

Thesis introduction luxury goods



What is luxury? Nowadays this is a very common question asked by a lot of people around of the world, maybe in the past it was asked by less people. In order to investigate why so many people are interested in it has increased highly I will give the interpretation of the concept of luxury that has been showed in several forms since the beginning of civilization in different cultures.

We find a lot of definition of luxury goods from qualitative prospective because there is not a clear delimitation and definition of characteristics that a luxury good should has. Usually a luxury product is considered as a good at top level in the market both in terms of quality and price (Wordiq, 2004). Then we could also say that a luxury good usually has very high price. It is considered as such by the marketplace, without any clear functional or tangible advantage over its “ non-luxury” similar goods(Dubois & Duquesne, 1993). Then Classic luxury products are composed of haute couture items such as clothing, elegant shoes and beautiful accessories for women or men. These kind of items are often considered as status symbols as they tend to mean that the purchaser is very rich (Wordiq, 2004).

But in economic and marketing literature there is a lot of confusion, many marketers the concepts of luxury and prestige interchangeably. For instance words such as “ status” (Grossma & Shapiro 1988), (Mason, 1996), “ Hedonic” (Dhar & Wertenbroch, 2000), “ top of the range” (Laurent & Dubois 1993), or “ signature” (Jolson, Anderson & Leber, 1981) have sometimes been adopted in the literature, then “ luxury” and “ prestige” are by far the most widely used terms in to order to indicate luxury brands that possess substantial intangible value for its consumers.

WHAT IS LUXURY GOODS AND ITS CHARACTERISTICS

‘Luxury includes two levels of representation. The first is material, it includes/understands the product and the brand (its history, identity, unique know how, the talent). The second level is psychological. . . and covers representations, which are influenced by our social environment and the brand values’. Gutsatz (1996)

This perspective is reinforced by Jackson (2004) who argues that the luxury fashion brand is: ‘characterised by exclusivity, premium prices, image and status, which combine to make them desirable for reasons other than function’.

The origin of the modern word luxury derive from the Latin word «luxus» directly and means “sumptuous, ostentation, riche” (Le petit Larousse, 2004). On the other hand the word Prestige means “seduction, attraction exercise by one person or one thing” (Le petit Larousse 2004). Prestige is based on unique human accomplishment inherent to the brand whereas luxury refers to benefits stemming from refinement, aesthetics and a sumptuous lifestyle. Finally “Top of the range” indicates place on the top and inaccessible product because of its price or limited availability. So few people can effort to buy of type of product.

The luxury good is different from mass products because the former is considered to have special qualities, features or attributes intrinsic to a product, while mass product whose value is mostly related to its physical characteristics.

A luxury good could be characterized by various variables according to a research made by Prof. Marie Claude Sicard (2003).

Physical: luxury products are made of rare or expensive ; the manufacturing process is elaborate in a way in order to produce products at top level of quality.

Time: they are timeless, last forever, rarely outdated.

Distribution: symbolic selling point.

Norms: techniques during the manufacturing process should guarantee a high level of quality. The norms of ostentation, guarantee that luxury is visible. The norms of prestige provide success to its consumer.

Position: The positioning of luxury products has objective as superiority .

Project: The final luxury goods have high quality in term of techniques and design. It can represent a dream .

Relation: The relation between the purchaser and the product is mainly emotional and very ritual.

According to a study made by (Allérès, 2004) Luxury products can be classified in two subsections again: inaccessible luxury goods and more accessible luxury goods .

In order to generate an inaccessible product, we can find that different kind of refined materials are used, new ideas are selected. All these conditions effort to create a unique and timeless product. It gives high social status to its consumers. These products are limited, inaccessible, and for the richest elite. For example haute couture in France or in Italy. (Allérès, 2004).

While an accessible luxury product is made with less perfect and less noble raw materials than inaccessible ones. This kind of products are addressed to consumer with middle level of income.

