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Luxury

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Luxury is one of the most globalized businesses in the consumer goods industries. A handful of multinational enterprises dominate the sector and control global sales networks. In 2013, the ten largest luxury goods companies had an aggregated 48.9 percent share of global sales of luxury goods (Deloitte 2015). The largest, the French conglomerate LVMH Moët Hennessy–Louis Vuitton SA (hereafter, LVMH), had a share of more than 10 percent. Although 84 of the top 100 luxury companies are based in Western Europe and the United States, sales are global. The largest market remains the United States (78.6 billion USD of sales in 2015), with Japan in second place (20.1 billion USD), China in third (17.9 billion USD), South Korea in eighth (10.8 billion USD), and Hong Kong in tenth (6.8 billion USD) (D’Arpizio et al. 2015). A second indicator of the globalization of the luxury industry is the high degree of standardization of goods and the existence of global brands (Jackson 2004; Jain 2007).

Together with alcoholic beverage, luxuries were one of the first consumer goods for which companies adopted global brands (Lopes 2007). Yet, discussing the “luxury business” leads to the methodological problem of defining the object (Donzé and Fujioka 2017a). There is no common, shared concept of “luxury.” The nature of the products does not define the luxury industry, as it does in the case of cars, electronics, or insurance. Rather luxury is a particular segment of the market, and can include almost any type of good or service. Some scholars in management introduced the idea of several levels between luxury and common goods. Allérès (1991) used the concepts of “intermediary luxury” and “accessible luxury,” while Silverstein and Fiske (2008) proposed the concept of “new luxury.” Kapferer and Bastien (2009) offer the most useful definition: luxury brands are defined by their marketing strategy, which differs from, and is the opposite of, common marketing strategy. Elements commonly stressed by companies in their definition of luxury (craft, heritage, know-how, quality, etc.) are less relevant. As luxury products form a segment of the market, the strategy that makes it possible to position and keep them positioned in this high-end segment is the most important determining factor.

Since the end of the nineteenth century, luxury companies have pursued differentiation from the manufacturers of common goods in the same industry and positioning in niche markets as key strategies to ensure their success. The current highly globalized luxury business however is
not the outcome merely of expanding on these strategies. As we show here, today’s global luxury industry is not the result of a linear expansion, but is rather mostly the outcome of a major industrial transformation that occurred during the 1980s, characterized by the foundation of large conglomerates through the merger of small family firms and the use of capital from financial markets, which happens to closely follow the rise of neoliberalism (Donzé and Fujioka 2017b). In our research, we have observed that the development of luxury as a global business does not follow the general model in three stages of first global economy, deglobalization, and second global economy proposed by Jones (2005). Rather, there were three periods of internationalization and globalization in the luxury business—internationalization (before 1945), early globalization (1945–1980), and mature globalization (since 1980) — and deglobalization during the interwar period. In this chapter, we focus on these three periods of internationalization and globalization that, we contend, are specific to the luxury business.

To discuss these various issues, we have selected two major sectors of the luxury consumer goods business—fashion and accessories (including leather goods), and watches and jewelry. Sales for fashion and accessories and for jewelry and watches amounted to, respectively, 25.7 percent and 26.3 percent of the gross sales of the top 100 luxury companies in 2013 (Deloitte 2015). Although these two sectors differ in terms of their products, consumers, and industrial organization, they both embody common trends that illustrate the dynamics of the luxury business in the global market. Service and marketing matter in all luxury industries. Luxury services, transportation, and housing are examples of other sectors, which sometimes interconnect. For example, the Armani Hotels & Resorts is a luxury chain that carries the signature of fashion magnate Giorgio Armani. The analysis below focuses on four large themes that are characteristic of the dynamics in the luxury business and of its evolution: (i) firms and entrepreneurs; (ii) markets; (iii) craftsmanship, know-how, and production; and (iv) marketing.

**First stage: internationalization (before 1945)**

International trade drove the first stage of globalization in the luxury industry. However, the flow of goods, as well as the range of luxury products, experienced a major shift after the Industrial Revolution. During the seventeenth and eighteenth centuries, Europe imported food, spices, porcelains, precious woods, and textiles from Asia, Africa, and the Americas, buying and consuming them as luxury goods (Anderson 2012). Pre-industrial trading firms, such as the British East India Company, the Dutch East India Company, the Royal African Company, and the Hudson’s Bay Company, brought these goods to the West (Chaudhury 1978; Subramanyam 1990). Although the Industrial Revolution modified the status of many goods and brought a wide range of products to the masses, historians of the Ancien Régime underscore that a relative democratization of “luxury”—products other than necessity goods—was already underway before the Industrial Revolution. The same historians point to the second-hand trade and barter of luxury goods, and the increasing demand for “demi-luxe” or “populuxe” items (Palmer and Clark 2004; Fairchild 1993; Berg 2005). These various levels of “luxury” denote the emergence of a society in which consumption had become a widely available means for expressing social distinction.

