academic discipline also offers different interpretations. For example, an economic view of luxury centres on 'needlessly expensive products or services, priced above their functional value' (Yeoman, 2011: 48). This definition highlights that the price of luxury cannot be justified by function alone, in line with Adam Smith's truism that people are never as ready to spend a lot of money as when they do not need the purchase. However, this economic definition lacks discriminatory power, in that it might apply equally well to the price of rare stamps or other collections that typically would not be classified as luxuries. For sociologists, the economic dimension lacks consideration of the socially stratifying role of luxury. Pierre Bourdieu (Bourdieu and Nice, 1984) and Jean Baudrillard (1998) assert that luxury reflects the taste of the elites. Taste is not a given but must be socially promoted by tastemakers. Fashion has different tastemakers, whose influence is often a bottom-up process, moving from the street to the runway. Luxury instead is elitist and aims to provide a symbolic lift to its owners. Its function is to demonstrate their power and impose their tastes on others. But today there is not one single elite. Instead, many elites fight over power, which is why there are so many types of luxury brands. Old money competes with the new rich to serve as the source of taste, and the two sides do not choose the same brands. Old money despises the choices of a new elite, comprising sports figures or Hollywood actors. Silicon Valley is giving birth to yet another class of rich, aspirational elite that seeks to promote more dematerialized or sustainable luxury.

Overall then, wealth is not sufficient to fuel a luxury sector and its imitative drives. Stanley and Danko (1998) identify the many 'millionaires next door' who own a Toyota Celica instead of a Porsche and have never even considered purchasing a great Chateaux Bordeaux. This generally outdated vision of wealth entails saving each day for retirement. But the luxury sector instead has grown so remarkably because of the emergence of the new rich, including CEOs and top managers of companies created in emerging countries that want recognition for their hard work. They care less about the future, because their focus is on the now, when they seek the same symbols of happiness that their Western counterparts enjoy. But in the endless cycle of emulation by imitation, as soon as a wider public starts purchasing some objects of taste, elites move to another form of consumption that they regard as more discriminant (Baudrillard, 1998).

What a definition of luxury should be

The key reason luxury lacks a consensus definition is that most people, even academic researchers, do not know what makes a good definition. According to meta-theoretical recommendations (Zaltman *et al.*, 1973), a good definition clearly specifies the properties (defining characteristics) that an entity must possess to be included in the central concept. Such belongingness might be discrete (e.g. binary, such as even versus odd numbers) or probabilistic (varying degrees of belongingness). Most proposed definitions of luxury fail to meet this meta-theoretical requirement.

For example, *lexical definitions* just substitute another term for the word luxury, without defining either, such as when Bain & Co. (2014: 10) claims that luxury is 'premium goods sold at premium prices in premium stores', without defining the meaning of 'premium'. Similarly Vigneron and Johnson (1999: 11) define a luxury brand as 'the highest level of prestigious brands encompassing several physical and psychological values'. But what is prestige?

Individual definitions instead disregard the classic difference between a 'concept' and a 'conception'. Luxury producers tend to emphasize criteria such as being handmade, craftsmanship, quality excellence, or rarity. Critics define luxury as superfluous objects bought mostly for conspicuous consumption. The producers' conception thus omits the ostentation dimension of luxury, suggesting that it signals refinement and taste, if not wealth and status. As such, this definition is close to that of a 'high artisanat' (arts and crafts), but it ignores the social expression of the self through luxury. It also prevents leading brands, such as Rolex, from being included in the luxury set, because they have sought to maximize reliability and reduce costs by moving away from handmade production. This brand cannot pretend it is produced by craftspeople anymore, yet it remains an iconic luxury watch worldwide. The critics' definition finds no value in the product itself, which is described only as a symbol. The entire task of the craftsperson seems devoted to the production of something rare and expensive for the sole purpose of being exhibited. Thus there are as many conceptions as there are individual stakeholders. For some luxury managers, luxury goods are those whose consumption or possession prompts a sense of *elevation* in terms of social status, cultural superiority, pleasure, or even self-concept. But it may not be possible to wait to categorize an object until after learning if the consumer feels elevated. In addition, a teenager might feel elevated by obtaining the latest Nike shoes, but that does not make Nike a luxury brand. These conceptions of luxury also are ideological or cultural, such that they aim to promote a viewpoint or sell an idea. Luxury should be a conception everyone agrees on, grounded by a list of traits, such that each stakeholder has freedom of judgment when asked to evaluate an object or brand on each trait.

Finally, many definitions combine both problems. For example, luxury products are those products whose price in excess of what their functional value commands, are held as symbols of the dreamed life of the riches, thus providing pleasure and distinction to their owners (Vigneron and Johnson, 1999). There is a lexical issue (who are the rich?) and a personal/individual issue (a luxury product is luxurious only if its owner perceives it as symbolic of another lifestyle).