It might also be the imitation of a rare product of high luxury after their launching . They are target to a larger segment of consumers, so their materials are less exclusive and less expensive than inaccessible luxury goods ones. The more a luxury product is accessible, the less it is exceptional, the more the manufacturing is eased and the more it is distributed (Allérès, 2004).

The distribution of Inaccessible luxury products is very selective and hard to find because it is chosen in accordance with the image of product and the brand that the company want to have in the mind of consumers.

The Price of Inaccessible luxury products is not competitive, but companies do not use this variable to compete to each other. While accessible luxury goods usually have a middle price because their cost of production is

relatively low . Not always high price means luxury product, but a luxury product is often expensive (Allérès, 2004).

LUXURY GOODS FROM ECONOMICS POINT OF VIEW AND CONSUMER BEHAVIOUR IN GENERAL

From economics science point of view, in particular from Neoclassical Microeconomics ones. According to this view every product has its own demand function that refers to how much (quantity) of a product or service is desired by buyers . The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship. It is common to have an proportional inverse relationship between these two factors : where at higher (lower) prices, less (more) quantity is consumed at proportional level. Then this relationship can be measure by price elasticity of demand that is the ratio of the percent change in price to the percent change in demand (quantity) variable. It is a tool for measuring the responsiveness of a function to changes in parameters in a unit-less way. If the elasticity is bigger than 1 then the demand is called “ elastic”; if it is between zero and one then the demand is “ inelastic” and if it is equal to one, the demand is called “ unit-elastic” .

We can we the same tool to measure the relation between demand and other variables such as income, distribution and so on. For instance, it is common to have a direct relation between demand and income: with a normal good demand varies in the same direction as income at proportional level.

In the case of luxury goods, demand (quantity asked) increases more than proportionally as income rises, in contrast to a “necessity good”, for which demand is not related to income or to a “normal good”, for which demand is proportional related to income. Hence Luxury goods, as I said above, have high income elasticity of demand. For instance, as consumer become richer, they will purchase more and more of the luxury good. This also indicates that if there is a decrease in income and its demand will collapse quickly because these are these items of discretionary spending. So in economic recession periods consumers always decide to stop buying them in order to rebuild savings and to improve their household financial balance sheets.

Income elasticity of demand is not constant respect to income, and it may change sign at different levels of income. Hence, a luxury good may become a normal good or even an inferior good (its demand and income move in opposite directions) at different income levels. For instance, at such an income level a wealthy person stops buying increasing numbers of luxury yacht for his collection and starts to collect luxury motorbikes, so at this point the luxury yacht would become an inferior good for this lucky person.

Then in economics, some Luxury goods, such as high-end wines, designer handbags and luxury cars, are considered as Veblen goods that category of commodities for which people’s preference for buying them increases as a direct function of their price, as bigger price confers greater status, instead of decreasing according to the law of demand. In some sense we can find reason on the snob effect that means there are people who want to use exclusive products and believe price is equal to quality; or on the bandwagon effect that means people’s preference for a good increases as the number of

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consumers buying them increases. Actually none of these effects in itself explain what will happen to actual quantity of goods demanded as prices change because the actual effect on quantity demanded will also depend on other factors such as availability of other similar goods, their prices and so on.

Again some luxury goods can be classified as positional goods that are products and services whose value is mostly related to their ranking in desirability, to their comparison respect to substitutes. Hence we say that the value of this kind of good is related to its position in consumers' minds. The term was coined by Fred Hirsch in 1796. Examples of positional goods includes high social status, a reservation at a prestigious theater, an admission in an important university, and so no. So they are goods that earn economic rent or quasi rents. And the Competitions for positional goods are zero-sum games because the availability of such goods are very limited , at least in the short run. Attempts to take them can only benefit one player at the expense of others. Then this category of goods cannot be generated en-novo, but only redistributed among people, instead of material goods that can be created with time and capital.

