

Marketing of Luxury Brands

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EXECUTIVE SUMMARY

Luxury branding is a whole new ball-game altogether, both from the perspective of the marketer as well as the luxury consumer. It therefore becomes important to view it both in relation and isolation from the '*regular*' goods marketing.

To achieve the above objective, we first look at how luxury goods are different from regular goods and then go on to explore some facets and trends of the luxury goods as well as their market and consumers. This finally sums up into a SWOT analysis of the luxury goods segment, thereby helping in obtaining a bird's eye view of the exercise at hand.

Considering that the luxury concept has shifted to the 'new' meaning, we delve into that aspect to understand the drivers for luxury brands presently, as well in the time to come. This is followed by a luxury potential determination of the Indian market both in terms of quantitative growth factors as well as qualitative initiatives.

Post identification of the mindset of the Indian luxury consumer, we have conducted a synergetic strategy building exercise, in an attempt to make sure that there are actionable points, which will go on to ensure the best interplay between the 3 most important factors for a luxury brand, i.e. the product brand, the brand / reputation of the service provider and the price-value relationship of the luxury brand.

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Getting to know luxury

“Why do I need to know how the watch market is doing? I’m in the business of luxury”, Partick Heiniger, CEO, Rolex

Luxury brands have often been associated with the core competences of creativity, exclusivity, craftsmanship, precision, high quality, innovation and premium pricing. These product attributes give the consumers the satisfaction of not only owning expensive items but the extra-added psychological benefits like esteem, prestige and a sense of a high status that reminds them and others that they belong to an exclusive group of only a select few, who can afford these pricey items.

The luxury sector targets its products and services at consumers on the top-end of the wealth spectrum. These self-selected elite are more or less price insensitive and choose to spend their time and money on objects that are plainly opulence rather than necessities. For these reasons, luxury and prestige brands have for centuries commanded an unwavering and often illogical customer loyalty.

Luxury has never been something easy to define, yet this mystery concept is something highly desired by one and all alike. We look at delving deeper into this mystery and aura of luxury goods by way of comparing them against ‘*regular goods*’ as well as highlighting the characteristics of the luxury industry. But before beginning with that, lets first attempt to understand some common terms associated in the world of *high-end goods* :

Luxury and prestige brands such as Rolex, Louis Vuitton and Cartier represent the highest form of craftsmanship and command a staunch consumer loyalty that is not affected by trends. These brands create and set the seasonal trends and are also capable to pulling all of their consumers with them wherever they go.

Premium brands are those brands like Polo Ralph Lauren, Calvin Klein and Tommy Hilfiger that *aspire to be luxury and prestige brands* but their marketing mix strategies are more attuned to a mass market, albeit a luxury mass market. They are also termed as *mass-premium brands* or *mass-luxury brands*.

Fashion brands on the other hand are those that address the masses.

Difference between regular & luxury goods

Factor	Regular Goods	Luxury Goods
Place	Available at convenience levels concordance with product category	Available in very select stores or exclusive outlets, at very high-end locations
Product	The mass variants may be many but are standardized, and service levels range from low to high	Highly customized or limited editions of products; Very high personal service levels
Pricing	Value for money	Premium pricing
Promotion	<ul style="list-style-type: none"> ❖ All kinds of media (ATL, BTL) used ❖ Product functional and aspirational value appeals ❖ All kinds of reference group appeals (Expert, Celebrity, Common-man, Executive & employee, Trade or spokes-character) used 	<ul style="list-style-type: none"> ❖ Predominantly premium Above-the-Line media (eg. Connoisseur magazines, Travel channels etc.) ❖ Product aspirational & exclusivity (or individuality expressing) appeals ❖ Mostly celebrity appeals (reference groups)
Definition (Economic)	Those goods for which demand is inversely proportional to price	Also called Veblen goods, the demand for luxury goods is said to increase when the price of the goods increase
Decision Making	Can range from routinized or low-involvement to high-involvement depending on the consumer and the considered product category	Always a high-involvement purchase signifying extensive information search and thorough decision making process
Brand extension decisions	Based on defending your turf (R&D based decisions to an extent)	Based on marketing the luxury brand
Drivers of brands	Functional attributes & innovation	Tradition and brand heritage

Characteristics of the luxury industry

1. Luxury means different things to different people

Luxury has no certified origins. But luxury branding is said to have taken birth in the west with the appearance of high-end brands. To get an insight into what luxury today means to different Americans, we take a look at the table below, compiled by American Demographics in 2003, to understand how to develop target strategies for various segments.