To evaluate the quality of any definition, we need to consider its discriminatory power and ability to categorize without error or doubt. Beverland (2005) identifies six attributes of a luxury wine: heritage and pedigree, stylistic consistency, quality commitment, relationships to place, unique method of production, and downplaying commercial motives (close to art). This definition, which extends to other product categories, specifies attributes that warrant the inclusion of a wine in the luxury category or concept. Unfortunately, this list of attributes cannot discriminate between, say, a Mouton Cadet Bordeaux wine sold for 15 € and a Mouton-Rothschild sold for 500 €. Both are Moutons, but the former is a sub-brand of the latter, launched 50 years ago to sell wine that was not good enough to be sold under the Mouton Rothschild name. Since then, Mouton Cadet has become one of France's best-selling brands of bottled wine and is surely not a luxury product. Some academics therefore recommend regarding luxury as a relative concept, such that De Barnier *et al.* (2012) distinguish accessible luxury, which can be bought by many people (e.g. Coach bags that cost less than $800 on average), from intermediate luxury (e.g. Bottega Venetta) and from inaccessible luxury (Hermès Kelly bags at $20,000 each). This tripartite approach suffers from a major problem though, in that it depends too much on the individual. In some Middle Eastern settings, a watch that costs less than $5,000 is not even considered accessible luxury; in France, it would be an intermediate luxury. To exist, the luxury business must be accessible to someone, even if the purchase involves yachts, private jets or private islands. Access to such luxury is an underlying reason for why the 'happy many' (Dubois and Laurent, 1998) want to emulate the happy few. The fundamental role of luxury brand management is to define tight boundaries on the clientele on which the brand will build, even if it later expands more broadly, while still trying to retain the original clients.

To ensure discriminatory power, a definition needs both a list of key attributes and appropriate levels for each attribute: It is not just quality but the highest quality that matters. Dubois *et al.*'s (2001) scale comes close. Using a factor analysis of perceptions of luxury goods, they define luxury as a combination of six facets: very high price, excellent quality, scarcity and uniqueness, aesthetics and polysensuality, ancestral heritage and personal history, and superfluousness. However, we might question the inclusion of 'superfluousness', which is a subjective value judgment. Some luxury buyers might consider their purchases necessary, not superfluous, but that belief does not necessarily disqualify their purchases as luxury. Dubois *et al.* (2001) measure superfluousness with two items (uselessness and non-functional) that tend to apply more to art than to luxury. Superfluousness would move high-end German cars out of the luxury category, because to be worth its high price, a Porsche needs to be a real, functional, high-tech car, not simply a piece of art.

This definition also raises concerns with regard to the scarcity dimension. Just a few brands (e.g. Romanée Conti wines, Krug champagne, Ferrari, Rolls-Royce) actually limit their production capacities. For the most part, luxury has become an important economic sector, with revenues of 220 B€ for personal products alone (Bain & Co., 2014). Such growth has been possible only by eliminating scarcity. Thus the luxury industry has moved from scarcity to rarity, produced by feelings of exclusivity and uniqueness, which also has been called 'abundant rarity' (Kapferer, 2012, 2015). If physical rarity were mandatory for luxury, today's booming luxury sector could not be considered luxury anymore.

To conclude, it is not the purpose of this chapter to propose just another luxury definition but rather to find a workable one. It is important to distinguish between (a) working criteria needed to determine if a good is or is not a luxury good and (b) individual judgments about the position of a specific product or brand on these criteria. We need consensus about the criteria but high variation in the perceived level.

To identify structural criteria, we consider two main sources: semantic analyses of qualitative speech (Godey, 2013) and quantitative research. Many scales analyse the structure of public perceptions of luxury (Kapferer, 1998; Vigneron and Johnson, 1999; Dubois *et al.*, 2001). De Barnier *et al.* (2012) combine three existing scales and show that, despite some idiosyncratic differences, they converge on the following seven factors, ranked in order of decreasing discriminatory power:

1 Elitism (very few people can buy it; it is very expensive);
2 Creativity (it is magical, very creative; high craftsmanship);
3 Uniqueness (rare; unique);
4 Distinction (for refined people; it shows who one is);
5 Refinement (attractive, dazzling);
6 Quality (superior; top quality);
7 Power (known, leading brand).

Their research offers a reminder that elitism is the kernel of the luxury concept and the source of the sector's growth, because this notion attracts the happy few on a regular basis but also appeals to the happy many on a more exceptional basis – what Dubois and Laurent (1998) call 'excursionists'. These consumers are willing to imitate the wealthy by enjoying, if not their aspirational lifestyle, at least the same brands. A significant part of Ferrari's revenues come from licensed, accessible products (e.g. clothing, accessories, toys) sold in Ferrari stores.

How global is the concept of luxury?

As the globalization of business continues to increase, an insightful approach might be to ask global clients what they consider the key attributes of luxury. Affluent clients were recruited, according to their self-declared purchases of items beyond a specific, high price. The 500 respondents from each of six countries (USA, China, Brazil, Japan, Germany and France) represent both mature and emerging markets and selected, out of a list of ten traits, the four that were most important for defining luxury (Kapferer, 2015: 11). The results are in Table 32.1.

