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The marketing of luxury brands

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"Luxury brands are brands whose ratio of functional utility to price is low while that of intangible utility to price is high."

THE market for luxury brands in our country has expanded in recent times. With income levels going up, customers prepared to buy such brands are growing in numbers. According to an NCAER Household Income Survey, in 2001-02, there were 20,000 families in India with annual incomes of more than Rs 1 crore. By 2005, that number is expected to increase to 53,000. By 2010, India will have some 1,40,000 crorepatis. Retail management company KSA Technopak estimates the market for luxury and high-end clothing in India at Rs 1,000 crore and for accessories at another Rs 1,000 crore.

In the past, brands like Liz Claiborne and Pierre Cardin tested Indian waters but made a hasty retreat following poor customer response. This led to a general perception that India is still not ready for luxury brands. But now that impression is changing. Many leading global luxury brand marketers have started taking our market seriously.

Luxury, derived from the Latin word *luxus*, means indulgence of the senses, regardless of cost. Luxury brands are brands whose ratio of functional utility to price is low while that of intangible utility to price is high. Such brands share characteristics like consistent premium quality, a heritage of craftsmanship, a recognisable style or design, a limited production run of any item to ensure exclusivity, an element of uniqueness and an ability to keep coming up with new designs when the category is fashion-intensive.

Luxury goods' marketing is a different ball game as the type of customers involved fall in a different class altogether. These customers are influenced more by glamour and style and want to stand out in a crowd. They do not bat an eyelid whey they buy a Vuitton bag costing Rs 50,000 or a Mont Blanc diamond-encrusted pen for Rs 50 lakh, Ermenegildo Zegna's top-of the-line, custom-tailored suit costing Rs 6 lakh or a mid-range Louis Vuitton briefcase priced Rs 1.27 lakh.

No. of multi-millionaire families

2001-02	20,000
2005-06	*53,000
2010	*1,40,000

No. of households with annual income of more than Rs 1 crore. Between 2001-2 and 2005-6, the increase is two-and-a-half times.

* *estimated*

As these figures suggest, luxury brands are prestige products characterised by high-involvement decision-making that is strongly related to the person's self-concept. Sensory gratification and social approval are the primary factors in selecting a prestige product. Cutting prices or giving discounts can be detrimental in case of luxury brands. A higher price implies a higher level of quality and also suggests a certain degree of prestige. Similarly, distribution should be restricted. Status-sensitive consumers may reject a particular product if the feeling of exclusivity goes away.

Managing luxury brands is as much an art as a science. The challenge is to create a demand for something which is not really needed. After all, it looks crazy to spend Rs 50,000 on a handbag or Rs1,27,000 on a briefcase. Creativity plays a key role in creating such a premium image. Many luxury brands achieve legitimacy and fashion authority as a result of the creative talent of their design teams who respect the brand heritage and yet continuously reinvent it.

Brand-building is a different ball game in case of luxury goods. Fashion shows, special events, and other public relations efforts must be carefully coordinated to convey the desired image. The magazines selected for advertising are often unconventional and trend-setting. It is the kind of people who read them, not the numbers, which matter. The movies in which the brand appears and the celebrities and pop icons who endorse the brand must also be selected carefully.

The product line decisions in case of luxury brands are somewhat tricky. First, to what extent should companies include in their lines lower-priced accessory items to target a broader market? A second and related issue is whether there should be line extensions beyond the core category. Such a strategy may make operations more complex and drive up costs. Moreover, transferring the brand's fashion authority from the core to another category may not be as simple as it sounds. Despite these concerns, most successful designerwear luxury brands combine a risky and perishable ready-to-wear offering with sales of less fashion-intensive items, such as leather accessories. A Gucci store might display its latest fashion accessories prominently but generate most of its sales from black and brown handbags and conservative silk ties. Many luxury brands realise less than 25 per cent of their sales from ready-to-wear products. The balance comes from fragrances, leather accessories, and home furnishings.

No. of millionaire families

2001-02	40,000
2005-06	*1,00,000
2010	*2,50,000

Figures are number of households with annual income between Rs 50 lakh and Rs 1 crore
* *estimated*

Channel management issues are again different for luxury brands. Here the focus is not on expanding reach. Indeed, marginal and unfocused retailers must be dropped from time to time to improve the strength of the brand franchise for those remaining. Investment in flagship monobrand stores augments the brand's prestige and presents it as a lifestyle concept.

In the past, customer service for luxury brands meant making to order. Craftsmanship and customisation went hand-in-hand. Today exclusivity is provided not by customisation but by restricted supply. But selective distribution and limited assortments cause inconvenience to consumers. So many luxury brands are looking at new ways of improving customer service.