	Men	Women	18-34	35-54	55+	Black	Hispanic	White
Glamorous/Classic/Elegant	67%	73%	72%	66%	74%	69%	64%	72%
Comforting/Relaxing/Pampering	55%	54%	52%	56%	54%	38%	51%	58%
Status symbol/Exclusive/Prestigious	51%	51%	39%	50%	57%	43%	41%	53%
Wasteful/Unnecessary/Extravagant	27%	19%	19%	28%	19%	32%	14%	23%
Trendy/Fashionable/"In"	21%	23%	26%	19%	24%	30%	33%	18%
Flashy/Gaudy/Elitist	28%	12%	37%	22%	10%	**	31%	16%
Practical/Quality/Enduring	14%	18%	**	15%	20%	**	**	18%

** - Sample size too small

Note – Columns do not total 100 percent because more than one answer was allowed.

2. Luxury is a product category in itself

This can be best explained by the fact that both an expensive watch and an artwork can be considered to be luxury items. Therefore, all luxury marketers are not just competing in their '*technically defined*' product categories (like manufacturers of refrigerators compete amongst themselves) but for the wallet share of luxury goods in total.

3. The meaning of luxury had changed

Luxury has moved from its 'old' meaning of ownership (also known as *conspicuous consumption* - Conspicuous consumption is a term used to describe the lavish spending on goods and services that are acquired mainly for the purpose of displaying income or wealth rather than to satisfy a real need of the consumer. In the mind of a conspicuous consumer, such display serves as a means of attaining or maintaining social status. Invidious consumption, a necessary corollary, is the term applied to consumption of goods and services for the deliberate purpose of inspiring envy in others) of objects to the 'new' meaning of the experience / fulfilment derived from possessing a certain object.

4. Aura is more important than exclusivity

Exclusivity is something that cannot be ensured to a great extent and neither is it the prime requirement of a luxury consumer. The consumer bases his decisions on the relevance of the aura of the brand to his fulfilment or actualization needs.

5. Classification of luxury consumers

SRI Consulting Business Intelligence places consumers in 3 groups according to what luxury means to them :

- ❖ **Luxury is Functional** - these consumers tend to buy luxury products for their superior functionality and quality. Consumers in this segment, the largest of the three, tend to be older and wealthier and are willing to spend more money to buy things that will last and have enduring value. They buy a wide array of luxury goods, from artwork to vacations, and conduct extensive pre-purchase research, making logical decisions rather than emotional or impulsive. Messages that highlight product quality and are information-intensive are powerful with this group.
- ❖ **Luxury is Reward** - these consumers tend to be younger than the first group but older than the third. They use luxury goods as a status symbol to say "I've made it!" They are motivated by their desire to be successful and demonstrate this to others. Luxury brands that have widespread recognition are popular, however they don't wish to appear lavish or hedonistic in their appearance. They want to purchase "smart" luxury that demonstrates importance while not leaving them open to criticism. Marketing messages that communicate acceptable exclusivity resonate with this group.
- ❖ **Luxury is Indulgence** - this group is the smallest of the three and tends to include younger consumers and slightly more males than the other two groups. Their purpose for luxury goods is to lavish themselves in self-indulgence. They are willing to pay a premium for goods that express their individuality and make others take notice and are not overly concerned with product longevity or possible criticism. They enjoy luxury for the way it makes them feel, therefore have a more emotional approach to purchases.

They respond well to messages that highlight the unique and emotional qualities of a product.

6. Trading up

A mass of wealthy people have emerged the world over, give rise to a large section of consumers who are now moving to luxury / premium brands, thereby creating greater business opportunity for luxury marketers.

7. Emergence of luxury brands

Sea of luxury brands have emerged giving a wide choice to consumers, in all segments of luxury goods.

8. Trading down

Today, fashion brands are giving luxury brands competition because of marketing mix and branding strategies, which make it acceptable to pair these two brands. This is something that was not practiced before.

eg. Wearing an Armani shirt with a pair of GAP jeans

9. Factors at play

In luxury marketing there is a subtle interplay between three factors that most strongly influence the luxury consumer to buy: product brand; dealer or store's brand or service providers' reputation; and price/value relationship

10. Customer loyalty is more important than brand awareness

Rather than focus on measuring the brand awareness of a luxury company, measuring customer loyalty is far more significant a metric regarding the success or failure of corporate strategy to connect with the luxury consumer.