Although there are some local idiosyncrasies (e.g. the importance of looking fashionable in China, product intemporality in Japan), the homogeneity of the answers is notable, though perhaps not surprising. People learn about what constitutes luxury not from their parents or families

Table 32.1 What luxury means for affluent clients in six major luxury markets

	France	*USA*	*China*	*Brazil*	*Germany*	*Japan*
1	High quality	High quality	Expensive	High quality	High quality	High quality
2	Prestige	Expensive	High quality	Pleasure	Expensive	Prestige
3	Expensive	Prestige	Fashion	Dream	Fashion	Expensive
4	Pleasure	Pleasure	Minority	Expensive	Dream	Intemporal

Source: Adapted from Kapferer (2015: 11), with permission

but from the brands themselves, which are pervasive, with highly visible stores and communications. The international research company IPSOS (2013) regularly conducts a World Luxury Tracking Survey, in which it asks respondents, 'What brands come to your mind when you hear the word luxury?'. In these results, high homogeneity again tends to arise, with the same star brands being identified (LV, Chanel, Gucci, Ferrari, Rolex, Hermès, Prada, Rolls-Royce). Do these brands come to the respondents' minds because they match the criteria in Table 32.1, or is the process reversed, such that experience comes before the essence? For new generations and in emerging countries, luxury is what the brands that are found on the luxury floors of department stores or luxury commercial centres are doing. The homogeneity of traits that define luxury for affluent consumers thus might be the result of globalization by the brands themselves. The luxury sector is the one of the most global, in terms of its branding and marketing, such that it allows virtually no local adaptations.

From a meta-theoretical standpoint, luxury definitions thus must go further to specify whether all the defining characteristics need to be present or if it is possible to exclude one or two and still constitute luxury. At what point does something cease to be a luxury product? This question is critical for downward extension management (DelVecchio and Puligadda, 2012; Dall'Olmo *et al.*, 2013; Kapferer and Laurent, 2015). Is a pair of Chanel sunglasses, priced at 300 €, still a luxury product? The price is relatively accessible, but the Chanel logo might extend its halo of elegance and a privileged lifestyle to any object that features it. Most definitions focus too much on the luxury product, disregarding the fundamental role of the brand itself in dubbing the object 'luxury' and endowing it with nearly magical powers. Exploratory research indicates that the more powerful the brand, the more it can spread its magic aura to even quite mundane products (Kapferer *et al.*, 2014). Accessories blessed by the brand name thus can earn very high margins.

How luxury creates value

Looking at the growth of the luxury sector worldwide, the question becomes, 'what creates such demand?' How many billionaires or millionaires are there in the world? It depends who is counting: Forbes? Credit Suisse? Cap Gemini, BCG? An average estimate would be 1,800 billionnaires and 17 million millionaires in 2015. (i.e. at least $1 million in cash). The former are the targets of Rolls-Royce, Bentley and Ferrari. But these groups alone cannot explain the increase in the personal luxury goods market from 90 B€ to 217 B€ in just 24 years. Luxury has grown so much because this sector aims at everyone, without seeming to aim at everyone.

Recent research in marketing also moves away from identifying traits that structure consumers' perceptions of luxury and explores instead the nature of the value created by luxury. Hagtvedt and Patrick (2009: 610) define a luxury brand as one that 'has premium products, provides pleasure as central benefit and connects with consumers at an emotional level'. This definition suggests that hedonism is the main value created by luxury. Unfortunately, it also could apply to Apple products or Illy coffee. Veblen's (1899) masterpiece reminds us of the importance of social value too: Luxury goods show who we are to others. Its value is in social recognition. Wiedmann *et al.* (2007) propose an integrated, tripartite model that distinguishes functional, individual and social value creation. Functional value implies that, unlike art, luxury products must perform extremely well (a luxury car remains a car). Individual value refers to self-identity values, hedonic benefits and liking of materialism. Social value is fulfilled by luxury conspicuousness. Wiedmann *et al.* (2007) add financial value to their model too, which is awkward. When measured by an item such as 'Luxury is inevitably very expensive', it constitutes a defining characteristic rather than a value *stricto sensu*. In addition, luxury follows anti-law of marketing, so 'it is not the price that makes luxury, but luxury that makes the price' (Kapferer and Bastien, 2012: 74). Wiedmann *et al.* (2012) also extend their multidimensional model to multiple countries.

Cultural perspectives on value creation

Historians (e.g. Castarède, 2009) remind us that luxury is as old as humanity. It started as a tribute to the gods: jewels buried in graves, golden temples, and rich cathedrals. Luxury was a hymn to the magnificence of God and a way to buy favour or express appreciation for a miracle. The price thus offers a measure of the sacrifice. These ancient dimensions have not disappeared but instead underlie present consumption norms. Luxury always involves buying something other than the product itself, whether admiration, respect, refinement, status, self-care, self-reward or pleasure. Luxury is like Janus, the double-faced god: There is a luxury for oneself and luxury for others. Veblen insisted on the latter. Modern ideology insists on the former (self-pampering role). But both roles are necessary to justify higher prices.

Luxury is also intimately tied to the vertical organization of society and *produced* by this organization. In the eighteenth century, luxury was the exclusive prerogative of aristocrats. 'Etiquette laws' forbade non-aristocrats from dressing or behaving like aristocrats. With the end of the aristocracy, the role of luxury has changed, such that whereas once it signalled the social hierarchy, it now *creates* the hierarchy (Kapferer and Bastien, 2012). We have a meritocracy era, when everyone can be rich (in theory) or behave as if they were rich (buying an occasional bottle of Dom Perignon champagne). Luxury brands compete not on 'quality' – an objective reduction of the product, used as an alibi – but on a latent social hierarchy of good taste and symbolic capital. Therefore, luxury needs brands. The difference is not in the product anymore but in the ability of luxury brands to trigger appropriate certifications of good taste that serve as gatekeepers in postmodern societies. The high price is not enough to make a product into a luxury, especially if it is not endowed with the blessing of tastemakers and the right brand.