However, most luxury goods have both a positional and a material component. For instant, exclusive luxury bags in very limited edition created by some very famous brand may be considered to be inherently scarce because one's perception of these luxury bags depends on its relation to other normal bags, but there is still an absolute value attached to satisfaction gained comfort by using these exclusive bags.

The Chinese Luxury goods market

China is considered by a lot of market players and academic researchers to reach numbers to become the second biggest consumer of luxury goods in the world by 2015. In order to understand the Chinese luxury goods market trends and dimension the following figures calculated by (the PRC Ministry of Commerce) can help to make clear the idea: in 2007, Chinese retail spending reached ¥8.9 trillion (\$1.3 trillion), up 17 percent respect to 2006, while in 2008 Chinese retail sales hit ¥10.9 trillion (\$1.6 trillion), up 21.6 percent year on year. Growth in Chinese consumer spending will likely slow during the first half of 2009 but will remain fairly strong. In other words we still have a double digit growth in this market which represent great opportunity for both foreign and infant national luxury companies. The Chinese luxury consumption should rise from 12 percent to 29 percent by 2015 in a global luxury market which value is estimated around US\$80 billion a year according a study conducted by investment bank Goldman Sachs. Hence China will become second only to Japan .

Luxury goods markets are facing dark prospects in North America and Europe because of the effects of the economic recession at global scale. Also China is influenced by the effects of the economic crisis, and all its related effects such as stock markets crash, and exports decline. But consumer spending in China still keep a very strong positive trend. We can find reasons in different types of issues. For instance at macroeconomic level China's economy is gaining a strong competitiveness not only at merely cost saving level and the Chinese government policies established to stimulate consumption will also help keep luxury sales at high level.

So in this period of reduced demand of luxury goods, luxury brands companies are turning to China as a potential strong hold for consumer spending in the next following years. A lot of successful luxury players at global scale have already moved to China such as LVMH Moet Hennessy Louis Vuitton SA that has reported that there is a “ very dynamic” growth in China, led by strong numbers from its leading brand, Louis Vuitton. Again according to LVMH’s 2008 Annual Report China has already become the second biggest customer base for LV brand worldwide . Moreover , LVMH’s wine and spirits brands, which have been struggling in other markets, enjoyed “ exceptional” growth in China in 2008, with particularly positive performance has registered with cognac maker Hennessey.

Louis Vuitton, which is considered as the most favourite brand in Asia, has established its first store in China in 1992. In a interview Mr. Stewart of Jigsaw said that: “ LV is very clearly, explicitly, top-end luxury.” LV chosen to launch its marketing campaign based on publicity events of huge-scale and on establishment of its shop on top locations , in a nation as China where top locations are very difficult to pinpoint, the status of its shops is unquestionable. For instance, its Shanghai flagship is in Plaza 66, a building where are concentrated other top brands.

Another international top-performing brand on the Chinese mainland is the Italian Gucci . which has 16 stores on the mainland, recorded sales growth of more than 65 percent in 2007. Gucci is classified as the second best seller in Asia, excluding Japan, after LV in the last two years according to to Radha Chadha and Paul Husband who wrote The Cult of the Luxury Brand. In an interview with the South China Morning Post of Hong Kong Chief Executive of <https://assignbuster.com/thesis-introduction-luxury-goods/>

Gucci Mark Lee said that the Italian retailer opened six stores in 2005 and last year, and has projects to will enlarge its mainland business in the next following years. Gucci Group's global 2008 sales were up about 8 percent over 2007, with the highest growth rates coming from Asia and led by China. According to a 2008 annual report, Gucci's sales in Greater China grew 42 percent over 2007. Last fall, the company said it expected steady consumption growth in China and other emerging markets and would likely continue to prioritize these areas. Reasons for luxury's success Consumer spending-and demand for luxury goods- has remained strong in China for several reasons.

