

## **THE REALITY OF LUXURY BRANDS**

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### **Abstract**

*The paper aims at demonstrating through published information and survey the importance and impact of luxury brands on clients on different markets. Their attributes, a complicated management and convincing strategies make them unique and desired. Unfortunately, counterfeit comes as a warning that entails the dilution of the brand and the examples are proving this. The outcome regards the future of luxury brands as a new class of consumers addicted to the digital is emerging causing the dilution of the brands. Nevertheless, luxury brands will remain a reality due to the increasing purchasing power that will always exist in the world.*

**Keywords:** exclusiveness, luxury consumer, developing markets, counterfeit, purchasing power

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The world is drowning in brands and they have been competing with one other for centuries. Luxury is fed with enthusiasm, passion and creativity. The relationship between the product and the consumer must be sincere and unique. Luxury brands are beyond the commercial, routine, far away from the usual. The economic crisis has changed the way consumers value luxury products passing from the tangible to the intangible, from superficiality to substance, from surface to details. That means a more intimate conversation with the clients. And this means better, more profound knowledge where expensive pieces of art are sold together with the luxury brand in the respective store.

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Several attributes (Turunen,2018) define luxury on the whole: there is story behind each brand, the story of the brand designer, of the first collection, of exceptional quality, originality, and on services, the location, the display of window shops, the attitude towards the highly qualified employees, as well as client loyalty

Luxury brands have always been fascinating (Kastner, 2014) and their management is rather complicated. To learn how to create a luxury brand, first we must find out what the world's great luxury brands are made of.

A relevant question is the following: what makes Louis Vuitton or Dior be preferred brands? (Corzine,2018) The answer: elements of scarcity- as the brands ration their products and accessibility- the strong identity-capturing its excellence-, the use of public figures, superlative stores.

There are three main reasons for the people who wish to buy luxury brands:

- Self esteem
- Differentiation
- The exclusive interest for quality products

Exclusivity is the most important and from the consumers' outlook having the possibility to get something special and to own an exclusive product and no doubt this means differentiation, power, acknowledgment. It is the way the consumer makes a statement concerning his way of living and his social status.

The idea of exclusivity is maintained by the fact that products in limited edition or made from rare materials or with a special design are extremely appreciated by this type of consumer.

The brand inheritance is also an important differentiator that determines the consumer to adhere to that brand. Many luxury brands have a rich pedigree and extraordinary histories. This turns into an inseparable part of the brand's mystique. This mystique is generally built around the exceptional legendary founder character of the past, making up an integral part of the brand story and brand personality. They're firmly rooted in a country's sense of self: so, Savile Row tailors and Rolls Royce play on their Britishness; Chanel or Veuve Cliquot and Cartier are French; and so on...

There are persons who are extremely selective even concerning the exclusive products and luxury brands. These are those who are looking for rarity, excellency beyond luxury. And this type of consumer has huge income,

an exhaustive culture and special life stories. Such consumers will exist in all times.

Louis Vuitton remains on top of luxury goods that can be found in few stores as rich clients are more and more interested in brands that are considered as being elite like.

Amouage House is addressing a restricted section of luxury consumer (Medhat, 2018) Amouage was established in 1983, when Qaboos Bin Said, the Sultan of Oman ordered Prince Sayyid Hamad bin Hamoud al Said to found a company to preserve the perfume-making traditions of Oman. He also wanted to have an authentic invaluable gift that would be given to the world's leaders when they visited the country. It has expanded its production to include body, bath, home and leather goods. All of them being luxury products encapsulating the uniqueness of the Orient. His Highness employed one of the world's best perfume producers, known in the trade as "noses", Guy Robert, who created the famous and expensive perfume Gold.

How does the consumer of luxury products think?

1. When you buy something of high quality you can feel the difference. The touch is different, the details are special.
2. " I bought a BMW or a Lamborghini in order to place the key on the table during the meetings"!
3. "I prefer to buy my watch directly from the expert producer than from a fashion brand"!

Let's take Russia for example. Among the 50 brands that are in great demand in Russia, 37 come from a European country. Cars are mostly on top 74% as compared to jewelry that have only 3%. BMW is on top and Aurus that has recently entered the market for luxury cars. As far as beauty section is concerned, it means Chanel, Lancome and Guerlain. The luxury goods chains with the largest number of stores in Russia are Swatch, Armani and Hugo Boss followed by Zegna, Michael Kors, Dolce & Gabbana, Gucci and Valentino. Moscow accounts for around 70 per cent of Russia's luxury market. TSUM boasts the biggest selection of fashionable goods in Russia and with the country's luxury goods market set to rise to £3.4 billion in 2018 ( Mitakos, Megan Doyle, 2018)