Marketers keep asking questions of consumers to understand the levers of their purchases. This approach implies a dominant psychological perspective, according to which individuals make decisions alone. But sociology indicates that such individual preferences are illusions; luxury is not outside, waiting to be identified, but rather is an output of the social organization of society and the competition of elites to impose their taste, in what has become the creative society. Creativity cannot be compared, as objective quality can be, but it must be ranked and put into a hierarchy (Bourdieu and Nice, 1984; Baudrillard, 1998). For modern sociologists, luxury is a social preference, constructed in the service of the industry's main problem: how to grow in a saturated market. It does so by capitalizing on the needs for status, triggered by modern societies.

Why urban economies trigger luxury consumption

What can explain the remarkable growth of the luxury business? For example, what benefits does luxury deliver to increasing numbers of people, and why has this sector, traditionally aimed at the happy few, undergone such expansion? Part of the reason might be that when luxury groups went public, they faced new demands to produce double-digit growth and profits (Kapferer and Tabatoni, 2011).

But in addition, the luxury industry pivots on appearances and semblances, which partially explains its remarkable success in Asia, where 'saving face' is a central cultural concern. No acquaintances will visit a person's flat in Seoul or Cheng Du, but everyone can see their face, clothing, handbag, car, and wines served at their table at a restaurant or karaoke bar. In the West, self-differentiation is essential (two women would hate to be wearing the same dress to a party), but Asian cultures tend to accept conformism: They want to be unique, just like everyone else (Chevalier *et al*., 2009). Queues at the same luxury shops are filled with people wanting to buy the very same expensive handbag. The price paid is a measure of the consumer's own value; buying a counterfeit product would mean the consumer is a fake. The new rich in emerging countries appreciate luxury largely because of its high price (see Table 32.1), which signals a measure of their own worth and commands respect. They are self-made people, and now they need to build their social identity, or what Belk (1988) calls their extended self, using qualifying products and, most particularly, brands.

Modern urban societies also exacerbate competition among residents, creating intensified needs for self-branding, as exemplified by the popularity of Facebook. This competition involves getting the best jobs and positions within a company, as well as the nicest mates. Big towns are *mating places*, and across the world, the median age at which people get married has increased. Working people have more money and independence, and they invest their time in seeking a perfect mate. Janssens *et al.* (2011) and Griskevicius *et al.* (2010) indicate that men's interest in status goods increases in an environment in which mating is a central preoccupation. According to this sexual perspective, men engage more in displaying their success through conspicuous objects and brands. Drawing from evolutionary psychology, luxury possessions act as *costly signalling* of good genes for reproduction. Today's Chinese luxury market is predominantly a male luxury. They are highly concerned by success and sexual mating. A recent study (Hudders, 2014) shows that women exhibit expensive leather bags in front of their female friends to safeguard their romantic relationships (i.e. 'keep away from him; he loves me to the point of buying all these luxury goods for me').

In a creative society though, consumers might be challenged by questions about the most appropriate choices. How do they know what to buy? What is good taste and what is not? What is cool? What is hot? The importance of social networks in diffusing answers to 'What kind of people buy this brand?' is paramount. Consumers make decisions on the basis of their knowledge about who buys what and how many. Luxury brands thus are made by their clients. As Mandel *et al.* (2006) show, reading about a successful person who seems similar to the self (e.g. from the same school) increases consumers' expectations about their own future wealth, which enhances their desire for luxury brands. In addition, such information increases people's materialistic values.

Finally, in this race for success, there are losers and winners. The many losers feel powerless, or without control over others. Rucker and Galinsky (2008) reveal that less successful people then might try to compensate, by acquiring high status objects, especially if those products are visibly conspicuous. Overspending in this context represents a placebo that helps restore their sense of power and dignity. Han *et al.* (2010) agree that rich people demand fewer status signs, especially the old rich. New rich have money but lack status, so they blatantly exhibit such symbols. After years of deprivation, today's Russian oligarchs show exuberance and generosity, buying hundreds of bottles of Cristal Roederer Champagne at a party for their friends. Luxury brands adapt to these demands by resizing their logos: The smaller the Mercedes model, the bigger the logo, and vice versa. The same holds true for LV bags, whose logo size is inversely proportional to its price.

What is the essential role of brands in luxury today?

Originally luxury did not require brands. Even as late as the turn of the twentieth century, only a handful of wealthy people owned a car; today, very few have private jets. Such simple possession was enough to qualify their lives as luxurious. But modern luxury also can be signified by brands. Because most people have a car, to achieve differentiation, they rely on the names of these cars (Mercedes, Cadillac, Bentley) and the discriminatory prices they evoke. In emerging countries, luxury is manifested through the brands' dazzling stores. In local households, the concept of luxury seemed unknown, but brands taught them its reality, which explains why developing countries demonstrate such strong logo consciousness. They might not know the essence or concept of luxury, but they can recognize luxury brands.

The seemingly endless growth in the luxury sector means the abandonment of the artisan as a source of production, except for made-to-measure models and small batches. Paradoxically, the more the luxury industry grows, the more it needs to communicate about a mythical reverence for craftsmanship, to combat negative images that might arise, tied to the irresistible growth of production. Some consumer groups have even criticized luxury companies for creating misleading advertising that tries to make people believe their products continue to be made by hand.

