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Kapferer on Luxury

How Luxury Brands Can Grow Yet Remain Rare

Jean-Noël Kapferer

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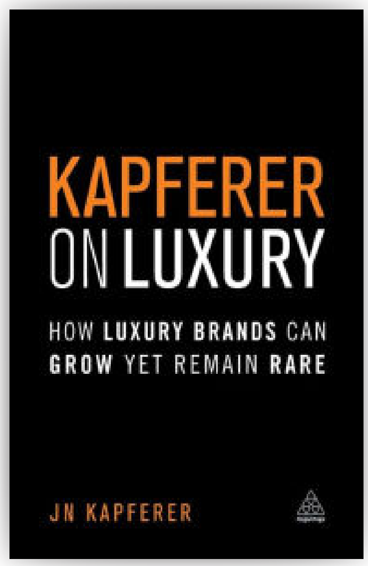

Key Concepts

Luxury brands are noted for their rarity, exclusivity, and exquisite craftsmanship. But as times change, luxury brands must uncover new ways to maintain their statuses while expanding globally and increasing profits. Specific challenges include:

- *Delocalization*: Many brands pride themselves on being made in their countries of origin. However, when manufacturing costs rise, the temptation to move operations to cheaper countries presents itself.
- *Internet presence*: The barriers of entry that are the hallmarks of many luxury retail stores no longer exist on the Internet. Luxury brands face giving up their traditional ideals while embracing the Internet, or else they appear to be behind the times.
- *Pricing*: Every person has his or her own idea about what price point makes something luxurious. This makes it difficult for luxury brands to reach their target markets while still expanding and increasing their customer bases.
- *Sustainability*: Going green is an essential aspect of many modern companies today; however, luxury companies often find it difficult to source environmentally friendly products while still maintaining their expected levels of quality.

Summary

Introduction

In **Kapferer on Luxury**, Jean-Noël Kapferer highlights the struggles that luxury brands endure in keeping up with global growth and expansion. As countries such as China experience exponential financial growth, the demand for luxury items continues to increase. Luxury brands must maintain their statuses as small, family-owned businesses in a world where mass production, social media sharing, and pressure to conform to different cultural standards is abundant.

Part One: How Luxury Is Changing

Sustaining the Luxury Dream

Selling dreams is the core mission of the luxury sector and its brands. Consumers purchase specific brands in order to feel like they are part of an exclusive club. This allows luxury brands to command nearly any price for their products.

Historically, luxury was made for the few: it was the ordinary life of extraordinary people. In today's consumer landscape, luxury faces a tsunami of demand.

Despite poor economic times, luxury brands have experienced considerable growth. Individuals who are considered the "new rich," particularly in booming countries like China, are the top consumers of these luxury brands and want to use them to show off their high statuses. However, sustaining this consistent growth can be problematic. Part of the luxury dream is based on the notion of rarity, and as the luxury sector grows, luxury products, services, and brands become less rare. This is a reassuring and welcome change for members of the middle class, but decidedly not for the new rich.

Abundant Rarity

The future of the luxury industry is particularly bright in the BRIC countries (Brazil, Russia, India, and China). Gross domestic product (GDP) growth in these countries is high, and growth in the luxury market has historically followed the GDP.

Fast-paced retail expansion sounds positive, but it threatens the premise that luxury items should be rare. Luckily, there are other ways to achieve rarity. *Virtual rarity*, for example, is artificially induced. A fashion brand may sell its fragrance to the mass market, giving everyone a sense of luxury and improving the company's bottom line, all while simultaneously keeping the brand's other items at a more distant reach from the masses.

The Artification of Luxury

Recently there has been a push for luxury brands to associate with artists, galleries, and museums. This is because these brands are attempting a form of *artification*—the transformation of non-art into art.

Keeping the artification process alive and well is key to global expansion. Luxury brands can use art as a way to enter new countries or to rejuvenate their brands. For example, in Japan, Louis Vuitton, Hermès, and Chanel have embedded contemporary exhibition spaces in their new flagship stores. Many museums and auction houses around the world have also been seeking connections with members of the luxury sector.

Part Two: Specific Issues and Challenges

Luxury after the Crisis

After the 2008 economic crisis, many luxury buyers expressed a need to downplay their luxury purchases to avoid moral condemnation. They insisted on logo-less shopping bags and much more subdued forms of brand recognition on the products they were purchasing.

However, the status needs of different market segments are not the same. The super wealthy already have established statuses, so they often prefer brands that hide their logos. Those with money but no status, or those with less money, prefer showing off their luxury brands and want to see and display the logos prominently. Luxury brands grow by examining and catering to all the different segments.

Why Luxury Should Not Delocalize

The current trend by some luxury brands to close local factories and outsource to China or other countries is the hallmark of a fashion strategy, not a luxury strategy. The luxury business model differs greatly from the fashion and other premium business models. Some of the traits of a true luxury business model include high levels of craftsmanship and quality, full control of the value chain and retail experience, super sales and promotions, a constant increase in pricing, strong involvement with the arts, and a cautiousness toward celebrity exposure. When luxury brands veer from these guidelines, they start to lose their luxury statuses.

