The Theory of Luxury Brands

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Abstract - The purpose of the paper is to make the reader aware of basic but very important terminologies used in the Luxury Industry along with the history of Luxury industry. The paper clarifies various jargons with real world illustrations. The paper further covers difficulties faced by the luxury brands like proliferation of vast counterfeit products market, e-commerce market etc. and provides suitable solution for the given challenges. The paper includes a case study on LVMH and discusses the birth of Louis Vuitton, its expansion and merger with Moet Hennessy and their further accomplishments.

1. The Definition of Luxury

The world is an extremely diverse place home to over 7 billion people. Each individual is unique in themselves as they have a different thought process, a different approach to life and varying access to necessary and leisurely resources and activities. People are divided across various classes based on their net wealth. The basic definition of “luxury” is a state of great comfort or elegance, especially when it is involving a great expense. But, this definition is highly variable. This is because for someone, a BMW sedan might qualify as a luxury, while for some, being able to drive a car irrespective of the cost is a luxury. Thus, we can say that luxury is a relative term and varies upon the end user.

Today, we define goods and products that are not necessary for an individual but are highly desired, as luxury goods. These are usually more expensive and are bought by individuals that have a greater income or have accumulated a lot of wealth.

Now, a luxury brand is one which mainly deals in goods which happen to be qualified as ultra-high end products with top notch quality, great durability and an ever more satisfying after sales support.

2. An Overview of Branding

2.1. Concept of Branding

It is easy to maintain brand awareness among people working in or inclined towards a specific label rather than among general consumers. Fashion enthusiasts tend to be aware of more labels while the people not into fashion tend to forget the well-known fashion brands. This phenomenon is known as Brand Recalling.

Potential luxury brands are generally evaluated by the following features:

- Price: Brands offer products that are on the expensive side when compared to the cost of the same product made by most other brands
- Quality: Products are made by some of the finest craftsmen and are stitched to perfection or carefully examined after being machine produced. The goal is to produce a long lasting product that does not lose its aesthetic look over time easily and use the best materials so that the product doesn’t just look good but also feels good
- Uniqueness: Luxury products are often manufactured in small numbers. A lot of them are specifically manufactured for the user as people paying the big buck prefer to be wearing something unique, something that can differentiate them from the rest. This is one of the main reasons why people buy luxury products
- Aesthetic appeal: Their products set new market trends. Good enough is not good enough here, products need to be perfect. Their beauty and elegance cannot be matched

2.2. Brand Awareness

Brand Awareness is the recognition of the brand among people. It is the degree to which consumers recognise products of a specific brand. Awareness among the people makes it easier for brands to market their products as a consumer would have to think twice before buying from a completely unknown brand. It helps in publicity by word of mouth. Well known fashion labels spread their awareness by hosting fashion shows and when a model flaunts one of their fresh collection, all people following that model get to learn about the label. Thus, indirectly all followers of the model are influenced towards buying from the collection. A major boost in this kind of marketing has begun since the burst of social media, as people started to follow almost every activity of their favourite celebrities through various media.

Brand awareness is classified into 2 types:

- Aided awareness is when people recognize a brand when it is mentioned among the list of other brands
- Immediate brand recalling refers to the brand which comes in the mind of people first, when a specific product is mentioned. For example, when
a person thinks about buying a high end Luxury watch, 9 times out of 10 the company coming to the persons mind is Rolex. This is how a brand builds awareness among the consumers for its products [1]

Building brand awareness is very important for a brand as this helps the brand in increasing its client base and brand value.

Some methods used to increase brand awareness among consumers are:
- Word of mouth
- Television advertisements
- Featuring in magazines
- Social media marketing
- Undertaking Volunteering work
- Organising sponsorship and launching events

2.3. Brand Loyalty

Brand loyalty is a measure of trust for the brand among consumers. It draws consumers towards their products repeatedly while making their customers feel reluctant from buying products of any other brand. They prefer the same brand over others even if the products of other might have superior quality and a cheaper price. [2]

Brand loyalty is one of the greatest ways for companies to ensure continuous sale of their products. Once in a while every company happens to make a product that does not live up to customer expectations. But, the truly loyal customers would still buy it whether it’s for their respect behind the story of the product or in order to complete their collection of all products of that collection. It does take a lot of effort to get a customer to be loyal to one particular brand only, but once this is done it becomes rather easier to make a sale. The company can thus divert more money to new customers and have to invest only a fraction of money to customer retention.

Brand loyalty is mainly developed post purchasing, and depends most upon these three things:
- Quality of products
- Quality of services
- Post sale support

2.4. Brand DNA

There are hundreds of luxury brands in the global market selling similar products but one of the factors which differentiate these brands is “Brand DNA”. It is the factor which makes a brand unique, just how human DNA is unique for every individual, each company has their own principles and policies from which they draw inspiration for their products and this is characterised by their DNA. Brand DNA portrays the brand's history, background, motive, and essence of their products. [3]

Diesel was founded in 1978 by Renzo Rosso. The source of inspiration for its name was to form an alternative trend in fashion, the name was inspired by the use of diesel oil as an alternative fuel to petroleum gas at that time. Diesel brought to market the more rugged look of apparel. They did this by grinding them against steam blowers, bleaching the material and inducing creases by machine or hand. This would make them look like they had been worn for years. Their objective behind this was more psychological meaning that people would buy these jeans to show others the hardships they have been through. The rugged look on jeans is similar to the scars on a person’s face. This was instilled in Diesel’s DNA and is still the core principle which inspires the design of their products.