The CEO of Gianni Versace SpA, Giancarlo Di Risis reported that the last November his company does not believe to be heavily influenced by the economic recession because of its top position in the luxury market and superrich clientele whose spending level still remains very high. Di Risis is extremely optimistic about positive trend Chinese economy , even if China's economic growth slows to 8 percent, it is still very positive for the luxury sector. The optimistic atmosphere in Versace company is tangible, it is focusing its energy on China growth in the following months. For instance, Versace has project to open several new boutiques in China during 2009. The company expects Asian market to overcome the United States ones as its second-largest market in 2009, driven mostly by Chinese growth.

The Chinese mainland is receiving significant investment from a lot of other famous of global level. For instance Montblanc entered into Chinese market in 1992. It is specialized in luxury pens, watches and jewellery for very a fluent clientele. Now in the mainland there is a quarter of its total 350 stores

worldwide. It is impressive result reached only in a relative short period and it inaugurated its 87th store in one of the most prestigious location in Shanghai in 2007. This store has more than 6100 square feet over two levels and is its biggest one in the world. The China market's growth, in the words of Jim Siano, Montblanc's Asia Pacific chief executive, is "phenomenal." "High double digits," he says.

Dunhill, a luxury brand focused in men's wear, leather goods and accessories, has penetrated Chinese market opening its first shop in the mainland 14 years ago and now has 73 outlets distributed among 39 cities. 37 outlets of them are fully owned and the rest 36 are franchises. According to Tim King, Dunhill's managing director of North Asia region, both have their advantages: "The franchises are very useful in the tertiary cities, where they are basically the people who know the city. They know how it works. They are our eyes and ears." But the brand has less control over the stock with franchises, he says. "When you work with franchises, they come into a showroom... and they decide what to buy, they decide what they can sell." That can lead to different outlets having different stock, he says. Wholly owned stores are more profitable because all stock is sold at retail prices. Dunhill is having very good results in mainland China, thanks to its first mover advantage because it has moved to this country since 1992. Its biggest competitors in the mainland are Ermenegildo Zegna, Hugo Boss and Dior Homme. According to Tim King, Dunhill's managing director of North Asia region his company and Zegna are running neck in neck.

According him China is very different from other markets, thus marketing campaigns are very expensive. Most of magazines in China don't have

countrywide coverage and this makes things more and more complicated. “ And none of us can afford TV,” he says. “ We do things like billboards. Airport billboards, billboards in main streets in Beijing and Shanghai. It’s never enough.” Then another problem is that – he says- only a relatively small percentage – but very big in absolute numbers – of Chinese can effort to buy luxury products – “ a small number in a huge area, compared to Hong Kong – a large number in a small area.

Another famous internal fashion brand that has rapidly enlarged in China is Chloé, which established its first store in 2005. Chloé has conquered the hearts of women around the globe through its high-profile designers with international reputation such as Stella McCartney and Phoebe Philo, its chiffon dresses and signature Paddington and Edith handbags. Its distribution strategy is mainly based on franchised stores, even after the Chinese government established that foreign companies cannot possess more than 60 percent of a retail business in December 2004. Helen Willerton, Chloé’s Asia Pacific managing director, says the brand has no immediate intention to establish a wholly owned distribution channel because the franchising solution is reaching phenomenal performance. Then “ There is a growth which is clearly quite unheard of within any other country, ” she says. But at the same time there are some consumers who are beginning to experience brand loyalty. “ I think people underestimate the mainland consumer. We’re starting to see brand loyalty.” She believe that it is caused by increased travel and time spent studying abroad. These kind of life experiences are transforming the mainland consumers and leading them to gather more information about brands.

It is fundamental that successful brands give consumers a sense of value for money that they spent which should exceed the cost they suffered, says Willerton. Thanks to reduced travel restrictions for many mainland Chinese, they will have possibilities to compare different issues such as prices abroad and shop around. “These people aren’t stupid.” Looking ahead, Willerton says: “We’re enjoying great growth. I think we’re set to enjoy continuing and strong growth in the short to medium term.” and Beijing are considered to have a similar level of brand consciousness to Hong Kong, but beyond that it’s another story. Many cities are cash rich but shop starved. “No history of brands, no internationalism but a lot of money,” is how David Stewart of Jigsaw International describes some second and third tier cities.