The examples can go on all over the world regardless the products. Perfect it is said about the Koenigsegg the car of 4.8 mil dollars, a Swedish high-performance sports car, the most powerful engine in a series produced car, in the world. The engine produced 488kW (655hp). Koenigsegg Agera comes with genuine gold-leaf trim being used inside and out, stuck onto the

tips of the wing, the exhaust, wheel nuts and rear grille. Inside, there's more gold leaf trim on the likes of the vents, although most of the cabin is finished in blue alcantara with gold piping. The nameplate affixed to the steering wheel is a piece of jewelry, too, made from 18 carat yellow gold and more than 150 diamonds. A new supercar is replacing the Agera being a no doubt the pitch of luxury! (Kew,2018)

In a world where the economic crisis is hovering like a black cloud, the luxury industry comes up like a premonitory oasis for the good and welfare. Robert Olorenshaw manager of Euro MBA program, Management of Luxury Brands is introducing us in a fascinating world where quality meets glamour in the world of genuine luxury by insisting on the fact that even if we can recognize intuitively a luxury product as being ...luxury, if we have to think about an exact definition, the concept might be a little slippery. Along the years there have been several attempts to give a good definition.

Very often the word luxury refers to a certain activity and then it is used figuratively. If we refer to a specific area from a socio -economic point of view, a good indication is being represented by price.

The role played by money in society was not very much different from that of luxury, meaning the purchasing power and the price decides whether a product is or not a luxury brand.

In conformity with the classic economic theory, the demand decreases when prices go up and vice versa. This is seldom applied to luxury industry where the phenomenon is opposite. A high price can stimulate the demand and this is no doubt a paradox. Distribution, production, relationship with time are paradoxes too.

The social function of luxury products is to maintain a certain social distinction by the flamboyant posting of objects. As far as the corporatist behavior is concerned for sure that the price is absolutely essential in the luxury brand management. However, the price is justified in the eyes of the consumers. Let us take the example of a leather coat Hermes (alligator) at the huge price of 125 000 euro. What justifies this price? Hermes is meant to take into consideration the vertical integration through the checking of the supply chain (the Hermes House owns its own alligator farms), production and distribution. The firms that are vertically integrated have reduced the number of intermediaries and they are able to practice smaller prices. Instead of reducing the price Hermes is raising it. So, what can justify a high price in the eyes of a would-be buyer? The answer is simple: the brand itself. Because this

coat belongs to Hermes the price can be correct or justified. And here we can make a difference between brand and product.

The economic crisis came as an incentive in order to push the luxury brands to an expression of ethical values even if this movement started before the 2008 crisis.

Even if the problem of social distinction is and will always be an important luxury point, almost every brand is involved in different programs of corporate social responsibility.

Let's take the problem of "bloody diamonds" from the beginning of the century that had a proactive role in making jewelry that has guaranteed the supply chain with diamonds from outside the conflict areas. This is the case of luxury group Richemont (Rapaport News 2018) (owner of Cartier, Van Cleef@ Arpels, Montblanc and other brands for watches and jewelry). It has a program of certification- Responsible Jewelry Council- that takes charge of problems related to the environment and people's right.

The LVMH group has a specialized department Environmental Affairs Department that unites brands for a joint purpose. Each brand LVMH has an environment officer who must encourage the brand towards campaigns that are to back the sustainable development and environment protection. The strategy of the campaigns depends on the generic code of each brand.

Let us then take the example of Guerlain. The founder of the brand Pierre-François Guerlain created a perfume Eau de Cologne Impériale, for Empress Eugénie and the marriage celebration with Napoleon III. The perfume was presented in a bottle garnished with 69 bees as this was the symbol of the empire. Ever since Guerlain launched many products associated with this insect such as Abeille d'Exception with the huge price of 12.500 Euro. The insect is therefore an important part of the genetic code of the brand that has entailed campaigns referring to the protection of black bees -Black Bee of Ouessant- a very rare species. The gelee royale, the mother bee milk is to be found in the component of the exclusivist products for skin care. Therefore, we can see that an environmental program that aims at defending a rare insect is an expression of the Guerlain AND.

Counterfeit is a real problem of the XXIst century mostly for luxury brands- fashion, perfumes, watches. It affects the image of a luxury brand and the consumers are eager to belong to the luxury world by any means.

Counterfeit is a major problem of luxury brands because it causes the dilution of the brand destroying the paradoxes of luxury, including that of the

price. Instead of paying 125. 000 euro for an alligator leather coat or 15. 000 for a Birkin bag you pay a very small sum of money.

The loss of market share is a consequence of brand dilution, a main consequence of this problem. The reason why the consumers buy counterfeit brands is very simple: if luxury creates a social distinction at which those who cannot afford are aspiring to or do not wish to pay the whole price then, they can resort to get counterfeit brands. Luxury creates dreams for million of people. Very often luxury brands bring people in a magic world, completely different from the real one, and here there are no professional constraints or of any other nature. Getting counterfeit brands allows people to imagine that they belong to that world even if the whole action is illegal and fraudulent.