Similarly, Fairy Fantasy is in the DNA of the French luxury brand Van Cleef and Arpels. Their products are made artistically. They elegantly convey love stories through their products. For example, their watch collection Pont des Amoureux incorporates a complex mechanism that showcases the poetic complications and explains the unique combination of sophistication and creativity that puts forth the idea about delicacy of an original design to tell a story. In this way brand DNA makes a luxury brand unique and differentiates one brand from the others.

2.5. Brand Codes [4]

Brand codes are visual facts which help to differentiate between luxury brands. These include logo of the brand, its name, store culture and the variety of products made by them. Codes are generated based on a label’s Brand DNA. These codes are followed by almost every company in the world whether they are in the luxury fashion business, in car sales or in mass apparel sales. The reason to have a set of these codes is to ensure uniqueness and only then would there be a reason for people to choose one company over another. [18]

Louis Vuitton's monogram pattern consisting of brown and beige squares is one of the finest and oldest brand codes. It was described as a Japanese inspired flower motif and was first introduced in 1896 by Georges Vuitton. The company patented their logo in order to prevent copying and illegal use of their products. Standing out from the rest of the market is very crucial to a brand and defines its image in the global market. Thus, brands strive hard
to make them unique, appealing and simple to understand.

Hermès started off by making products like wrought harnesses and bridles for horse riders, after which they expanded their business to a various range of products but showmanship of the horse riding business is still instilled in the very core properties in which the label believes and thus their logo represents a horse and a royal carriage which adhere to the preliminary products made by the company.

3. Why Luxury?

3.1. Why does one buy Luxury products?

Luxury products are the links which connect factors like extravagance, affluence, love for quality, affinity for aesthetics and uniqueness. According to a latest psychological report, in spite of increasing debt per capita in America, the sales of luxury goods are going up every fiscal year, showing the irrational spending behaviour of people. Owning a luxury handbag or a luxury car instigates the feeling of superiority and develops a sense of extravagance in the owner. Though many luxury goods cost a fortune, people still tend to get attracted to them and spend their savings on these goods.

A marketing Psychologist once reported that buying an expensive luxury product creates a sense of exultation in people. Owning luxury products stirs the emotion of complacency in buyer and they feel more stylish and affluent. A neuroscience research conducted by a reputed neuroscientist depicts the effect of luxury brands on human mind very well. For the research, a woman was put in the MRI machine which monitored her brain activity. Some cheap and affordable handbags were shown to her but her brain signals didn't show any erratic activity. Later, expensive luxury bags of Gucci, Mulberry and Prada were shown to her, which created erratic graphs and the signals recorded were similar to those created when a MRI of an addict is done. That means, the Luxury goods have created such an image in the market that people get a craving for buying the product the moment they set their eyes on them.

Apart from feeling extravagant, people also feel more confident when they use luxury products. Research has shown that when people wear clothes of a luxury brand, they feel more confident and find themselves more interactive then before. They can open up to people and also find it easy to talk to people who they think are superior to them. For the same reason, many people also wear luxury products like watches, perfumes, suits and ties of luxury brands when they go for interviews or when they have to give a public speech, in order to get a psychological advantage.

3.2. Why do people work in the Luxury business?

The luxury sector is a rapidly growing market with an annual turnover of around $339.4 billion. People having inclination towards high end luxury products, fashionable goods and glamorous work culture often find the luxury industry alluring. The luxury brands like Louis Vuitton, Versace, and Gucci have an eccentric work environment which is conducive to the efficiency of their production and operations. Designers working in the luxury industry find themselves in a position where their created designs and products are responsible for setting new market trends. Designers such as Marc Jacobs, while working with Louis Vuitton, had created range of products which are still trending among the consumers.

The vast luxury industry also give people working in it a global exposure. It allows them to explore different places, culture and understand the consumer behaviour in different parts of the world. Thus, people who want a career with opportunity to learn in a global context, finds the luxury industry very suitable. Also, people in sales and marketing, design, finance are paid very well in the luxury sector compared to other sectors.

Every luxury brand has its own history and a rich heritage. People working for them feel connected to their heritage and feel like a part of the long history of brand. Many students/people, often do internships in the luxury sector to explore the brand culture and to know more about the production and operations of these brands. Luxury brands like Louis Vuitton, Gucci, Michael Kors offers many internship opportunities so the students/workers can get acquainted with the work environment.

The store ambiance is a key factor to attract a huge workforce in the luxury industry. Decorative interiors, high end technologies, and sophisticated arrangement of products in the store makes luxury industry very appealing and inspires people to work here.

4. Methods

4.1. Product appellation

Product appellation is an art where there is no need to stick to conventions. The science of product appellation involves considering various things like psychological impact, brand appeal, target customer, market trends etc. The products’ name must resonate with its core characteristics and must be simple yet descriptive. It must not be a tongue twister and should also be easy for all global consumers to pronounce. [5]
Now, one might ask, “Why is a product’s name so important? A person is just buying the product for what it is and what it does, not what it is named after.” The reason that most brands give behind this is that most people do not buy a product only for what it is or what it does, but they buy because of the story and the inspiration behind it. Thus, the name of a product must be such that it tells a story or has one associated to it. This helps customer relate to the product easily and hence they buy it with a more emotional attraction which is much needed in order to ensure loyalty to the brand.

For example, Flora by Gucci was restarted by Frida Giannini as a collection of perfumes for younger women. The name was given such as the fragrance of this perfume was derived from various flowers and citrus fruits. Flora meaning plants instantly establishes a connection in people’s mind that this range of perfumes must be deriving its essence from flowers. They used Rose, peony, osmanthus and citrus fruits to come up with the best product. The location in which the product is sold and the age group to which it is sold is also important in determining the product name.

