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Marketing Review St. Gallen ■ 1 | 2012 Luxury Brand Development

Luxury Brand Development

Successful Luxury Marketing – A Provocative Discrimination

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“In this world there are only two tragedies. One is not getting what one wants, and the other is getting it,” said Oscar Wilde (Wilde 2009, p. 100).

There is no shortage of bon mots to describe the luxury industry and its fascinating effects. Marketing research also continues to describe luxury (Büttner et al 2008, p. 8 ff). Its phenomenon is probably as old as humanity itself. Studies regularly confirm its attraction, uninterrupted to this day, and its enormous economic importance. Analyses quantify the global market of luxury items according to how they are defined between 185 and more than 1.000 billion Euros (Bain 2011, p. 14; Boston Consulting Group 2010, p. 2). However, there is a lack of managerial practice despite established definitions of a clearly defined conceptuality – such as in the differentiation of the word “premium” – to be more useful in brand positioning and measures in the marketing mix.

The more precise the idea of luxury’s core, the easier it is for marketers to avoid brand dilution or target group lapse. It also aids in a more precise estimation of actual market potential and curbing the danger of excessive economic ambitions (keyword “line extensions” or “limited editions”), which – as the example of Pierre Cardin illustrates – can quickly undermine a luxury brand.

With the summit brand matrix approach, the term luxury brand can be further differentiated, thus making better decisions concerning branding (keyword: positioning) and the concrete performance of high-quality goods and services possible. Additionally, the rank growth of defining terms such as “new luxury,” “true luxury” and “accessible luxury” (Kapferer et al 2009, p. 38) can be restrained.

EXISTING DEFINITIONS OF THE LUXURY BRAND

The word luxury is derived from Latin – lux: light (Büttner et al 2008, p. 8). Luxury goods are distinguished by their glowing shine, manifested by a special feature, something exceptional, exclusivity in the form of aesthetics, material, functionality, history, production methods and available supply. A restricted availability of luxury goods and their special elements normally equals a very high price point. Luxury is thus also viewed as an extravagance “that goes above and beyond that which is necessary, meaning the recognized amount of entitled gratification or above and beyond the average standard of living” (Mühlmann 1975, p. 69). Not arriving along with the creation of Christian moral ethics, but already existent in the ancient world was a negative value placed alongside admiration and acceptance of luxury (Wyrwa 2003, p. 49). Luxury is also a synonym for waste, pomposity and social injustice. If consumers are asked, they associate luxury with high prices, high product quality, uniqueness, aesthetics, history and non-necessity (Dubois et al 2001, p. 1 ff).

The term luxury is semantically difficult to understand. The reason for this is that there is no general understanding of it, like that of a necessary or normal expenditure – that particular “average standard of living” -, to demarcate a luxury definition. Luxury is a relative and dynamic phenomenon: relative because social, cultural and geographically different ideas of it exist, which is normal; dynamic because over time the value of goods, and thus the possible norms, changes. Luxury in Indonesia must not be the same as luxury in Italy. The price of a luxury watch is strongly differentiated from that of a made-to-measure shirt. One consumer sees a luxury article in a pair of sewn-welved shoes costing 600 euros while another perhaps only in bespoke shoes of British provenance for 4,000 euros. Not every well-to-do person has an immediate affinity to luxury, but on the flip side, there are certainly random average workers who dream of a yacht docked in Monte Carlo’s harbor. And as if the confusion was not complete: the term “new luxury” was recently coined, a description originating in modern circumstances meaning a form of luxury often containing a moralistic component of consumer criticism. “New luxury” stands as the antipathy of “old luxury” and includes mankind’s search for time, security, relationship, a life fulfilled with quality and internalized, quiet consumption. These are not measured by the price of goods. Thus, there are two categories of luxury: a material, extroverted one and an immaterial, introverted one.