The forecast

In the very next future, in order to succeed in the Chinese luxury market the international brands should take in consideration some new issues. For instance, the attractiveness of this market is not only represented by short term growth but also by long term. China will probably become the major long-term growth engine for the global luxury market, a lot of macroeconomics data and prevision can conform a such hypothesis.

The luxury retails should consider the following elements in order to improve the luxury shopping process or experience in China, to secure the loyalty of Chinese consumer in a long term prospective.

Plenty of marketing research suggest luxury players to target the 250 million-strong middle class that is reaching western living standards, but with higher spending propensity ratio. That would be a big mistake to focus on

just the affluent segment. Nick Debnam of KPMG says China's likelihood of rising to second place in the luxury consumption ranks by 2015 does not depend on the super rich. " It will depend on the number of people who pull through to the middle-income bracket. It's not a mature market. The important thing is to grab as large a share of that market as you can today because that grows with you."

The brands should set up some service in order to serve a wider range of customers on the mainland from the first-time luxury purchaser to the superrich. The distribution staff must be able to provide instructions and formation to newer entrants to the luxury market, especially for fashion items. According to several CMR research made by different consulting groups in China, Chinese women are usually interested in learning how to use different kinds of make ups and about the most chic trends around the world, and men are interested in learning how to match items, such as suits with shirts and ties, and choose gifts for wives, girlfriends, and be trained well to make shopping a pleasant and luxurious experience and represent their brands' lifestyle to shoppers.

For instance, Versace deliver its luxury culture through extremely prestigious events or show in China, such as that held in November 2008 inviting Chinese and celebrities such as Jet Li.

Versace wants to reach all those who aspire to be part of China's super elite class, that is a huge number, through communicated mainly target to super elite ones. It is a very effective strategy because of Chinese natural sense of imitation.

In addition to mainland luxury retailers must provide the newest, top-of-the line items to serve Chinese superrich consumers, instead of offering only “ products of second category” on the Mainland.

According to a study made by Merrill Lynch and Capgemini, the number of millionaires in China in 2007 rose about 20 percent over 2006, they also suggest companies to target China’s aspiring middle class today to reach next year’s millionaires.

But we also should avoid excessive level of optimism, because China is not an isolated system from rest of the world, the global economic downturn must have relevant impacts on its growth.

. Then another that we should also keep in consideration is that there are several Chinese brands who are trying to enter on the Chinese luxury segment, supported by a traditional good local reputation in the low-end market. At moment their design culture and management system are weak yet to compete with the international luxury companies. In order to compete international arena they have to For them to compete in to reposition themselves, hiring international management teams and work with professional players of the sector in Western luxury branding. One possible chance for these kind of brands is establishing joint ventures in other markets or simply taking over foreign luxury brands in in to learn to develop their own.

Xiao Lu (2008, p. 191) says that it is fundamental for a Chinese luxury brand in order to be successful in the domestic market, they must have success in the world markets first. International reputation helps national brands to win

confidence in their brands among the Chinese luxury consumers. Thus, it is expected that they will spend a lot of energy to penetrate in the global luxury market, and that established Western luxury brands will have to compete with these new emerging Chinese luxury brand players.

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TYPES OF CONSUMERS(MARKET SEGMENTATION)

When China declared its open-door policy about twenty years ago. Segments did hardly exist, they were not well developed and consumers were not as sophisticated and informed about fashion trends. So the term “ consumer” was an inappropriate word. Consumers was unable decide what buy because they was not used to have different products to choose.

Nowadays, luxury brands or producers in general have to meet their consumers with different tastes. So in today’s marketplace, where consumers can choose from large base of choices, the brands in order to be successful they have to segment the modern Chinese consumers.