Luxury in India

To be successful in India, it is both necessary to gauge the *financial potential* as well as the *mindset* of the Indian luxury consumer. This will help in bringing forth the right product offerings to the Indian consumer as well as targeting them better.

Qualitative Insights

1. According to a study by American Express, '*Inside the Affluent Space*', the mindset of the Indian consumer is a desire to prove that "I've Made It". This can be related to the luxury categorization which is based on the fact that luxury is seen as a reward, both for achievements in life as well as showcasing these achievements to others.
2. The *Luxury Marketing Council Worldwide* has established a chapter in India, with the aim of promoting luxury in India. Their task will also be to build synergy between various luxury brands interested in India by way of sharing of consumer insights as well as best practices.
3. Even the Asian region is *not uniform* in its preference for luxury in terms of *need fulfilment*. Therefore, it becomes important to delineate the needs of the Indian consumer from the other Asian regions to target them better. This agenda gains importance because many Indians look at acquiring luxury from places such as Hong Kong, Tokyo, China etc.
Eg. It is interesting to note that Singapore consumers are more of *connoisseurs* compared to Hong Kong consumers who want *Talk-Value* from their luxury goods
4. Hindustan Times has been at the forefront of driving the luxury revolution in India by organizing two *Indian Luxury Conferences* in the last 4 years. To add to it, it also brings out a monthly *supplement* of luxury goods available in India, thereby creating awareness for the luxury brands.

Quantitative Insights

1. As far as quantitative estimates are concerned, there will be *135,000 millionaires* (in US dollar terms) in India by 2009.
2. The *affluent* market is set to grow at a rate of *13%* in India, and by 2009, there will be approximately 1.1 million affluents here.
3. The *wealth potential* of India's affluents was to the tune of US\$ 203 billion as of 2005.

Strategies for Luxury Marketing in India

There are conventional foundations for ensuring success of a brand and they are listed below in brief :

1. The brand must be “expansive”

Which means it should be full of *innovation opportunities* for the marketer and in terms of satisfying the *divergent needs* of the luxury consumer

2. The brand must tell a story

It is this story, of either heritage or performance or other aspects that goes on to build the aura of a brand over time. The story always accentuates the *identity* of the brand.

3. The brand must be relevant to the consumers’ needs

Depending upon the *mindset* of the luxury class, it is imperative for a brand to satisfy those needs, whether they be for recognition or functional use etc.

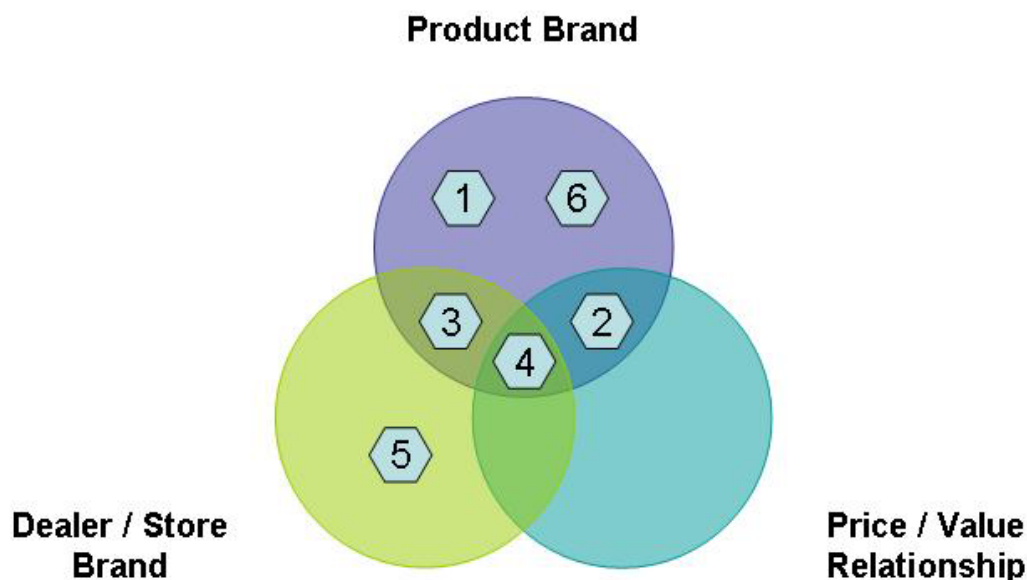
4. The brand must align with consumers’ values

A brand that does not concur with the basic values of a consumer’s society has a small chance of succeeding because luxury items are *forms of expression or identification* for a luxury consumer. This makes it difficult for the consumer to adopt the brand in such cases.