Similarly, one of Louis Vuitton’s most popular handbag style “Alma” is Spanish for “soul”. The collection has quite a tale to tell as it has been around for decades. It has adopted every rainbow shade, all sizes from BB to XXL and even been modified using the graffiti of Stephen Sprouse. Through all this Alma has still remained to be a perfect bag with its timeless design.

4.2. Store customisation

Stores are the gateway for luxury products to enter the real world. It is a place where the consumer gets acquainted with products. Luxury Stores instigate a feeling of royalty and extravagance in the consumer and this is a big factor to draw in more customers and ensure customer satisfaction. Stores showcase the history of the brand, its culture, authenticity, artistry and their work culture. The luxury giants invest lot of money in their stores in order to create an atmosphere that reflects their views and instil them upon their customer.

Generally, luxury brands have their stores spread across posh areas of the region with flagship stores located at historical landmarks of the specific country. The presence of luxury stores makes the region/city look more ostentatious and adds to the heritage of the place. Presence of Gucci, Versace, Bottega Veneta, Chanel and Fendi has made Milan the fashion capital of the world. The flagship store of a company is the paramount for every brand which encompasses its royal history and heritage.

Despite the recent rush in online shopping culture, the big brands are still expanding their store network in developed and emerging markets, trying to develop a bigger consumer reach, and increase capital as they believe the true identity of their products can only be perceived from a store and not from an e-commerce website.

Burberry has over 200 stores around the globe with its flagship store present in London. Despite which country their store is in, all of them have the authentic British heritage look which is present deep down inside the core values that the brand. The flagship store has seamlessly integrated technology throughout its 27000 square feet area. Full length screens are present all around the store and the customer gets to transition between audio visual content, live screens and mirrors. Burberry has also attached RFID (Radio-frequency identification) chips in their products so when a customer is approaching a particular product the sensor gets triggered and the information about the product gets displayed on a screen in front of the person and videos are played describing the function of product.

Hermés flagship store in Paris has luxurious interiors, systematic and sophisticated products display shows the customers its grandness and authority in luxury market along with a rich history. They have an appointment only process for buying handbags in their store. So, one cannot just walk into a store and expect to be catered to immediately. Though some might find this sort of rigid process harsh to the customers, Hermès claims that this helps them to cater to each individual’s specific demands and ensure complete customer satisfaction.

4.3. Brand collaboration

Brand collaboration or Co-branding is the alliance of two or more companies in order to share products, sales, profits, marketing expenses and other production expenses under a common name or merged name. Brand collaboration is a great way to expand client base, customer reach, market presence and turnover. It enhances brand exclusivity, heritage and generates additional sales on existing product lines and also raises brand awareness by creating buzz in the market. Luxury brands often collaborate with designers in order to expand their product range. Collaborating with designers helps the brand to bring innovation in their product design, start new trends, and capture the volatile market with their unique designer collection.

Donatella Versace, owner of Versace collaborated with young designer of Versus and since then the two are working together in the fashion industry.
Brooks Brothers collaborated with Thom Fleece to drive their high-end menswear collection. The collaboration solidified the place of Brooks Brothers in men’s’ fashion and redefined the usual sizes by numbers like BBO, BB1 and BB2. Glenplaid suits, morning coats and cropped khaki mac jackets were highlighted with cropped pants, bringing a new trend to the market. [6]

5. The proliferating Luxury Market

5.1. History of the Luxury Industry

Owning luxury products is a form of pride for an individual. The booming luxury industry was once a very small and inaccessible industry which was only accessible to the most elite and rich people along with their families.

In medieval period, in Britain, owning something expensive and not easily attainable was considered to be unpropitious. The word luxury was first used by English people, and was derived from the French word 'luxurie' which meant 'lust' and 'debauchery'. Luxury is often associated with wealth, indulgence and opulence, but the word originally meant unadorned 'lust'. In 17th century, the word luxury started gaining a more positive connotation. Eventually luxury was defined by the Latin word 'luxuria' meaning extravagance.

Until the advent of the Industrial revolution in 19th century, luxury goods were only in reach of people belonging to the royal families. As modes of transportation improved, new trade routes were opened and helped artists and merchants to trade their luxury goods to places which were earlier inaccessible. Merchants took this opportunity to start luxury production houses. In 1837, Thierry Hérmes started his company Hérêmes which made high quality wrought harnesses and bridles for trading carriages. Then, Louis Vuitton started his business of customized, stackable wooden trunks in 1854. This was followed by various designers starting their own luxury brands like Lanvin, Chanel and Prada. The luxury industry never looked back since then and is growing rapidly with increasing awareness among people about their high-end products. [7]

5.2. Current scenario

With the ever changing market needs and economies, the luxury industry has also shown a rather erratic behaviour over the years. The high-end luxury products often find it difficult to allure the opulent consumers in the time of economic recession. But with increasing per capita income and an increasing awareness of the luxury industry, it is growing rapidly.

According to the market studies, the luxury industry has shown a steady growth of over 3.8%, to an estimated $1.15 trillion in sales value in 2016. The biggest luxury market is USA, followed by Japan, Italy, France, China, UK, Germany and South Korea. US, with an estimated $74 billion market size, leads the luxury industry with others having market size of almost a third of US. New York is a major luxury products market followed by Paris and London.

Though USA is the biggest luxury consumer, over 75% of the luxury goods production is done in Europe. Presence of big luxury brands like Chanel, Louis Vuitton, Prada makes France the most important producer of Luxury goods.