The artisan used to talk about the product as a paragon of art. Time and labour were the essence of the story. Today, it is the brand that confers meaning and tells its own story about the products. Brands are infinite sources of intangible value and thus levers of higher pricing. This upward pricing trend is mandatory for an industry that cannot effectively pursue volume but must always sell less than is demanded and somehow select its clients. Increasing prices is a tactic to cause the segment of 'mere conformists' to stop buying. Conformists seek recognition among their peers; they are not connoisseurs (Corneo and Jeanne, 1997). Thus the brand pleases the 'snobs' (Amaldoss and Jain, 2005), whose preferences for it grow as the number of buyers decreases. They accept paying more for that very purpose. Moreover, the brand can rely on its history, whether true or not, to create more non-comparable elements associated with it. Products are always somehow comparable, but luxury brands aim to be 'absolute brands' – incomparable and increasingly related to art. Is it possible to compare Matisse and Manet? Patek Philippe and Rolex? The more the luxury sector grows in size, the more luxury tends to call itself art, implying activity that is guided by aesthetic purposes and maintained as central to culture. This 'artification of luxury' (Kapferer, 2014, 2015) is ideological and purposeful. In reality though, art produces single pieces, and money is not the issue, whereas luxury produces handbags, cars and watches whose sole objective is to be sold; otherwise the artist, or designer, will be fired.

The locus of power of the brand also has moved, from atelier to store. People enter a Prada or a Dior shop; their initial choice is of the brand. These stores are places for nearly holy, multisensory experiences, which cannot yet be recreated by any online experience (Okonkwo, 2010). Comparisons also can identify the brand as a sort of religion: Luxury features icons (etymologically, the figure of a saint) and flagship stores built as cathedrals, to impress the members of the parish or market. Dion and Arnould (2011) push this analogy further, analysing how magic transfers to the product and consumers during sales rituals that take place in the flagship stores (Perey and Meyer, 2011). Despite the undeniable progress made by digital technologies, building a luxury brand and commanding real pricing power still requires symbolic investments in highly expressive brick-and-mortar stores. Consumers' online purchases, according to recent surveys, largely are driven by their search for a good price or a good deal. Reducing luxury to a price and then 'going to the cart' is a source of banalization and thus a long-term risk (Truong *et al.*, 2009).

Luxury segmentation

Sociology research acknowledges that it is impossible to understand luxury simply as something that is, or an object waiting to be analysed. Luxury is the output of the social dynamics of a society, whereby some groups seek to signal their symbolic superiority in taste, if not wealth and power. All members of society use brands to position themselves, but luxury brands are those used in the higher-end game, involving the elites – whether old or recent – and a new upper-middle class searching for recognition. Endless classifications of brands have been proposed, which multiply the nuances of luxury and threaten to make the concept itself empty (e.g. casual luxury, accessible luxury, mass-luxury, über luxury). In most cases, these terms refer simply to the price level, lumping together brands of very different natures, such as fashion brands and premium offerings with a touch of style. The ease of use of clustering algorithms has allowed academic research to propose various typologies of luxury brands, but unfortunately, they are mainly descriptive and lack theoretical foundations. We suggest instead a classification based on the core social functions fulfilled by luxury brands in a given society, as we have discussed in this chapter. We present it in Figure 32.1.

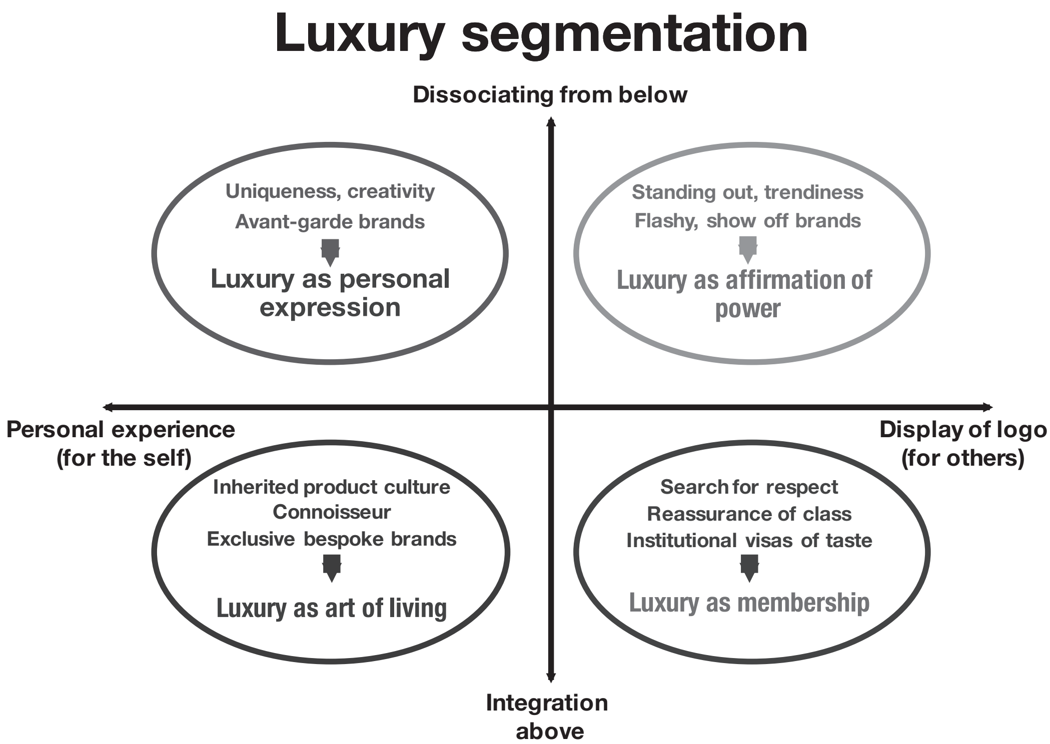

Figure 32.1 A functional perspective on luxury segmentation

Source: Adapted from Kapferer and Bastien, *The luxury strategy* (2012: 122), with permission.