During the Ancien Régime, the system of guilds (see Catherine Casson in this volume), which regulated professions and commerce, resulted in a specialization in handicrafts and retail structure that restricted the modernization of the distribution and sale of luxe and demi-luxe products (Coquery 2011). The Industrial Revolution, and the revolution in retail which started in the mid-nineteenth century, marked by the development of the department store, played decisive roles in expanding the sales of goods that had previously been reserved to the elites.
Western Europe and the United States were still the major markets of luxury goods, but had become also the producers of these goods. Instead of purchasing products imported from overseas, mostly from Asia, Westerners began consuming luxuries made in their own cultural environment, and the links to Asian countries weakened. Hence, the scope of globalization of this industry between 1815 and 1914 is open to debate. It can be argued that consumption actually de-globalized, in comparison with the Ancien Régime, in these years. Thus, we emphasize the *internationalization*, rather than the *globalization*, of the luxury business. Although Western countries shared intense commercial and cultural exchanges with regard to luxury goods, this new industry did not really extend to Asia, Latin America, and Africa.

Before 1914, fashion was aspirational, according to sociologists Thorstein Veblen and Georg Simmel (Veblen 1899; Simmel 1904). Simmel notably defined it as “change for the sake of change,” first and foremost in textiles, clothes, and accessories, and also in the domains of interior decor, food, and cosmetics, to cite a few (Simmel 1904). New designs trickled down from the high classes to be imitated by lower strata, indicating that luxury and fashion had a symbiotic relationship during this era. The entry of women in the workforce, exemplified by the turn-of-the-century *Gibson Girl*, an active woman portrayed by advertising designer Charles Dana Gibson in the United States, and by the working women during the Great War in Europe, profoundly affected the fashion system. From the nineteenth century onwards, the generalization of ready-to-wear democratized fashion. Since the 1970s and 1980s, the rise of fast fashion has resulted in the quick adaptation of trends at any price point. Luxury gradually became associated with classic, iconic, and even static items, such as the Chanel tweed suit or the Hermès Kelly handbag. Although garments and accessories remain central to the luxury industry, the relationship between fashion and luxury and, hence, between novelty and luxury, has changed. Fashions democratized, and novelty stopped being essential to the definition of personal luxury goods.

With the opening in 1858 of the House of Worth in Paris by Englishman Charles-Frederick Worth and his Swedish business partner Otto Bobergh, a cluster of firms describing their activity as “Haute Couture,” high-end, creative fashion designs made-to-measure for the clients, came to dominate fashion design in the West and, to some extent, in colonial empires until recent decades (Bayly 2004, Kuldova 2016). Haute couture marked a shift from pre-Revolutionary dressmaking when the most famous entrepreneur was Rose Bertin, and where the client directed the design of her dress starting from the textile. Worth presented himself as a creator, even a “dictator,” of styles who directed clients to the styles he found most appropriate for them. Paris was the epicenter of haute couture for women, and London for high-end clothing for men and for sportswear (a category of dress that then included tailoring) for both sexes. Creation, fitting, and retail all took place within the walls of the haute couture house, which was, from the outset, cosmopolitan. Clients converged on Paris and London from all over the Western world. In the late nineteenth century, a cluster of early multinationals, with main locations in Paris, London, Vienna, and retail branches overseas, catered to the elites (Troy 2003). These firms, such as Boué Soeurs, Paquin, and Redfern, were overall very profitable, and some of them, notably Paquin, were listed on the stock exchange. Paquin showed a nearly continual increase in profits until World War I. In 1900, the firm’s net profits were £88,868, an important sum at the time (Pouillard 2016, 200). The fashion industry, like the beauty industry, was characterized by a greater number of opportunities for women entrepreneurs, including in early international commerce (Jones 2010).