LVMH group, consisting of brands like Louis Vuitton, Fendi, Bvlgari, Marc Jacobs conquers the luxury market with a revenue of $44.8 billion in 2016, with a growth in United States, Europe and Asia. Fashion and leather goods remains the major source of cash flow followed by customized retailing, watches, etc. Despite the changing economic trends, the luxury industry remains a fast growing industry with increasing brand awareness among the consumers.

5.3. Emerging Markets

The Luxury market, first started in the European countries slowly spread to the others. By, the early 2000’s it was well established in France, United States of America and United Kingdom. Earlier, only the very rich people could afford luxury, but now as we’ve seen more and more people are buying these products. This is both due to expansion into the accessories section and also greater availability of these products in all countries. It is an ever increasing market with companies opening up new stores regularly.

5.3.1. China

The Chinese market has been consuming luxury products since quite a while. But, it is still an emerging market and this is because the market was previously present only in the Tier 1 cities. The Luxury market in China grew by 4% in the year 2016 alone. That is to tell that the demand for these goods is increasing as the brands start expanding into Tier 2 cities as well. This can be because the primary sale of these brands in these cities is not of their most high-end products but of accessories like perfumes, belts, watches, etc.

5.3.2. India

Brick and mortar sales have been increasing in India in the past five years. India is a very diverse country with a huge population. Although a very small percentage of population in India is a customer to the
Luxury industry, a small part from a population of 1.25 billion people is enough to sustain the industry here. The luxury e-commerce market in India is growing at a rate of 25% and is projected to reach a value of $25 billion by the end of this year.

5.3.3. Thailand

After taking a downfall in sales of luxury products around late 2000’s, Thailand has seen a good revival in this market in the recent years. 20% of its population earns over $100,000 annually and this has contributed to the increase in luxury spending. It boasts a staggering internet penetration of 54% thus enabling companies to promote sale via e-commerce platforms as well. Certain brands like Dior, Jimmy Choo and Paul Smith have set up large boutiques here in order to boost sales.

5.4. Economics of Luxury Brands

Despite the continual struggle in world economy and the major economic meltdown in 2008, the luxury goods have maintained their popularity more or less the same and with an increasing yearly market size. Though, these events have brought down the sale of a lot of products, the luxury market seemed more or less unaffected. A deeper research shows us that this is because the primary consumer base of the luxury market hasn’t been affected much by these things.

In 2007 the wealth of the top 62 richest people was a little less than half the wealth of the bottom 50% population of the world. By 2015, these numbers were equal i.e. the top 62 richest people had a combined wealth equal to the bottom 50% of the world population [17]. Today, in 2017 we see an even higher increase in this gap. The world’s eight richest people have the same wealth as the bottom 50%. One can conclude from here that in spite of any economic downturns, the rich are getting richer and since the people who can afford these luxury goods are present very high in the chart of wealth possessed, they haven’t really been affected by “recession”.

While those people who spend lavishly in such times are often frowned upon, this market is very crucial to give economy a small boost. The raw materials and craftsmanship required to make these products keep receiving money even in tough times and hence a retailer who isn’t directly selling luxury goods is still having sale and not going bankrupt in tough times.

Also, most of the luxury good designers outsource their products. Sunglasses of Gucci, Louis Vuitton, Prada, Ray-Ban, etc. are all made in one same shop. A downfall in economy still keeps this market booming most of the times. With an annual turnover of over $1.30 trillion [16] and supporting more than a million jobs around the world, this is no doubt a very important support to today’s economy.

5.5. The Pyramid business model in the Luxury Market

The Pyramid model in the Luxury market illustrates the hierarchy of products manufactured by luxury brands. Most of which follow the pyramid in some or the other way in order to optimize production and maximize profits.

The top of the pyramid refers to the best in class products which are exclusively designed and created for top celebrities on special demand. Also, these products are used by luxury brands in top events, fashion shows etc. to display the supremacy of their products. This helps them stay unique and exclusive from other brands thus helping them stay in the “Luxury zone”.

The middle part of the pyramid refers to the general luxury products they make for consumers. These are exclusive but made in larger quantities than the top level pyramid products. These products include handbags, furniture, fashion apparel, watches etc. and are responsible for running the luxury business across the globe through store sales. Many of these products are customized and are made only on customer’s demand while some of them are manufactured in limited quantities to maintain their rarity in the market.

The lower part of the pyramid refers to the mass production products, luxury brands manufacture in order to maintain cash inflow. These products are generally affordable even by middle or upper middle class people. These products somewhat tarnish the reputation of a brand and bring them in the mass market sector, thus some luxury brands refrain from manufacturing these products. But in order to expand the business, it becomes necessary for them to make mass products and thus improve their annual earnings. Products in this zone of pyramid are sunglasses, perfumes, belts, wallets, shoes and other fashion accessories.

6. Challenges for Luxury Market

6.1. Vast market of counterfeit products

With the rapidly growing Luxury market, there is also a growth in the market of fake luxury goods. These lookalikes are a big threat to the brands. The biggest reason of the increasing presence of illegal market around the globe is lack of legal hold over the fake producers. With increase in social awareness for luxury goods, increases the covetiveness among people for them, and hence, they find the lookalikes
that are affordable which is mainly to flaunt in front of others.