The so-called BRIC countries (Brazil, Russia, India, China) have been a good source of income for European luxury brands but China was meant to be a major growing stimulator. China became the most important luxury market in the world. The Chinese tourists had a clear impact in the global industry. This is also interesting as we consider the location an important motivation for profit and for the sale regarding a luxury company. The USA was considered to be on top before the crisis of credits now, China is ranked first. According to China Daily the Chinese people bought luxury products for the sum of 8.6 billion dollars in the last two years. States in the Middle East as well as emerging countries such as India became famous for the import of luxury brands. These markets are considered to be the lifebelt for luxury as people will go on spending money on prestigious brands.

China is considered to be the greatest market for luxury products and it is no wonder that total sales for luxury products on the Chinese market have increased with 16 billion Euro this year. Luxury products are highly taxed in China and many Chinese people prefer to buy products from abroad. Stores in Paris, London, Milan satisfy the Chinese and they buy from Europe because products here are genuine.

The fields considered important in luxury continue to be maintained now. We refer to fashion, cars, buildings, yachts, art, hotels, restaurants, food products, wines. Taking a closer look at the major influence that some groups had such as LVMH and Kering we come into another stage. Until recently, the growth was accomplished by the buy- out of famous brands- prestige brands- as Kering did when purchasing Gucci or LVMH when including in their portfolio BVLGARI. These groups are focusing more on buying or investing in start -ups exactly as Nicholas Kirkwood ( shoe brand) did, where LVMH has invested since 2013 or Christopher Kane where Kering owns 51% of the

shares. Such brands appeal to young consumers of the Z generation, a valuable one for groups on a medium or long term.

Some years ago, luxury brands did not trust anything regarding the digital. The fear was to be understood as far as the digital was exactly what they did not want to represent, namely the accessibility. The image of a luxury brand is about inaccessibility: it keeps masses at a distance, so all those who can afford to buy must for sure feel to be special.

But recession unfortunately has overturned the plans for luxury brands so that they were compelled to be more attentive to retail statistics that were very unsteady. What did they realize? Well, the famous Fashion Houses were used to be the source of change themselves and unfortunately, they were behind the trends.

Within a couple of years, a huge change took place as an urgency regarding digital platforms. Now that luxury brands have embraced the digital era, they must face the fears related to the reasons that prevented them to do this so far. The digital platforms are not so easy to be used and if a brand does it in an incorrect way the outcome of democratization of the digital can have an unexpected effect on the brand. In case of luxury brands this effect can erode the aura of exclusiveness that had defined them along the generations.

The reason why luxury brands appealed to the on line is not difficult to guess. Why? Because the statistics reveal that 80% with those who earn more than 250. 000 dollars are social media users and 50% of them made use of the social media to find out about a brand or product. Such researches were done by Unity Marketing US ( Danziger 2018).

At the same time another study made by the consultancy firm L.E.K Consulting Boston, US outlines that those who earn more than 150.000 dollars are spending now more than they had done before the recession. From the strictly point of view of income the launching in online environments is perfectly justified. Many of the famous Fashion Houses have brands for beauty and accessories that are not haute couture and practically bring the largest part of the income. And where to advertise most a nail polish best of 20 dollars if not on line?

### **Is the on line diluting the brand?**

The question that remains is the following: how will the exclusiveness element of luxury brands get untouched within the digital environment? The dilution of a brand can have disastrous effects for it. The worst is that luxury brands are in a process of diluting whether they want it or not. Christian

Louboutin is experiencing this now when his famous red shoes lost their distinctive sign with the appearance of so many fakes that came up on the market and were promoted online.

Every time when the image of a brand is understood as changing in a negative way, this is immediately seen in the sales. The stylists in Hollywood will consider twice before dressing or putting on shoes on a star with a brand that can be bought by anyone.

If the websites and offers on social networks are promoting the less expensive lines of the famous brands, their image of exclusiveness might be affected. And if these luxury brands do not decide very quickly what they really want to promote online, others- the bloggers, the Twitter and Facebook users will decide for them.

The strategies of electronic commerce of luxury brands reflect what is happening in the physical world -this is Claudia D' Arpizio (2018) statement on her annual study regarding the luxury market. She considers that the luxury goods industry is in good shape. It is growing quite nicely in a very healthy way. And the market will grow 4%, 5% per year up to 2025 in the future.

