Factors affecting movement of luxury goods marketing essay

The concept of luxury is not new and can find its roots in many great civilizations of the ancient world. Luxury has always been consociated with wealth, uniqueness, exclusivity and authority. Luxury products with their high technical superiority, craftsmanship, uniqueness, quality, high prices are always targeted towards the elitist of the society, who derives value from their exclusivity, brand heritage, service and premium pricing. Luxury goods are also believed to concurrently satisfy their emotional, psychological needs and accentuate their esteem, prestige and social status. These high net worth individuals are generally price insensitive and are usually very loyal to these brands. Value of the luxury goods is derived either from their functionality or for the modus-vivendi they project.

Antoni et al. 2004, has suggested three features for a brand to have to be successful in the luxury market. These include:-

Excellence

Brand Aura

Desirability

In Economics, for luxury goods if the price increases, the demand also increases. They are supposed to have high income elasticity of demand i. e. as people's income increases the demand for luxury goods also increases.

The seeds of the modern luxury industry were laid in Europe during the Industrial Revolution. During this period, some European entrepreneurs created premium products which symbolized the supreme lifestyle of that period. The modern luxury industry evolved because of the need of these businesses to look for markets abroad, to increase their customer base due to limited potential in the domestic markets. (Antoni et al. 2004)

The business model of the luxury sector involves providing supreme quality, high price and exclusive products to customers at the top end of the wealth spectrum. Their business model is based on meeting customers' expectations and selective distribution. According to LVMH, the business model of luxury industry includes designing, production & marketing of premium products using the services of exclusive designers, latest innovations and technologies to produce extremely high quality products that meet customer's demands and expectations. Selective distribution ensures quality service, experience, choice, protection and trust, which the consumers repay back with their loyalty.

Current Situation of the Global Luxury Industry

The global luxury industry faced a slump during the global financial crisis. During the recession the luxury industry experienced negative growth with figures of 8% decline for the year 2009. The decline in revenues was mainly because of tightening of budget and reduction in spending. Due to the recession, around 1125 billionaires lost 50% of their wealth while the richest people lost 10 Billion USD globally. However, because of the global economy expected to grow at 4. 2% rallied mainly because of high growth in India and China, the luxury goods industry is poised for recovery. According to Bain Consulting's spring 2010 update on " Luxury goods worldwide market study", the global luxury goods industry revenues is expected to rise by 4% from *source Bain Consulting

153 million Euros in 2009 to 158 million Euro by 2010. Growth however will primarily be fuelled by emerging markets because of growing economy and rising incomes as against the stagnant and saturated developed markets.

For the year 2010, China and India are expected to grow at 15%, US at 4%, Europe at 3 % while Japan is expected to show a decline of 3%.

Factors affecting movement of Luxury goods

Traditionally the target customers of luxury goods have been high net worth individuals who represent the elite class of the society and constitute the upper end of the wealth spectrum. During the past decades, the market for luxury goods was mostly limited to developed economies like US, Europe and Japan. However the real growth in the sector has been brought about because of globalization, enhanced communication, lowering of entry barriers, new markets and opening of the world economy. Globalization has led to the opening of the world economy to players across geographies and thus an increase in business opportunities with opening up of new markets and new horizons.

*source Bain Consulting-Luxury goods worldwide market study

Generally luxury goods companies have targeted countries with high GDP growth, lower barriers to entry, high FDI investments; strong IPR protection laws, acceptable retail infrastructure. High GDP growth is particularly being observed in emerging markets like BRIC countries. These markets are indicative of a growing young consumer class with rising disposable incomes who are eager to try these brands. It has been observed that there has been a strong presence of luxury brands in countries with high GDP growth like in countries like Hongkong, South Korea and other SE Asian economies; however the growing focus is now on BRIC countries particularly India and China.

Global luxury sales are found to be spread according to the concentration of wealth across the world. Europe accounts for 40%, US-28%, Asia-24% and the remaining 8% across the rest of the world (Nueno and Quelch, 1998).

The movement of luxury goods is also depended on the cultural adaptability of a country. For example in India, high sales in western styled branded apparel for women may not be observed. Tourism also plays a significant part.

Lifecycle of Luxury goods

The production lifecycle of the luxury goods is generally high because of the designing process, production process, sourcing of high quality materials, and manufacturing products according to the customer’s expectations of design and superior quality.

However the product lifecycle and durability varies across different segments. For example, luxurious products like cosmetics and apparel generally have a shorter product lifecycle typically for a season since changes in fashion trends are quite frequent and the segment is highly competitive too.

However most of the other segments like automobiles, watches, wines, jewelry generally have higher product lifecycle. Usually luxury goods are characterized because of their high quality, price, aesthetic value and high durability. Since the sector is highly competitive and brand equity plays a huge role, marketing and constant innovations are necessary to avoid saturation in growth.

Margins

The luxury goods industry is generally characterized by high margins and they are so huge that, B Arnault, LVMH's CEO in an interview suggested that: " Luxury is the only sector that can provide luxurious margins "(Capital, May 2010).

Since the luxury goods carry a premium price to them, and has high income elasticity of demands, the profit margins on these goods is generally high and can go upto 60% on certain items. The volume of these goods is usually very low since most of these products are manufactured keeping in mind a niche group of buyers. Therefore the margins per unit are very high. Recently, many of the luxury brands have pruned their operational costs by shifting some of their manufacturing activities to low cost countries like China. This has also resulted in many companies experiencing high margins per unit. The margins on the normal goods are usually 20-25%, while for luxury goods it can be as high as 60%.