Segmentation means to divide consumers into sub-groups according to geographic segmentation, demographic variables, which include sex, age, income; or according to psychographics and lifestyles of the consumers, or according to the combination of all above mentioned variables; and so on. In order to do this, we need in-depth marketing researches that are very expensive;

In Chinese case, it should be better to make first of all a segmentation according to historic and cultural elements as that made by Hedrick-Wong (2007, p. 37-40)

Founding generation : people who are 70 years and older. This generation was at least 40 years old in 1978 when the Chinese economic and politic reform started and most of them have missed the chances offered by it. Moreover most of them do not have the skills or even motivation to take advantage from the new market economy.

2. Cultural Revolution generation ; people who are in the range of 50 and 65 years old. They could continue their interrupted education and some of them had the great opportunities in business 1980s and 1990s. One of the best example is the billionaire founder of Gome in 1987, today he is the largest appliance retailer in China (Jin, Li; Liao, Li; Guo, Ruoran & Zhu, Jielun, 2007).

3. Upwardly mobile generation, people who are 30 to 49 years old. When the 1978 reforms started they were about 20 years old, so they were the first generation to benefit from them. Most of them became better educated than the previous ones.

4. Young emperor generation, people who were born after the reform started in 1978, and they result of the ‘ one child’ policy introduced in 1979 by the Chinese government. They are target as the ‘ young emperors’ because they grew up with their parents doted on their single child, assisted by four grandparents. They have the best education, and they are most ambitious generation in China. They are self-centered, sometimes self-indulgent, and the most are avid and savvy consumers.

In the reality the Chinese luxury is composed mainly by last three segments, from which to strive further segmentations.

EMERGING UPPER – MIDDLE CLASS AND SUPER – RICH: THE CHINESE ELITE

In today's Chinese society, social class distribution is transforming with the economic development. A new social has been emerging in economically developed such as Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, and so no. These people , because of their socio- economic conditions, can effort to buy luxury or better " Veblen' goods". In fact, we call these new class " leisure class" and these approximate to the lower - upper and upper - middle class according to a study made by Prof. Pierre Xiao Lu (2008).

THE TRADITIONAL BUSINESS ELITE

The traditional luxury shopper is a segment generally composed of male with age over 35. Most of them have a senior position within a domestic company or a government institution and have wide social networks. Usually the consumers in this segment have more experiences in consuming luxury goods and more sophisticated in some sense than consumers of other segments , because they have been consuming luxury products for a longer period.

Other consumers are only at beginning of their experience to use luxury goods. The traditional shopper are demanding more and more moving to more niche luxurious products, asking more value for money spent.

THE NEW LUXURY SHOPPER

The new luxury shoppers is a segment in which we can find a very wide base of customers such as entrepreneurs, businessmen and celebrities. They are the first generation in their family to reach economic success and can effort to buy luxury goods. Thus they are more younger than those in the previous segment. They are approximately aged from 20 to 40 and with an optimistic view of the future. They seem to be not very concerned about saving for their retirement, so they spend a lot of money in luxury goods. Then they have a good capability to distinguish fakes goods from real design.

EMPOWERED WOMEN

Until a few years ago 90 percent of luxury purchasers are men. Today, Chinese women are gaining economic independence and can effort to buy luxury goods independently and they are aged approximately around 35 and 45. In this segment we can find business woman, celebrities and the newly independent rich wife.

This kind of evolution is consistent with global trends identified by the Luxury Institute. According to the Institute their economic rise is being driven by baby boomer women who have reached independence and economic success, and are outliving their partners. Furthermore the Institute predicts that their buying power will continue to rise as women outperform men in academic achievement, career progression, and even in some business start ups usually dominated by men.

LITTLE EMPERORS

The last segment is composed of “ little emperors”, they are the result of Chinese one children policy. Now they are entering their teen years and early adulthood. They are the most brand conscious compare to all other segments. The factor that distinguish these young guys from western ones is that they have six economic sources come from their parents and grandparents who all contributing to satisfy every need of this one child. They are also called “ me generation”.