Growth is the biggest challenge for a luxury brand. Luxury brands should not endeavor to remain small; yet they face a real challenge of growing while remaining a luxury brand.

Internet and Luxury

Luxury brands have been very conservative in how they present themselves on the Internet. Things change at a very fast pace on the Internet, but luxury brands tend to move slowly and think more long term. While luxury brands value time, space, and exclusivity, the Internet breaks those barriers and fosters a sense of collaboration and sharing.

Still, the Internet has great potential for helping luxury brands gain exposure and build brand awareness around the world. Videos are the best way to convey brand stories and cultures, and the Internet is the best way to distribute them.

Although the Internet can be a helpful tool, it also results in a loss of control. The barriers imposed by luxury retail stores do not exist on the web. Communication on the Internet, particularly via social media, has led consumers to feel as if they are friends with the brands they communicate with. This again decreases luxury brands' exclusivity. To combat this, luxury brands need to continue to define their own digital strategies that position them as luxurious and exclusive while still meeting the needs of consumers.

Does Luxury Have a Minimum Price?

While people define "luxury" in many different ways, the one aspect most agree on is that price plays a huge role. When a group of people were asked if a 50-percent price reduction on a luxury item made it less of a luxury, 55 percent said that it did.

There are three main anchoring points most people use to decide if a price is considered luxury:

1. Their household budgets.
2. The price of the luxury item in comparison to a similar premium brand item.
3. The entry-level price of the luxury brand.

The strategy behind pricing luxury items does not state that the brand must be the most expensive on the market. There are many different price points that still qualify brands as being luxury; brands must simply study their target markets to determine the right pricing for their products.

All That Glitters Is Not Green

Luxury brands have been criticized for not keeping up with the sustainable development (SD) movement. Some even believe the two industries are at odds with each other. Luxury and SD are both concerned with rarity and beauty, but critics continue to condemn luxury purchases because they are seen as irrational, excessive, and a signal of inequality.

Part Three: The Business Side of Luxury Brands' Growth

Not All Luxuries Act Alike

The luxury sector is attractive to corporate investors because of its extensive and continuous growth over the last 30 years. However, the business models that are utilized by luxury brands differ depending on the manner in which they deliver value to customers, entice them to pay for that value, and convert those payments into profit.

There are four basic operating principles used in the luxury sector, and each luxury brand has adopted one:

1. Masstige (mass prestige).
2. Fashion.
3. Premium.
4. Luxury.

Most American luxury brands fall into the masstige operating principle. For example, Ralph Lauren and Coach promote a "luxury for all" vision with accessible prices and discount channels. Italian brands tend to use a high-fashion operating model. They feature service and a reference to "Italianness" in their promotions. German brands tend to use the premium model, which focuses on innovation and product performance. French brands still use the true luxury operating principle, which focuses more on history, heritage, and privilege.

The LVMH-Bulgari Agreement

When luxury group Moët Hennessy Louis Vuitton (LVMH) acquired Bulgari in 2011, it signified a major change in the luxury sector. Traditionally small, family-owned luxury companies find it difficult to expand to BRIC countries because of the demands these huge new markets place on them. Family-owned businesses also often face the issue of not having heirs to take over in the future. These issues necessitate a change in strategy for companies that want to keep pace with the global economy.

By choosing to go with a luxury group like LVMH, Bulgari and other brands are able to leverage their products and achieve high-growth targets without diluting their names and other intangible qualities that make their brands unique.

Developing Luxury Brands within Luxury Groups

The usual benefits large groups acquire, such as cost reductions and leverage with suppliers, do not seem to be the main reason luxury companies seek out such partnerships. These large luxury groups appeal to small luxury brands because they are searching for *synergies*, or the effect when the combined return of two or more parts together is greater than each part individually. There are many different types of synergies, including operative synergies, market power synergies, financial synergies, and corporate management synergies. However, forming too many synergies can often cause underperformance, and sharing resources can reduce how brands are held accountable for their own performances.

Features of the Book

Estimated Reading Time: 4–5 hours, 240 pages

Kapferer on Luxury by Jean-Noël Kapferer features a combination of essays and articles that discuss the future of the luxury goods industry. Kapferer is a noted expert in the field and brings a wealth of knowledge about luxury marketing and growth. A number of charts, tables, and other figures help illustrate the points made throughout the text. The book also includes an index and references throughout.

Contents

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About the Author

Jean-Noël Kapferer is one of the world's foremost thought leaders on luxury and its brands. An active researcher with an MSc from HEC Paris and a PhD from Kellogg School of Management (USA), Kapferer is coauthor of *The Luxury Strategy*, and has published many seminal articles on luxury. He leads seminars around the world at institutions including HEC Paris, Tsinghua University in Beijing, and Seoul Luxury Business Institute, and is an advisor to the President of INSEEC Group (Paris).