The bottom of the vertical axis symbolizes the need to be integrated into an aspirational class, even symbolically (as is the case for Chinese consumers). The top of this axis symbolizes a contrary movement, by which consumers seek to stand out from the crowd. Then the horizontal axis refers to the need to signal superiority, either through a product culture or by the exhibition of holy logos. In turn, we propose four types of luxury segments and brands to appeal to them:

- The lower right quadrant is the bulk of the luxury business: Queues of tourists passively wait in front of luxury brands' flagship stores in the capital cities of the world. These brands are worldwide visas of distinction. Because they are so well known, they confer respect onto their owners. They induce no risk, so the size of the brand and its growing volume of sales is not a problem, as long as prices keep rising. The power of the well-known luxury brands is a guarantee of taste. The logo must be visible, as a holy sign, and they often can be found in airport tax-free zones.
- The upper right quadrant is a consequence of the growth of the former category. If some brands become adored by the happy many, the happy few must differentiate themselves another way. They choose more expensive, very visible and flashy brands: Lamborghinis instead of Ferraris, Dolce & Gabbana instead of Chanel. These brands attract people with high needs for recognition and power.
- The upper left quadrant also provides differentiation, but through edgy brands or even start-ups – typically, the brands we might find in selective, multi-brand shops, such as Colette, which thrive by discovering new talent.
- The lower left quadrant is the connoisseur corner. These brands promote a product culture, selling excellence in life. For them, there are no luxury brands, only luxury products. This stance represents their ideological, self-serving storytelling.

Differentiating luxury, fashion and premium

Although the general public might call them all 'luxuries' (due to their excess price relative to function, for the sake of pleasure and status), there are three main modes for managing high-end brands and companies, as detailed in Figure 32.2: the luxury business model (or luxury strategy), the fashion business model, and the premium business model. The term masstige refers to mass-marketed products that evoke an image of class (e.g. Polo Ralph Lauren; Silverstein and Fiske, 2003; Truong *et al.*, 2009).

Substantial confusion exists regarding the identification of business models, because research needs to go beyond their obvious actions, not rely only on what they say or what their clients think. Even if all these brands might be called luxury by their clients, an in-depth analysis of their sources of profitability, economic engines and value equations reveals three different patterns. Only one of them deserves to be called a luxury strategy (Kapferer and Bastien, 2012).

The triangle in Figure 32.2 can help mitigate this confusion. Contrary to the claims in many marketing textbooks, luxury is not 'more premium' – that is, premium products traded up or with a higher price. There is a limit on the price of premium brands, because they are comparative in essence. Any increase in price must be justified. With a luxury strategy, no one ever talks about price or justifies it, because it is art. Did Picasso or Warhol ever justify the prices they asked? We use these two artists as examples, because they made their wealth by abandoning scarcity as an economic principle. Warhol industrialized his art, multiplying the originals ad infinitum, and there are thousands of Picassos.

To become luxury, it thus is not enough to increase the price of a premium product. Any excellent wine cannot pretend to be a luxury wine (Beverland, 2005). Elitism underlies luxury,