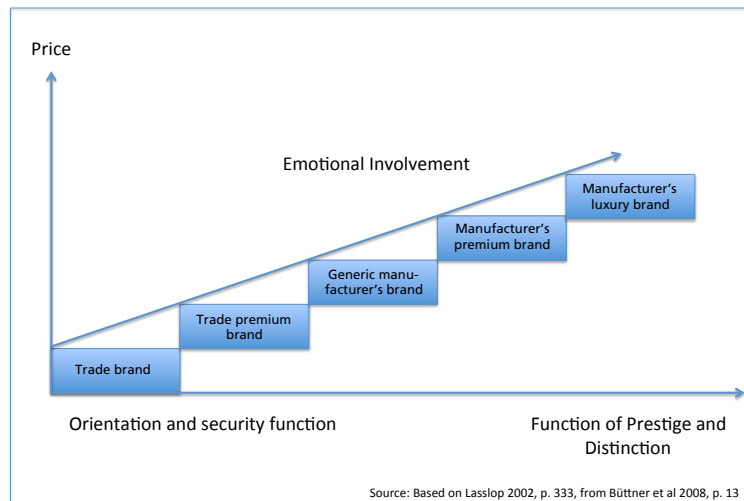
In market research as in practice, there are many approaches to define terms such as “luxury,” “brand,” and “premium” and keep them apart from one another. Hence, for example, one attempts to create a systematic based on manufacturing methods and quantities (Kapferer 2001, p. 351 ff):

- According to the systematic, unique luxury items are one-of-a-kind objects created by hand and perfectly made (such as an haute couture dress).
- Apparel luxury brands might offer a bespoke prêt-à-porter standard.

- Finally, premium brands comprise serially made line extensions (for example perfumes of fashion labels).

In entrepreneurial reality, however, the division between a unique luxury piece and a luxury brand is often not possible thanks to structurally identical carry-over parts in the production. In the assembly of a Rolls-Royce, there will naturally be some processes taken over from serial production as well as motor technology from manufacturers that produce in larger numbers. The term “manufactory” is hard to pin down, for where is the line that “handmade” value begins, making a manufactory a manufactory?

Another approach is to differentiate the criteria for price and degree of prestige for luxury, premium, and manufacturing brands (Lasslop 2002, p. 333): the higher the price of a product and its prestige, the more it can be viewed as a luxury brand. The fascination with luxury therefore originates in its distinctive power of evoking value propositions that separate class or group affiliation (Lasslop 2002, p. 332).



Illus. 1: Price and Degree of Prestige in Luxury Brands

However, it is questionable whether the factors money and status alone are enough to create a differentiation between luxury and premium brands and whether or not additionally other brand and product characteristics are more important. In principle, consumers don't buy the most expensive things because allegedly the most prestige goes along with them, but because the offering of the luxury provider offers further incentives.

The factors product knowledge and status thus apply a third concept with four different phases, which arise from increasing product experience and growing knowledge (American Express 2006, p. 5).

- “Acquisitive luxury” is pure conspicuous consumption. It is followed by
- “Inquisitive luxury,” which applies increasing critical product assessment, particularly with regard to quality, and leads to other purchasing decisions.
- “Authoritative luxury” describes great connoisseurship, while
- “Meditative luxury” describes a final phase in which the focus is less the product itself and more one's own fulfilling consumer experience.

Here it is to be remarked that not every old luxury necessarily ends in new luxury, and products of the early phase – as implied – aren't necessarily worse than those of the late phase.

The uncertain terminology creates problems on one hand for luxury marketing because it is difficult to identify operable terms for use in daily entrepreneurial practice, from which goal-controlled measures can originate. On the other hand, the fact that a super definition does not exist forces the management to continuously have its eye on the markets and adapt performances depending on the (allegedly) normal average consumption. But is that norm really the meaningful starting point?