The brands which are replicated most are Louis Vuitton, Chanel, Burberry, Gucci and Michael Kors. According to reports, the global fake luxury market accounts for 6-7% of overall luxury market with an estimated value of $21 billion, with watches, fashion apparels and handbags being the top sold items [9]. The counterfeits are produced at a very large scale in China, Thailand and middle-east. India is the largest market of the luxury counterfeits, with a whopping business of over $1 billion. These counterfeit markets create a big hole in the brands pockets as they spend millions of dollars combating the fake products by enforcing stringent laws and suing the manufacturers. Fashion brand Alexander Wang sued the owners of 459 websites who were selling their fake handbags, footware’s and fashion apparels, winning the $90 million judgement in a New York district court. Similarly, three luxury brands- Giorgio Armani, Gucci, and Casio joined a probe to destroy alleged counterfeits of these brands and to spread awareness among the people to buy authentic goods. [8]

With more use of fake luxury products, incidents of damages to humans and society because of them comes into the picture. Consumers face issues like skin burning, loss of appetite and other health disorders when they use fake products like perfumes and wines which are not of good quality. With no reliability, these consumers are often left alone as they cannot blame the brands for the mishap. Along with hurting consumers, the fakes also hurt brands’ image. Luxury brands spend millions of dollars in advertisements of their products but with plethora of fakes available in market, the authenticity of a real product decreases and even the affluent buyers feel reluctant to buy the legitimate product fearing that society would consider it a counterfeit, and thus, brands work hard to increase public awareness for the authentic goods and use various authentication codes on the products to make the product decipherable as genuine.

6.2. Threat from e-Commerce giants

With advancement in technology, new and easier sales methods are coming into existence. The technological evolution has led to a revolutionary idea of e-Commerce, where buying of apparel, cosmetics, fashion accessories etc. have become a click away from the consumer. With an increased focus on digital money, consumers find it easy and manageable to place orders online, without any sort of delay and cash limit. E-Commerce websites are proliferating at a very fast rate and increasing their customer base every second. Now, it’s possible to easily place an order of a US made product from India and vice versa.

This increasing market is a big concern for the Luxury industry. Changing shopping pattern among customers has left the Luxury industry perplexed with an immediate need to enter the digital market. This is a convoluted situation for luxury brands as they heavily rely on store culture for majority of sale. It’s impossible for brands to give the royal feel of stores to its customers through a virtual medium. Many CEO’s like John Idol (Michael Kors), have expressed their concern about the digital market and are unsure of the way to overcome this challenge. [20]

But keeping up with the changing trends is peremptory for these brands and thus, many luxury brands are investing a large sum of money for their digital expansion. According to recent survey reports, for the first time, people prefer to buy a luxury product from the store, but once they get the store experience, they tend to do further shopping online, and this changing behaviour among consumers is driving brands to invest more in the digital advancement. LVMH hired Ian Rogers from Apple in 2015, as a chief digital officer, in order to expand the group’s online retail. All creative houses under LVMH has selected their own approach to ameliorate their digital retail. Brands are coming up with sophisticated websites to create a good first impression and are making their websites more personalised, showcasing their brand culture and DNA, trying to give a more realistic feel to the website. To give more customized experience, brands are giving opportunities to online customers to appoint a personal designer. This makes the customer feel more connected to the brand.

With increased sources of information online, people search a lot before buying a luxury product and they verify the brand’s presence in the market. People compare brands in terms of price, popularity and social presence. This adds to another reason for investment in digital marketing for the luxury brands. Thus, all the major luxury brands have started posting advertisements and information about the brand culture, on various social media platforms like Facebook, Twitter and Instagram to increase brand awareness among people. They also pay fashion bloggers to write about their business and products. Louis Vuitton is the most followed luxury brand on Instagram followed by Chanel, Gucci, Dior and Prada.

6.3. Targeted customization

Reading customer’s mind and designing products according to their need has to be the primary aim of luxury brands. The biggest brands have large workforce working on constant innovation of products for the diverse market. The products must be relevant to the customers and brands should
acknowledge the mercurial demand of global market. The introduction of summer collection by luxury fashion houses is totally relevant for the geographically temperate places like Miami, France and parts of Asia, while the same summer collection has no worth in cold regions like Norway, Sweden, Canada and Russia.

Japanese people generally tend to use light and more floral fragrances while people in the Middle East countries are inclined towards strong fragrances. Around 90% Russian women use mascara, while women in the Middle East generally abstain from the use of mascara, thus showing how preferences for products vary with diversity. Hence, a fashion brand cannot introduce its summer wear collection in the Nordic countries, while a perfume brand cannot dispatch too many strong fragrances to the Japanese market. This shows how necessary it is for a luxury brand to customize their product according to the need of the local market. [21]

The only way to understand customer preference is by interacting with the target consumers and thus, now a days, many luxury brands are spending a lot of time and resources on extensive market surveys. Different regions, especially the metropolitan cities are targeted by the brands where they reach out to the affluent crowd to know their preferences and shopping habits. This calls in the need for Information Technology and Data Analytics in the luxury sector. Large amount of data is gathered by the companies in order to understand the customer behaviour and helps these brands gain knowledge of the local market which they later extrapolate in order to generalize the varying trends. But a major problem which luxury brands face is that the Data Analytic tools are apt only for an enormous pool of data, which works fine for the general retail industry, where products are sold in mass quantities at lesser price. For large retailers like Walmart, collecting data is an easy task as they deal with thousands of products. People, with more experimenting mentality, tend to try new brands, thus, breaking the barrier of brand loyalty. Though seemingly innocuous, it is a big threat to large number of luxury brands and results in huge financial loses if not taken care of. The brands often ignore the importance of old customers and are more interested in bringing new customers, trying to build their customer base, but every time a customer loses his/her loyalty towards a brand, the brand’s customer base contracts,Some luxury brands like Tom Ford have stated their concerns over the need of owning a store, which is a very difficult task for young luxury brands. Huge investment is required in opening stores which are hard to manage accompanied with the growing expenses of production, promotion, innovation and digitalisation. Although with the burgeoning online retail, brands are finding it possible to manage their sales through virtual media, yet it does not alleviate the need for stores. Having customized stores is mandatory for the Luxury brands in order to make a global presence. Various luxury brands come up with extraordinarily ornamented stores in posh locations in order to make shopping an ecstatic experience for their customers. The store is a medium for brands to make people aware of their culture and heritage.