5. The brand must perform

Irrespective of which category the brand belongs to, a performance assurance is a must for the brand if it wishes to be in the *evoked set* of luxury consumers, considering the price being paid for luxury.

Based on the inputs given above as well as an understanding of the decision making process of the luxury consumer, we recommend the following paths for luxury marketers based on what Indian consumers really desire from their luxury brands, i.e. product brand, dealer/store brand and price/value relationship :



(The price / value relationship has been accorded less focus since the Indian consumer is at a phase when cost of luxury is secondary to its appeal / benefits)

1. Brand Me Affluent!

It is turning out to be a raging battle for the luxury marketers in terms of customer loyalty. The customer will switch to whichever brand that accentuates his affluence.

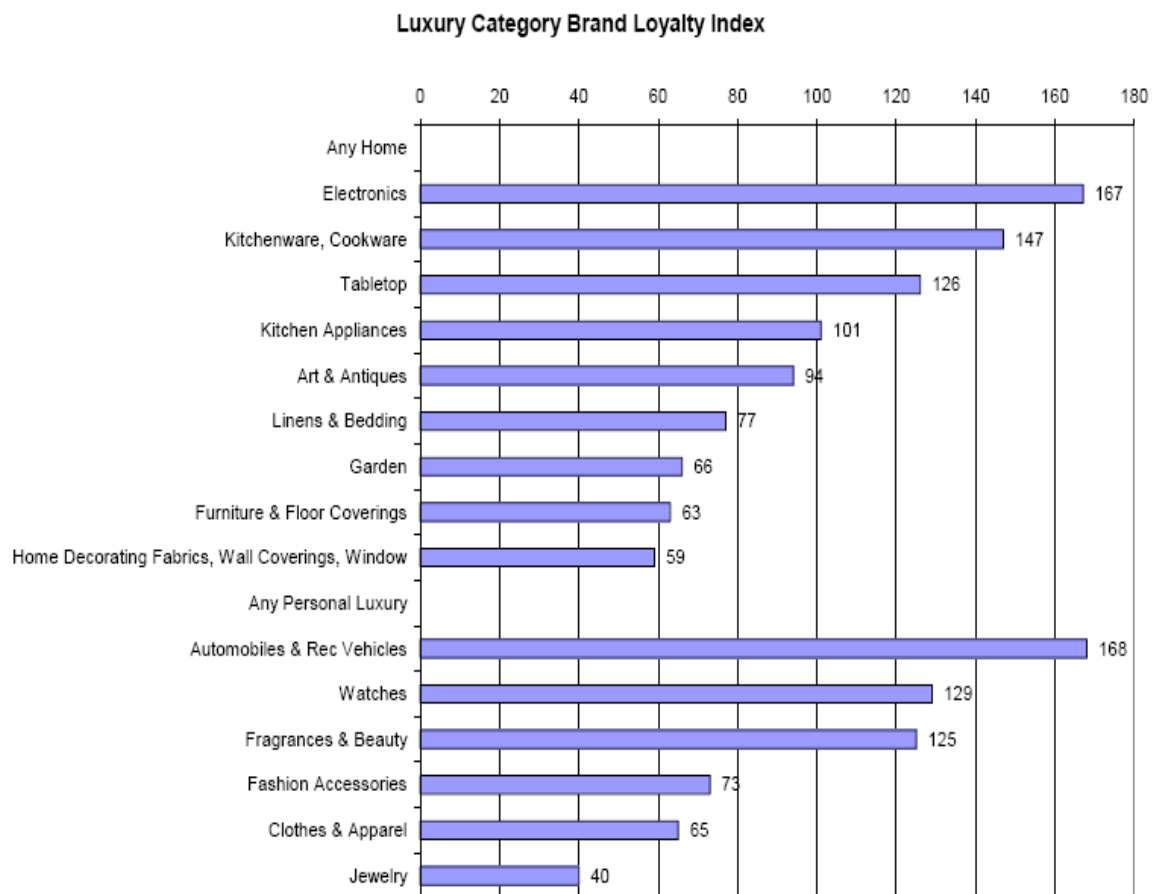
TASK : It is essential for marketers to ensure that the recognition value of their brands is always high so that it lends a sense of affluence to the consumer, which can only come if others around him / her perceive the brand to be a top-notch luxury brand. This can come from either being aligned with the most successful celebrities or being a part of elite events and promotions.