Traditionally, luxury brand retailers have not paid much attention to computerising records of transactions with clients. Now they are realising the importance of customer relationship management for various reasons. Customers who buy an accessory today may purchase higher-value items tomorrow. The tourist who buys a single item from one store may buy items of the same brand in other stores around the world. Databases enable retailers to know how important their customers are, no matter which store they may shop in, around the world. Customer databases enable owners to contact their consumers with invitations to collection previews, end-of-season sales and other events. Customer databases also ensure that even when salespeople leave, their knowledge is not lost.

Many of the points discussed so far are exemplified by the French luxury goods conglomerate LVMH which owns several famous brands in various product categories: wines and spirits (Dom Pérignon, Moët & Chandon, Veuve Clicquot and Hennessy), perfumes (Christian Dior, Guerlain and Givenchy), cosmetics (Bliss, Fresh and BeneFit), fashion and leather goods (Christian Lacroix, Donna Karan, Givenchy, Kenzo and Louis Vuitton), watches and jewellery (TAG Heuer, Ebel, Chaumet and Fred).

At the heart of LVMH's business model is a well-thought-out process for creating and growing star brands. According to Bernard Arnault, the CEO, star brands must be timeless, modern, fast growing and highly profitable.

A star brand has to be built for eternity. It must have been around for a long time. It should have become an institution. For example, Dom Perignon was created 250 years ago, but LVMH is confident it will be relevant and desired for another 100 years and beyond.

Timelessness takes years, even decades to develop. Such a brand must have come to stand for something in the eyes of the world. A star brand has to remain current and fashionable. It needs sex appeal and has to be modern. It has to be so new that people would want to buy it. A star brand has to keep growing. Growth is a clear signal that the brand has consumer appeal. Last but not the least, a star brand has to be profitable. Profitability depends on both the price and the costs incurred. So even in case of star brands, operational excellence is important. That means sourcing of raw materials, manufacturing and distribution must be efficient.

LVMH realises that in the case of luxury brands, the innovation supporting the creative process and the advertising are very expensive. High profitability can only come with discipline in the manufacturing process. This discipline includes a tremendous emphasis on quality and productivity. For example, Vuitton's manufacturing is labour-intensive, with a team of 24 workers producing about 120 handbags a day. The manufacturing process is carefully planned and executed with modern technology. LVMH analyses how to make each part of the product, and from where to buy each part. It finds the best leather at the best price and gives it the treatment it needs. A single purse can have up to 1,000 manufacturing tasks. LVMH plans each of these steps carefully.

The Boulogne Multicolor, a shoulder bag that went on sale in 2004 in Vuitton stores worldwide for about $1,500, illustrates how LVMH coordinates its operations. With the success of the Murakami line in 2003, Vuitton's marketing executives quickly began looking for a way to capitalise on it. They learnt from store managers that there was latent customer demand for a shoulder bag. In a workshop attached to the marketing department, technicians took a classic bag, the Boulogne, reworked it in multicolored toile, added metal studs and other touches, and named it the Boulogne Multicolor. The prototype went directly from the marketing department to top executives, who approved the bag without any involvement by the design team. In June, the prototype reached

Vuitton's factory in Ducey.

When LVMH opened its first store in Delhi last year, it found strong demand for its premium, aspirational products. According to LVMH sources, the major reason for the success was the simultaneous launch of products and services in flagship stores in Paris and India. This earned LVMH the trust of discerning Indian consumers.

LVMH's experience is clear evidence that the super rich of the world, irrespective of which country they belong to, have similar lifestyles, tastes and aspirations. They want the best and the latest in fashion. At many big social functions today in the country, it is not uncommon to see women carrying Vuitton's Theda or Monogram Ambre handbags.

LVMH planned its entry carefully after spending sufficient time trying to understand the Indian market. The company closely monitored Indians who were buying abroad. This gave the company a good feel for how the market worked. Now LVMH has plans to launch other brands like Fendi, Dior and Celine for Indian customers. The company has also started introducing products from the spirits division ranging from Moët & Chandon champagne to Hennessy cognac and the recently launched luxury vodka Belvedere that retails for Rs 2,000 a bottle.

Developing luxury brands involves heavy investment of time, effort and money. That needs a different kind of mindset which is generally lacking in many Indian companies who look for quick returns. That is why there are few Indian luxury brands. But for those who are willing to take the plunge and wait patiently for the results to come, there is a pot of gold waiting at the end of the rainbow.

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