It’s often difficult for a young and lesser known luxury brand to maintain stores and thus, they come up with franchises. Franchise is a business established or operated by a third party under an authorization to sell or distribute a company’s goods. This cuts down the costs for the brands giving new opportunities to young brands to expand.

Brands also form collaboration in order to sell their products through merger. In 2016, H&M collaborated with Balmain, a French haute couture house, to increase their sales and grow its reach in the market. H&M has previously collaborated successfully with Versace, Alexander Wang and Marni. The Swedish fashion brand has started a new trend of “masstige”, meaning the merger of mass market and prestige. [11]

Similarly other Fashion brands like Target also collaborate with Luxury brands and have been successful in selling entire collections within hours. Having a chain of stores gives monopoly over the operations to luxury brands, but collaborations often help the brands to maintain sales in the market through stores.

6.5. Maintaining Brand Loyalty

Another challenge a luxury brand faces today is maintaining brand loyalty among their customers. Though the brand DNA differentiates a brand from the rest, it isn’t enough to allure consumers to buy their products. People, with more experimenting mentality, tend to try new brands, thus, breaking the barrier of brand loyalty. Though seemingly innocuous, it is a big threat to large number of luxury brands and results in huge financial losses if not taken care of. The brands often ignore the importance of old customers and are more interested in bringing new customers, trying to build their customer base, but every time a customer loses his/her loyalty towards a brand, the brand’s customer base contracts,
Pricing of products plays an important role in maintaining brand loyalty among customers. Highly priced luxury goods are often considered to be made with utmost care and delicacy. If a luxury brand constantly puts a product on sale, it decreases trust among customers as they feel bad for having paid extra for a cheaper product. This was the main reason why Michael Kors recently closed many of their outlets, given the reason of persistent losses they suffered. Luxury brands are not expected to give discounts on their products because luxury was and will always be affordable to the affluent section of the society, and when a luxury product becomes affordable to the lower economic classes, it no longer remains a luxury thus losing its worth.

Many times people switch brands to get a different experience. Thus, brands keep innovating the store atmosphere in order to constantly entice their customers. Designers work on new designs and innovate their products in order to cater to customers with new products in order to keep them loyal to the brand.

7. Case Study – LVMH

7.1. Birth of the Brand

Louis Vuitton was born on August 4, 1821 in Anchay, a small town in east of France. His father, Xavier Vuitton, was a farmer and his mother, Coronne Gaillard was a miller. In 1837, Louis Vuitton arrived in Paris. While travelling to Paris, he lived in various cities and survived by doing odd jobs. It took him 2 years to complete his journey to Paris. In Paris, he started working for Monsieur Maréchal as an apprentice. Louis Vuitton became a valued craftsman under him.

At that time, horse drawn carriages, boats and trains were the main modes of transportation and luggage was handled roughly. Travellers called upon craftsmen to pack and protect their objects, and this was when Louis Vuitton came up with wooden rectangular shaped trunks and boxes which were stackable and made transportation of baggage very easy. After 17 years Louis Vuitton started his own workshop at 4 Rue Neuve-des-Capucines near the Place Vendome and he never looked back since then. [12]

Vuitton designed a trunk in a beige and red striped canvas in 1872. The design appealed to the affluent Parisians and helped the brand gain a position as a luxury brand. Louis Vuitton died on February 27, 1892 and left the control of the company to his son, Georges Vuitton.

7.2. Expansion of the brand

7.2.1. Georges Vuitton

The company was still gaining its control when Louis Vuitton died, His son Georges Vuitton had to take charge of the company. Now responsible to expand Louis Vuitton globally, he launched the signature monogram canvas and patented it. Georges travelled to USA to exhibit their products at the Chicago World Fair in 1893. He toured USA again in 1901 and introduced the Steamer Bag which got very popular in the American market.

Under his reign, the company opened its new building on the Champs-Elysees. It further expanded by opening stores in London, Bombay, Washington, New York and Alexandria. Soon, LV introduced Noé bag in 1932, which was made for champagne vintners to transport bottles during the world war. He introduced one of LV’s most popular bag, the Speedy, which is still very popular. Georges died in 1936, and his son Gaston took over the company. [13]

7.2.2. Gaston-Louis Vuitton

Gaston-Louis Vuitton, born on January 30, 1883, took charge of the company’s operation in tough times. The business of Louis Vuitton plummeted during mid 1930’s when World War II was declared. Many of their stores were forced to close down due to war reasons. Gaston, being in charge of the company, employed his three sons to oversee commercial, financial and factory management of the company.