The British luxury brand Burberry is among the initiators of the idea for taking over the control of its own representation online. Their site Burberry World includes a store online as well as exhibitions, social network and even special music that is being chosen. Last year the PPR group formed a joint venture with the global on line retailer Yoox and the latter was to manage the sites as part of brands held by Kering – Bottega Veneta, Yves Saint Laurent, Alexander McQueen, Balenciaga and Sergio Rossi, in order to help them develop as soon as possible.

D'Arpizio(2018) mentions that as in offline the online retailers can have the same role as luxury boutiques (Colette, in Paris, or Browns, in Londra), where the fashion enthusiasts purchase or can have even a stronger role because they can have interesting editorial content.

Luxury brands might reduce the addiction to multi brand sites by offering discounts or through flash sales. D'Arpizio outlines the fact that sites of outlet type and flash sales continue to extend as they add new brands to their portfolios but the famous luxury brands do not insist on this niche more than they had done so far.

Christine Cross(2018), chief of retail department and adviser for clients at PriceWaterhouseCooper (PwC), says that the multi brands sites such as those operated by top department stores can give luxury brands detailed information about their clients and about their purchasing strategies.

Wall street .ro analyzed what traffic is attracting businesses like Fashion Days, Homeycomb or Vivre, where the clients come from, how good the sites are for mobile platforms. Fashion days is offering a perfect experience on mobile 100 points according to Page Speed Insights that analyses more parameters according to which it its analyzed the importance of the mobile alternative of a site. The project attracts 900.000 visits/months, around 60% of the traffic comes directly- this is rare for E- commerce sites.

Rob Feldmann, (2018) executive manager of luxury brand Brand Alley, considers that high end brands he works with have become very important.

Online private sales website Brand Alley Group started to roll out across Europe.

Brand Alley is focused on crowdsourcing, and makes use of its online community to help promote young design talent.

As the concept of online private sales becomes more widely understood among consumers, the number of visitors converting to customers has risen.

Brand Alley's active membership – defined as customers who've visited the site in the past 12 months – was up 42.6% to 8.7 million in 2010, versus the 6.1 million of the previous year. Its number of unique monthly visitors rose to 17.8 million, versus 6.8 million the previous year. The UK business has 1.4 million active members out of a total of 2.5 million, and is collecting about 2,000 new members every day. We consider Bargain hunting as being the defining factor of the typical customer profile.

Around 80% of customers are women and they tend to shop via their iPhone apps maybe before and on their way to work. And not only. The Private sales remain important for Brand Alley but a broader product range and some content are among devices used to keep customers coming back. An online store can be created very quickly but it's about execution - offering the best brands at the best deals with the best service and delivery time, as well as the quality of the products and brands that are to be taken into account. In the French market this translates to a mix of private sales, catalogue and shop-in-shops. A fifth (20%) of revenues comes from full-price selling, and 40% is outlet catalogue and 40% is discount-driven private sales. In the UK, all revenues are derived from private sales but a catalogue offer is on the cards.

We consider that success in the online private sales sector will be through scale, not niche

Major e-commerce players are likely to add private sales to drive traffic and conversion

### **Conclusions**

The domination of the digital is increasing and the more successful brands will be connected with the life style of the consumers

We are becoming more and more exigent in future and interested in what we buy. After the digital revolution the next will be that of wellbeing – why? Maybe the society we live in, anxiety, depression make us change. Our life style has changed and so is the connection with the brands.

However, the luxury brands are resistant in spite of the world crisis that had made us spend less and be more careful. Those brands that will survive are the companies defined by the genuine luxury and they will outline the quality in their investment for the products on a long term. Lately, the luxury industry has evolved rapidly and the brands are extending and consolidate on mature and developing markets. The successful professionals in this domain demonstrate their gift to operate on a global market that is very complex. They will continue with mystery that offers exclusiveness as the most important attribute of a luxury brand and the very short display on sites or in magazines stirs up curiosity and comes as temptation. Luxury will remain a refined art de vivre, luxury communicates to build the dream and to recreate it, the experience must be exclusive.

We are to be more attentive to:

- \* democratization that tends to level the social stratum and allow masses to elitist products.

- \* globalization that levels cultures and so a luxury brand must keep its roots and production in the country it drew its origins otherwise it is no longer called luxury brand.

- \* the increasing purchasing power

- \* communication that allowed the masses to understand that they can access numerous possibilities, select, suffer from anxiety facing other options. More luxury brands are saying goodbye to exclusivity and say hello to accessibility. Most of the rich people chose to spend their money on and how much they are willing to pay for products and services has changed.

The luxury consumer is a mobile one. He thinks in cities not countries and is constantly on the move. With tourist spending now accounting for 60% of luxury revenues in France, 50% in the UK and 55% in

Italy, it is imperative for luxury brands to increasingly think local and learn to connect on deeper cultural levels, to ensure continued custom and loyalty.

But nevertheless, the rich will continue to spend; it's what they do best.

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