LUXURY PROVOKES AND DISCRIMINATES

The task of brands is to differentiate and structure their offerings for consumers (Kapferer 1992, p. 17). This is particularly true for lustrous luxury brands. More than any other type of brand, their function is to underscore that which socially separates: whether it is done distinctively by allowing a consumer to feel as if

he or she belongs to a “higher” group by purchasing the luxury good; or whether it is done in a discriminating way by demarcating from a “lower” environment. The constitutive functioning principle of luxury is the offer of a social selection (key words are status, prestige, etc). Basic and additional benefits relating to the product are usurped by this. It is particularly the moralistic brisance of luxury that basically makes it so fascinating: it is not for everyone to have – nor should it be. Luxury is provocation per se. Neither can it be ethically judged nor should suggestions for defense strategies for luxury critics be made. Managers who want to successfully position their brands in the luxury segment must be aware of its selective function and serve its clientele according to it.

Science delivers several general approaches that explain the fascination of luxury such as the congruence theory, the social identity theory, socioeconomic theories, and more. They focus on personality characteristics, examine environmental influence, and consider needs for identity, status, prestige and personal fulfillment. For example, studies prove that in order to win loyalty for a luxury brand, the so-called self-concept of a client should coincide with the personality of a brand. This can be displayed in various manifestations in differing age brackets: while younger client segments strive for more social acceptance and prestige by purchasing luxury goods, middle-aged groups are looking for more personal expression and personal fulfillment (Büttner et al 2008, p. 119f).

Knowing the selective function of luxury brands is not enough to ensure performance above average consumption and the premium segment. The reference point of a relatively mean norm is not enough for successful luxury management. It is more promising to search out absolute coordinates. What does this mean? Bordering premium brands, luxury brands must try to gain the absolute leadership in central performance areas. The task is to find the top performance for goods or services that represent a superlative, an absolute, something like a world record. This offers many advantages: brands become clearly and confidently positioned – at the very top. Promises of performance and its necessary exclusivity become more easily defined and verifiable, which increases the brand’s credibility. The brand communication receives an orientation. The practice offers more than just the criterion of the top prize when reaching for the world record.

The claim to exclusivity can be created from descriptions such as the best, the most beautiful, the rarest, the most traditional, etc. Brilliants are classified according to the four Cs; platinum and gold are valued at exchanges. Units of measure can be the highest amount of hours of work done by hand or the oldest company in the industry in order to document the greatest amount of exclusivity. Innovations are naturally unique – up to the point that they are copied – and therefore often combined with luxury. Rare production processes or costly materials may lead to smaller amounts of the offering in a given market. A selective, high price is the only logical consequence and monetary expression of unique performance characteristics. The assessment criteria specific to an industry, target group or category and relevant to performance and how they should ideally be combined should naturally be disclosed by market research.

Summarized in the imagination of consumers, a luxury brand is a personality that promises maximum performance in basic and additional benefits within the totality of a very high or the highest price. At the same time, it grants the opportunity to identify social distinction and discrimination in order to win status (for a general definity of brand, compare Meffert 2000, p. 169).

THE SUMMIT BRAND MATRIX

However, practice shows that not only luxury-oriented consumers demand the same products and services – but not for the same reasons. Their criterion is that they value the unique product characteristics more than the status received for buying them. An example: a digital camera by Hasselblad or Alpa can be purchased for reasons of prestige or because the hobby photographer needs the medium format for large prints of landscape pictures. Such consumers can be described as “prosumers.” They search out the most performance-capable offering and lend it the same decision-making criteria as a professional user. A Bentley with the quietest inside space will be more relaxing than a Lexus. This can be decisive in the purchase in a loud metropolis such as New York City.

In the relative reach of efficiency, on the other hand, one differentiates between premium and prestige brands: the premium customer (Thomas Sabo, Pandora, for example) has a high expectation on the product, is, however, not primarily searching out the superlative or the status win; the prestige client (Apple, Nespresso), however, is. The following classification according to the summit brand matrix summarizes possible approaches for high-quality brands.