Later, in 1959, Gaston worked on the canvas used in Louis Vuitton trunks to improve its quality. The new material was more durable and flexible and then, was widely used in wallets, purses, and luggage bags. This improvement led to a new revolution in Louis Vuitton’s product quality and became very popular among the consumers. [13]

7.3. Louis Vuitton Moet-Hennessy merger

Moet-Hennessy is a well-established French company whose product lines include popular names like Christian Dior perfume, Dom Perignon champagne and Hennessy X.O cognac. The French giants began their business about 250 years ago and soon became a leader in wines, perfumes and cosmetics. Claude Moet started the wine production near Paris and later bought the distribution centre, “courtier en vin” to control the wine distribution himself.
In 1743, Moet and Company was formed. With his son Claude-Louis, Moet expanded his business of wine and champagne and started selling champagne in Germany, US, Spain and eastern parts of Europe. Moet’s average annual sales were around 20,000 bottles during 1820’s which later reached a 2 million mark by 1880. He further stepped into the perfume market and gained control of Christian Dior, a leading perfume company in France. Due to large interruption in the production during World War II, Moet realised the scarcity of wine yards and later, in 1971, they merged with Jas. Hennessy & Company, France’s second largest cognac manufacturer. Moet-Hennessy expanded their business in America and acquired various local wine and spirit companies over time. In 1987, Louis Vuitton and Moet-Hennessy signed a $4 billion merger contract, allowing Louis Vuitton to expand in the liquor market.

The LVMH group has since then invested billions of dollars to acquire various companies and expand their business. The luxury sector was proliferating in China, Korea and Japan and helped the group build their base in Asia. Going through various ups and downs in late 1990s, LVMH was hit hard by the economic crisis in Asia. The demand for wines and champagne decreased all over Asia, shrinking sales of LVMH. Despite the slump in company’s performance, they remained confident that market will improve and it did in 1988 thus allowing LVMH to resume its growth. Between January and August 1999, LVMH’s share price rose 77 percent and their sales reached a mark of $4.2 billion, with a 16 percent growth from 1998. LVMH capitalised the growing market and continued acquisitions and build various subsidiaries like Edward Dillon & Co.; Christian Lacroix SNC; Parfum Christian Dior; Guerlain SA; Parfumes Givenchy S.A; Sephora France and many more. [14]

7.4. Marc Jacobs and his apparel line

Marc Jacobs, a Fashion prodigy, was born on April 9, 1963, in New York. By the age of 15, Jacobs started attending High School of Art and Design and also worked at a clothing boutique, Charivari. He continued his fashion education from Parsons School of Design and won Design student of the year award when he graduated in 1984, showing his top notch designing skills.

Jacobs’ work was appreciated by many fashion experts and his fashion sense culminated over time. In 1997, Marc Jacobs collaborated with Louis Vuitton and was named as the creative director of the company. Collaboration with Marc Jacobs opened new doors of opportunity for Louis Vuitton as they launched their first ready-to-wear collection in 1998. Jacobs came up with a new collection in 2001, centred towards contemporary arts, and inspired by Stephen Sprouse, an American designer. He created the Monogram Graffiti luggage lines and handbags. Jacobs’ collections were gladly welcomed by the customers and set new trends in the market.

In 2007, the company launched first collection of Marc by Marc Jacobs eyewear, a fragrance, Daisy and children’s collection called Little Marc Jacobs. Louis Vuitton’s portfolio includes Marc by Marc Jacobs womenswear, Marc by Marc Jacobs swimwear, Marc by Marc Jacobs eyewear, Marc by Marc Jacobs menswear, 2 shoe collections, 2 lens collections, a watch collection and 12 fragrances [19]. The star designer, who made Louis Vuitton a global fashion brand, left the parent company LVMH in 2013 after he presented his last collection, Swan song. The 16 year reign came to an end when Marc Jacobs left the position for Nicholas Ghesquiere, to start his own company named Marc Jacobs.

Marc Jacobs’ dexterity and Louis Vuitton’s brand popularity changed the course of fashion entirely and helped the company gain huge profit through their ground breaking, timeless collections.

7.5. Other brands taken over by Louis Vuitton

Today, LVMH has become one of the biggest luxury brands in the world and is divided into five subsidiaries.

- Wines and Spirits: LVMH has 21 different houses of wines and spirits in its portfolio. The oldest winery is the Clos Des Lambrays located in Morey-Saint-Denis that had been started all the way back in 1365. Other popular labels owned by them include Moet and Chandon, Hennessy, Krug and Belvedere.
- Perfumes and Cosmetics: LVMH owns 9 houses that include the very major historic companies like Guerlain, Christian Dior and Givenchy and even young brands like Benefit Cosmetics, Kenzo Parfums and Fresh. All of these are united under the same values for excellence, innovation and perfection.
- Watches and Jewellery: Divided into two parts, the former being producing high end luxury watches with best in class features while ensuring simplicity and the latter being designer jewellery for their customers. LVMH owns seven houses in this segment that are international dominators like Tag Heuer, Hublot, Zenith and Bvlgari. Each company excels in the kind of work they do ranging from the top notch innovation practises of Hublot to the timeless pieces of jewellery manufactured by Chaumet and Fred.
- Customer specific Retail: Retail for international travel customers is manufactured by houses of DFS while the other segment of personal fashion is headed by Sephora and Le Bon Marche Rive Gauche.
• Fashion and Leather goods: LVMH has been constantly innovating their products and setting new style statements in order to stay ahead of its competitors and also provide the best possible products to their customers. To ensure this they have maintained a diverse group of sixteen houses like Loewe, Berluti, Fendi, Givenchy, Christian Dior, Edun, Marc Jacobs and many more fashion labels.

7.6. Products

Louis Vuitton started off as a company for manufacturing wooden trunks for the high end luxury market. Later, the brand was expanded under his successors while increasing the range of products manufactured by the company. They slowly went from wooden trunks into the handbag business mainly for women. Even in today’s market Louis Vuitton is well known for its designer handbags that have been manufactured in all shades of the rainbow, various sizes and using all kinds of leather.