There are also some luxury branding strategies available to the luxury marketer which can be used since the consumer is obsessed with the ownership of a luxury brand but may not have enough financial strength of acquire some of the luxuries.

Luxury brand strategies

- ❖ Having a separate line of goods available at lower cost
eg. refurbished cars and line extensions
- ❖ Promoting luxuries as a wise investment
eg. Villas
- ❖ "*Targeted luxury*" is yet another concept increasingly being used by luxury brands where luxury product memorabilia is given to the relevant target segment in an attempt to fuel their desire for owning the product.
eg. Miniature models of Mercedes cars, key chains of Rolex watches

Additionally, it is also important to estimate the amount of efforts required for building brand loyalty, which can be considered inversely proportional to the brand loyalty in a category. An indication of the same is given in the table below :



2. **Nothing but the Best! - Because I'm the best**

Given the wealth escalation in the coming years, the Indian consumers are ready to empty their wallets in an attempt to go beyond satisficing their needs. They want the best, be it in whichever category because it helps them relate to the feeling of being the best in their fields, thus completing their sense of accomplishment.

TASK : This is a golden opportunity for the marketer to earn greater margins by adding customized value to his line of luxury goods. These added-value customized goods will ensure that the customer feels he has something more than just the ordinary range of luxury goods available.

3. **Luxury is having the world at my fingertips - First!**

The "I've Made It" desire can only be achieved if a consumer has access to the luxury products before anyone else. If someone else gains access to those luxury goods, then that particular good becomes a me-too product.

TASK : A luxury marketer will not only have to be faster than his competitors in reaching out to the consumer, to gain a share of wallet but also continuously offer innovative products that serve to differentiate between the consumers.

4. **"Ethnic Chic" - The Fusion of Local & Global goods**

The Indian consumer, while attempting to ape the West, also sees a sign of luxury in the Indian culture / royalty. Taking this point forward, a consumer also attempts to build a connect with his roots while at the same time making efforts to achieve grandeur.

TASK : This point is connected to the strategy of a product being in line with the consumers' values for it to be adopted. Apart from this, in the Indian context, ethnicity is also a fashion statement in many product categories such as

5. **You Think I'm Demanding? Next!**

The quantitative figures do foresee a large population of luxury consumers. As it happens in most cases where the segment size increases substantially, products move towards standardization and service levels become low to achieve economies of scale. However, it is important to understand that the luxury market does not behave in this manner at all.

TASK : The marketer's job should be a constant endeavour to offer newer luxury goods to the consumer, in sync with their needs. In addition to that, marketers will need to make sure that each and every single consumer has to be treated with a high-level of personalized attention, given the nature of the product and the consumer. Even minor shortfalls in this case will have the consumer shifting their brand preferences to those marketers who can satisfy their needs better.

6. CANNIBALIZATION OF BRANDS

Recent trends indicate that many celebrities, which are more like the mainstay than the ambassadors of various brands, are launching their own brands. In situations like these, luxury marketers are affected since they have lesser number of celebrities to associate their brands, as well as increased competition.

TASK : It thus becomes essential to ensure that successful celebrities are partnered with at the right time, thereby both eliminating chances of competition as well as delivering the right aspirational / appeal message to the intended audience.

Conclusion

The starting point for identifying successful luxury brand strategies in India has been established by identifying certain salient aspects of luxury brands that remain constant as well as identifying the stage of mindset of the Indian consumer towards these brands.

The focus is now towards 'how soon' luxury brands will enter the market to gain a first mover advantage, which is of significant importance in India. Apart from how soon, we primarily focus on 'how will' luxury brands cater to the mainly aspirational needs of the Indian consumer.

A word of caution that goes for luxury marketers, irrespective of their brands and geographical presence - The luxury consumer is always looking for newer ways to satisfy his continuously changing needs. Hence, the need to keep a close tab through insightful research is of prime importance.

As far as India is concerned, given the rapidly accelerating affluence of the masses, the scenario is set to witness a boom. The ones who will be riding the wave will be the ones who've kept their ears open to each and every word of their each and every customer. After all, in the luxury business, no marketer can afford the luxury of treating its consumers as a loosely bunched segment.

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