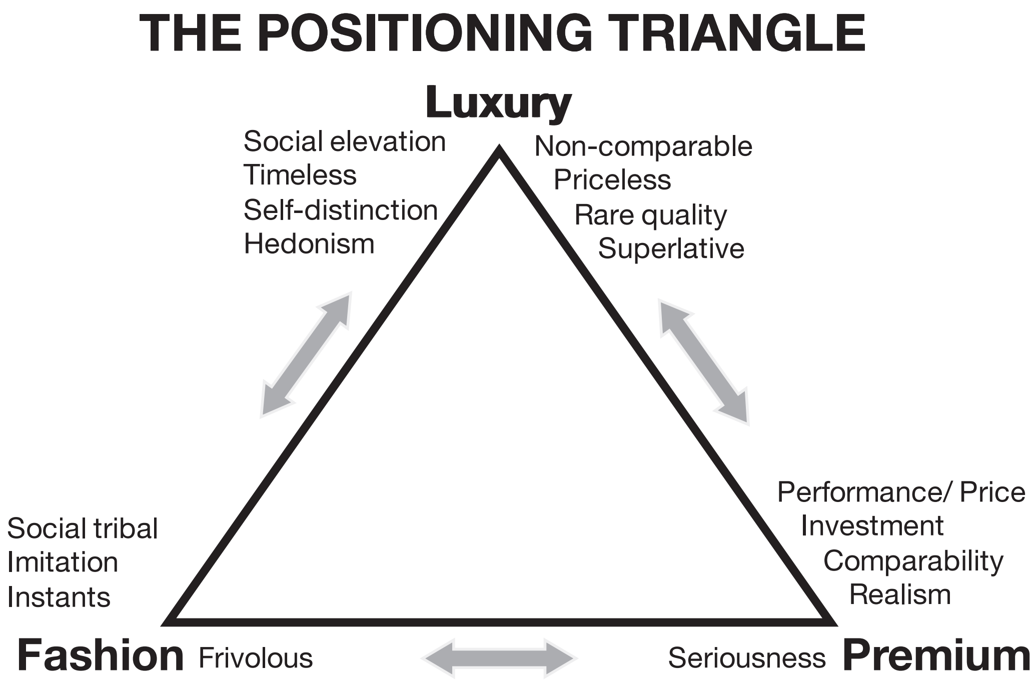

Figure 32.2 Positioning of three business models

Source: Adapted from Kapferer and Bastien, *The luxury strategy* (2012: 32), with permission.

which is why luxury evokes high prices in most countries (Godey, 2013). But the high price of luxury is special; it cannot be justified by function or performance alone. It is the price of singularity (Karpik and Scott, 2010), built by intangibles (e.g. heritage, history, country of origin, place). If it were based solely on tangible differences, such that every gap in price were justified by superior performance, it would be a premium or super-premium product (Kapferer and Bastien, 2012), not a luxury. The prices would be capped, because premium brands cannot access very high prices, due to their lack of intangibles or incomparability. Even very good wines cannot demand the high prices applied to Petrus or Chateau Pape-Clement, because they lack any sacred dimension. The same holds true for an Audi or a BMW.

Fashion brands are plagued by the threat of not being fashionable anymore. Their time perspective is necessarily short term, unlike luxury, which always thinks long term. Each season, fashion brands must make their profits quickly, often by leveraging artificial rarity (i.e. limited series, time limits) and the contagion of desire (Girard and Gregory, 1979). The margins must be huge in the early days, because after a few months, any unsold products (which are no longer fashionable) need to be sold at deep discounts or sent to factory outlets. The primary obsession of fashion thus is not quality; why invest in quality, if fashion is ephemeral? Although many clients call their preferred brand a fashion luxury brand, the business model is a fashion one, not a luxury one. Each of these business models also seems to attract different countries, as we reveal in Table 32.2. Most Italian luxury brands behave, quite successfully, as fashion brands, whereas US brands act as premium brands with a good image. French luxury brands carved the principles of a luxury strategy, which since then has been adopted by brands from across the world, such as Rolex, Ferrari, Patek Philippe and Tiffany's. They abandon traditional marketing rules to build their luxury brands, such that they follow the anti-laws of marketing.

Table 32.2 Cultural differences in business models

	French model	*Italian model*	*American model*
Typical brand	L.Vuitton, Chanel	Prada, Armani	R.Lauren, Coach, . . .
Value proposition	THE DREAM	THE TREND	THE LIFESTYLE
Communication	Heritage, creativity	Fashion, Live Italian	Stores as storytellers
Distribution	Exclusive	Selective	Mass Prestige, Factory outlets and Web
Excellence in . . .	Creativity	Fashion	Marketing
Production	Workmanship	Materials and craft	Mass produced, emphasis on design
Place	Made in France	Made in Italy, some made in China	Brand USA, made in China
Price level	Expensive No sub-brands	Segmented with sub-brands	From accessible to expensive trading-up
Level of control	No licenses	OK for licenses	OK for licenses

Source: The author

Is counterfeiting really harmful?

A side effect of the widespread appeal of luxury is the growth of the market of counterfeits, both deceptive (buyer is not aware) and non-deceptive (sold at a low price, the buyer knows it is not the original but a nice looking copy). The former cheat the buyer; the latter do not. With regard to the latter, counterfeits make the luxury dream and logos accessible to those who cannot afford them but want to be integrated. Objectively, they are the ultimate step to democratizing luxury (the preceding step being trading down through accessories; Kapferer and Michaut, 2014). In addition to being unlawful by principle, counterfeiting has another drawback, in that the value of luxury brands rests on their ability to select the right clients. When a brand evokes non-aspirational clients, it dilutes its social appeal. Objectively, the multiplication of counterfeits creates a risk of prejudice, because they diminish the all-important *exclusivity factor* that is required to sustain the value of luxury (Groth and McDaniel, 1993; Wilke and Zaichkowsky, 1999). Commuri (2009) demonstrates that luxury buyers in Thailand and India were affected by the multiplication of fake products on the streets. In this case, we recall that luxury is Janus-faced: for oneself and for others. The new rich from developing countries buy well-known luxury brands to differentiate themselves, but the prevalence of fakes threaten their source of pride.

But are counterfeits always bad? In some cases, they provide benefits to the luxury company (Ritson, 2007; Frank, 2011). Nia and Zaichkowsky (2000) demonstrate that non-deceptive counterfeits, whose price clearly signals that they are fakes, do not influence genuine brands' consumer-based equity. Many analysts also suggest that counterfeits contribute to build brand awareness, and Barnett (2005) argues that they increase the snobbery value of originals. In developing countries, counterfeits help educate the masses, by revealing who the prestige brands are and encouraging appetites for the genuine product (Bekir *et al.*, 2011). In developed markets, the presence of low quality luxury counterfeits increases consumers' willingness to pay for the originals (Romani *et al.*, 2012), but only for well-known, highly popular brands.