Summit-Brand-Matrix		Leadership	
		relative	absolute
USP focus	Product focussed basic and incremental USP	Premium Brand	Prosumer Brand
	Status	Prestige Brand	Luxury Brand

Illus. 2: The Summit Brand Matrix

IMPLICATIONS FOR THE MARKETING MIX

Decisive for the classification of individual brands in the summit brand matrix and thus the design of their marketing mixes is which individual judgments customers will take of useful categories that they subject to perceived performance characteristics. From there strategic objectives for a brand can be developed by management to avoid breaks.

Companies have the choice to position identical performance offerings either differently or to reposition them over time (for example in the automobile industry with brands like Mercedes Benz, Audi and Porsche). Important for such decisions are above all two factors: the structure of the consumers in their social, psychological and demographic characteristics, the options resulting from them determine which target groups can be addressed; and the disposition of the company itself. To the latter belong:

- Turnover and margin goals
- Positioning ideals
- Company culture
- Luxury competence along the value-added chain
- Financial power
- Internationality
- Monitoring structures like distribution control (keywords such as grey markets and currency fluctuation)

Consequently, the strategic decisions made – ideally only for one of the four options – will result in adjusting the marketing mix to the chosen quadrants of the summit brand matrix.

PREMIUM BRANDS

For premium brands, by capping the volume of the range of products (trading up), the focus shifts to a qualitatively good performance that is perceived as better, which justifies a correspondingly higher price. The basic tone of the communication must exhibit a rational connotation. At the same time, one must strive to retain the intended margin and profit improvements and keep the internal value-added chain under control.

PRESTIGE BRANDS

Prestige brands take their main success drives from the discriminating benefit of status. The performance is not really new, exceptional or exclusive. A special connoisseurship of the material is not a prerequisite. Thus, the upwardly mobile client with a short history of affluence is the ideal target group here. The focus in the marketing mix is on communication, which often relies on prominent testimonials and strong emotion. Typical representatives of this category are Vertu, American Express credit cards, Rolex, Prada and D&G.

PROSUMER BRANDS

The crucial attribute of a prosumer brand is that it requires high connoisseurship of its buyers and sellers and often a longstanding, intense occupation with the brand's performance and history. Absolute performance superiority must first be recognized and weighed before it can flow into the price-performance ratio assessment. Challenging is often an approach that is too technical; modern marketing only plays a minor part with these decision-makers. There the motto is: a good product can sell itself. Thus, such brands suffer sales outlet deficits thanks to a full-bodied performance whose message can hardly be intrinsically transported across the many levels of a distribution chain all the way to the consumer. These

brands are thus strongly reliant upon the support of their distribution partners and must be "discovered" by clients. The Internet with its multifaceted forms of communication and distribution possibilities can open new potentials for success for these brands.

CHALLENGES FOR LUXURY BRANDS

Luxury brands must create verifiable world records for their performances, set a very high to the highest price, and communicate messages that hit the status benefit of a client as well as control exclusive, clean distribution channels. Such companies, which are often in the hands of families, do not copy their competitors, but primarily measure themselves against their own standards and think and act within a complete, long-term framework. Their values comprise independence, refinement, discretion and style. They avoid blatancy and currying favor. Typical representatives of such luxury brands are Hermès, Patek Philippe, luxury hotels like Badrutt's Palace in St. Moritz, Italian tailor Kiton and the English jeweler Asprey's.

These examples show that a basic challenge for luxury brands remains one of the tone of communication, subtly playing down volume and aggressiveness in order to avoid being mistaken for a prestige brand.

CONCLUSION

With the direction of their decisions and measures in terms of performance, companies in the luxury segment have a concrete and therefore better orientation than that of an indefinable consumption average. The relativity of the term luxury can be somewhat defused. However, luxury is a dynamic phenomenon. Thus, those responsible for marketing are permanently challenged to sound out the balance between business expectations on one hand and the possibilities of the market on the other. Even if it is the nature of world records and luxury to be topped time and again, it is inherent to the desire of mankind to want "more," which remains static. Companies who see this as an opportunity, rather than like Oscar Wilde as a tragedy, will be successful.

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