Slowly, Louis Vuitton’s market reach grew and it started acquiring its competitors. Today, Louis Vuitton is a parent of 70 other companies that they call their houses, making a wide range of products. Fashion and Leather products are its top sellers followed by watches and jewellery, wines and spirits, perfumes and cosmetics and customer specific retail.

They are also responsible for the dresses worn by a lot of actors, actresses and models on major platforms. Their designs are not only loved by the public but are also featured in various magazines like Vogue, Cosmopolitan, GQ, W, etc. Their products are reviewed and featured in various blog posts by fashion bloggers like The Blond Salad, Song of Style, Fashion toast, etc. [10]

7.7. Brand Ambassadors

With advent of globalisation and growing competition, marketing has become a crucial aspect for the luxury brands to promote their products and build brand awareness among the consumers. Various marketing strategies are adopted by the luxury brands in order to spread the word, but the most effective and most used strategy is to hire Brand Ambassadors. Luxury brands hire global celebrities like musicians, actors, directors, etc. to promote their products. Celebrities are the best way for a brand to adjust in the market. Before the product or the brand’s name, celebrity presence draws the attention of consumers and helps the brand set its foot in the market. It also promotes trust among people as they think the people they follow wouldn’t blindly be using a cheap product.

LVMH has a long list of Brand Ambassadors, they have hired very popular and eminent celebrities who have promoted their products in the international market. They featured Adele Exarchopolous, Alicia Vikander, Doona Bae, Jaden Smith, Jennifer Connelly, Lea Seydoux, Michelle Williams, Selena Gomez and Madonna to promote their collections and have received a lot of success in their campaigns.

In order to establish a firm hold on the Asian markets like India, China, Thailand, etc. Louis Vuitton has collaborated with local celebrities to promote their products in events, fashion shows and through magazine advertisements. In 2012, Fan Bingbing was announced as the spokesperson for Louis Vuitton’s Alma handbag line. The collaboration had an instant effect and sales of Alma bags skyrocketed in China. [15]

8. Summary and Conclusion

8.1. Summary

With a constantly fluctuating economy, varying market conditions and changing laws, there is sizeable uncertainty in the luxury market. The constant growth in number of affluent people worldwide is increasing global per capita income and hence the market is growing rapidly. This report incorporates the factors affecting global Luxury business and explains the reasons for dips and spikes in their sales figures. The report informs the reader with the history of how the luxury industry stepped into the world, and educates them about some of the basic terminologies used in the business.

Many brands have suffered with the advent of e-commerce and social media due to increasing competition and decreasing brand loyalty among the consumers. This report gives an overview on how brand loyalty can be used for the benefit of a company and how e-commerce has changed the course of sales and marketing for the luxury brands.

“How did LVMH become the world's largest Luxury brand?” is a question to ponder upon for many fashion and luxury enthusiasts. Here we see proof that persistence is key to success. Louis Vuitton would have never imagined his trunks company to be selling apparel. Though, the credit of establishing the company goes to him, today what the company has achieved is due to the years of hardship put into the company in order to transform it from a mere trunks seller to a world dominator. There is no doubt that the company has seen a lot of problems but the key was to keep going. They made bad decisions and bad products but they did not quit. Now, they stand in the position where they no more have to follow fashion trends. LVMH is the trend. Whatever they design automatically gets defined as the new trend and there are hundreds of fast fashion chains which follow them. The report covers the story of LVMH and
analyses the journey LVMH made to achieve the supremacy.

8.2. Conclusion

The theory of luxury brands starts with basic terminologies like brand awareness, loyalty, DNA and codes. Owning a luxury brand’s product gives a feeling of extravagance and royalty to the consumer. This is why people are drawn towards these products and wish to own them. Research proves that luxury products generate craving and addiction in people and makes them spend a fortune to satisfy this urge. Many people find the luxury industry alluring and they want to work in it as they feel more responsible and find themselves more satisfied while working here.

Various methods are used in order to operate the luxury brand successfully. Product appellation, or naming of product is an important step for successful launching of the product in the market. The name of the product should be easy to pronounce and should depict the story or inspiration behind the product.

Stores are a gateway for luxury goods to enter the real world and are heavily relied upon for major chunk of net sale. Stores are most important to create a spark in the eyes of customers and thus the stores are customized accordingly. The store portrays the brand’s culture, history, heritage and beliefs. Popular brands have their stores worldwide with flagship stores located at historical places in the country of origin. Brands often collaborate with other brands or designers in order to gain a stern hold in the market. Brand collaborations help the brands innovate their products, improve market hold and increase their client base.

The luxury industry came into existence in the 1800’s when transportation improved and it became easier for merchants to export their products. The industry was limited until the advent of Industrial revolution with only the most elite people forming its customer base. New and advanced machineries allowed mass production and helped the industry proliferate globally. Today, the luxury industry is booming in USA, Italy, France, UK, Germany and France. With increasing rift between the rich and an increasing awareness of the luxury market, brands are expanding business in developing markets like India, China, Brazil, Russia and Thailand.

One of the biggest challenge to the luxury industry is the growing counterfeit products in the market. The fake product damages the sales of luxury brands and also retards growth. These products slur the reputation of brands and often harm the users by their unreliable composition. Also, the changing customer’s shopping behaviour has been a big challenge for the luxury brands. With heavy reliance on store culture, these brands find it difficult to sell their products online as it becomes impossible for them to deliver a store-like experience to customers.

As brands go global, targeted customization becomes an important parameter to implement. With diverse population, varying geographical conditions, culture & consumer demands, companies have to customize their products according to the need of the local market, failing to do which may lead to losses and deteriorated brand name.

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