The future of luxury: is it sustainable?

Marketing research on consumers' sustainability attitudes and behaviours mostly focuses on FMCG products (Boulstridge and Carrigan, 2000; Carrigan and Attalla, 2001; Newholm and Shaw, 2007; Gupta and Ogden, 2009). This is reasonable; the volume of destruction is greatest in this market, with the most impact on planetary resources and climate. Some notable results emerging from this research include the attitude–behaviour gap, such that people express positive attitudes toward and desires for sustainable products but do not purchase them (Chung and Monroe, 2003).

Academic researchers also analyse fashion brands (Shaw *et al.*, 2006; Morgan and Birtwistle, 2009) and the extent to which environmental or ethical parameters affect the choices of consumers and producers. In the fashion sector, anything that is no longer fashionable gets wasted, which prompts strong criticisms. The growth of the fast fashion industry, as embodied by brands such as C&A, H&M, Target, Mango and Zara, is accompanied by devastating stories of work conditions in low wage countries, to which production is subcontracted (Black, 2011; Siegle, 2011; Cline, 2012).

Until recently (Bendell and Kleanthous, 2007), luxury had not come under the radar of sustainability advocates, nor did academics pay much attention, largely because the small size of the sector meant that it had a relatively small impact. Compared with the fashion industry, which purposefully plans for the obsolescence of its products, luxury promotes high quality, intemporal, lasting products and is willing to preserve the rare resources that create its uniqueness and value. Advertising for Patek Philippe explicitly highlights that the watches should be bought to be transferred to the next generation.

Research on luxury consumers' attitudes and behaviours relative to sustainability thus is just beginning (Gardetti and Torres, 2014). Are luxury consumers ready to integrate sustainable development as a purchase criterion? Empirical research suggests they are not (Kapferer and Michaut, 2013, 2014). Davies *et al.* (2012) also indicate that British consumers' propensity to consider ethics is significantly lower for luxury, compared with commoditized, purchases, though these authors use the phrase 'ethical production' instead of sustainable development. What factors might explain this low sensitivity of luxury buyers to sustainability questions?

First, these purchases are rare. Purchasing luxury is an exceptional act for most consumers. Thus, their perception of any impact their purchase might have is diminished. Second, luxury purchases offer rare moments of happiness. Consumers may wish to protect these moments, without ruining them with thoughts of dead animals or poor working conditions of the labourers who made the items.

Third, consumers might not know that there are sustainable luxury brands (for example Stella McCartney, who refuses to sell leather; Edun, which is managed by Bono). There is no familiar segment of brands called 'sustainable luxury'. We also add another reason, based on the preceding analyses: their high prices might signal that luxury brands must already take sustainable development into account, because they have to comply with stringent national laws. Although they call themselves luxury brands, some sustainable brands might be acting more like premium brands, in constantly seeking to prove and demonstrate their worth. Luxury and premium business models differ. Luxury brands cannot be compared, and they sell dreams. Premium brands are the 'best in class' on some criteria that need to be measured and compared. This distinction suggests a central question then: Do sustainable luxury brands offer sufficiently exceptional creativity to ensure their status as luxury brands?

Although we find no explicit demand for sustainable development in luxury sectors, it could offer a reason that people boycott brands that fail to ensure sustainable development. This promise represents a latent expectation, due to the high price of luxury items.

Furthermore, there is more to sustainable development than ecological issues. Slow growth and social harmony are two other pillars. The luxury sector reveals growing inequality in revenues and patrimony in emerging countries. Even in China, a socialist nation, 1 per cent of the population accounts for 30 per cent of its wealth (*BloombergBusiness*, 28 July 2014). Critics thus are addressing conspicuous consumption more closely, with less tolerance. The visibility of luxury stores stimulates these criticisms. Moreover, part of the remarkable growth of luxury in emerging countries is due to their high levels of corruption. To avoid being easy targets and scapegoats for growing social inequality, luxury brands need to better establish a gradient, from very accessible to inaccessible. But such a shift would largely blur the frontiers and make high luxury far less distinct. This is the main dilemma of the industry for its future.

Managerial implications

Luxury is a sector like no other. It is an expression of the dynamics of open societies, in which people seek to climb the social ladder and let it be known. But to build brands and sustain their luxury status, price is not enough. They must be purchased by the right persons, those who create a taste hierarchy. Classical marketing paradigms cannot apply. In an extensive benchmarking study of the most profitable luxury brands, Kapferer and Bastien (2012) identify some key features of luxury brands, such that they build their success slowly, by trial and error, and have invented alternative marketing approaches, radically different from the FMCG rules. Of the twenty-four anti-laws of marketing adopted by luxury brands, we excerpt some of them here for managers to consider:

- Forget positioning; think brand identity only (due to the intrinsic incomparability of luxury brands).
- Increase average prices to grow demand (due to the steadily increasing purchasing power of the middle class).
- If a product sells too much or too fast, discontinue it (otherwise the brand might become a fashion brand).
- The role of communication is not to sell but to refuel the dream. Unlike FMCG brands, for which purchases boost loyalty, purchase dilutes the luxury dream (Dubois and Paternault, 1995), and this dream must constantly be recreated.
- Communicate to non-buyers, a consequence of 'luxury for others'. If the luxury brand is not known beyond the core target market, it cannot create status value.

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