Haute couture developed an unparalleled marketing of exclusivity. Materials were costly. They included silks and brocades, woven in Lyons and sometimes directly made to order for
Luxury haute couture firms, as well as precious laces and furs. Fittings make haute couture expensive as well. The trade adapted made-to-measure to serialization. For example, Worth conceived a series of bodices that could be fitted interchangeably to a series of skirts. He also ordered designs reproduced in a variety of fabrics, with variations in ornamentation. Selling haute couture to foreign buyers for reproduction abroad was the most profitable part of the industry, since it meant no fitting costs. It also transferred innovation to the foreign entrepreneurs, who copied Parisian know-how. Yet couturiers realized that the extent of the copying of haute couture was beyond their control and deprived them from a part of the profit they expected to make. From the nineteenth century onwards, they retaliated by suing copyists on domestic and international markets. They also lobbied governments in order to receive better legal protection for design (Troy 2003). Protecting original design from appropriation in the manufacturing of substitute goods remained very difficult, but the protective actions taken by the couturiers had the effect of marketing their brand names in a durable manner (Pouillard 2011, 319–344).

The growth of luxury fashion was supported by a handful of institutions that engaged in controlling production and in promotion. First, most of the Paris haute couture entrepreneurs organized in a prestigious professional syndicate, the Chambre Syndicale de la Couture Parisienne, founded in Paris in 1868. The Chambre safeguarded good practices and know-how, and lobbied public authorities in the pursuit of professional interests (Pouillard 2015). In 1927, the Chambre opened its own school to educate a specialized workforce for Paris haute couture firms. Second, the international spread of fashion media, including unauthorized fashion journals produced in Berlin, Brussels, Vienna, and in the biggest cities of North and South America, played a role in the promotion of haute couture. Although these luxury products were out of reach for the masses, the fashion media created powerful consumer imaginaries, making couturiers’ names familiar to larger audiences, and fostering aspirational consumption and the imitation of styles designed for elites (Leach 1993).

Third, some fashion entrepreneurs launched accessories, such as perfume and leather goods. Perfume would become the most popular tie-in product for couture. Over the nineteenth century, the perfume industry became internationalized. French entrepreneur Alphonse Rallet founded a firm in Russia in 1843, and Brocard, another one in 1861. Technology transfers between the French perfumery center of Grasse, and the German chemistry industry, notably, created conditions for the take-off of this industry (Briot 2015). In 1911, couturier Paul Poiret created a perfume line, the Parfums de Rosine, and other tie-in product lines, notably accessories and home decor. Although Poiret did not give his own name to his perfumes (he used his daughter’s), he started a future business model for haute couture (Troy 2003). This diversification into accessories was fostered by the Great Depression, which resulted in economic hardship for haute couture and a necessity to sell cheaper products and lines.

The leather goods industry was still distinct from the fashion business at this point. The oldest high-end leather goods firm to exist without interruption is the Belgian firm Delvaux, based in Brussels. Delvaux was founded by Charles Delvaux in 1829, and made trunks and other travel accessories. The business was fueled by Brussels’ central position in continental Europe, and the 1935 opening of the first railway line on the continent, the Malines–Brussels line. Travel, and the expertise of horse saddlery and trunk making, form the basis of the oldest firms in the leather goods sector that are still active today – notably Hermès (1837), Moynat (1849), Goyard (1853), and Louis Vuitton (1854). Today a part of Bernard Arnault’s LVMH group, the Louis Vuitton firm pioneered the development of the luxury leather goods industry. To this day, Louis Vuitton and the other brands put craftsmanship traditions – often reinvented – at the core of their marketing strategies.

In the watch and jewelry business, the forces driving internationalization were similar to those in fashion. Individual entrepreneurs organized the sales of their products to wealthy
customers throughout the world, focusing on Western countries. This was a niche market but it was not limited to aristocracy like in the late eighteenth and early nineteenth centuries. Bourgeoisie urban bourgeoisie was a major target and a key determinant for the expansion of the markets. Luxury watch and jewel makers essentially opened offices and subsidiaries in large Western cities. For example, Tiffany established branches in Paris (1850) and London (1868) (Phillips 2006), whereas Omega had offices in Paris (1888), Moscow (1905), and Berlin (1905) (Richon 1998). However, most jewel and watch makers had no direct access to markets. They worked with independent agents, who sold their goods to wealthy customers on local markets. In this way, the Swiss watch company Omega could enter Japan (1896), the United States (1898), United Kingdom (1902), Italy (1909), Spain (1914), and other countries.

Nevertheless, production was realized not only by artisans but also by industrialists who adopted new manufacturing technology. For example, Tiffany & Co. opened a workshop in New Jersey in the 1870s, and then a modern factory in New Jersey in 1894 (Phillips 2006). Yet, although it employed 1,700 factory workers in 1901, Tiffany did not mass-produce jewels and silverware. It focused, rather, on custom and batch production, that is, on a specialty production system that enabled it to manufacture a high variety of goods for expanding markets (Scranton 1997). In the watch industry, the situation was slightly different due to the technical specificities of the product. The quality and reputation of watches were based on their precision and durability, so that process innovation for the movement was decisive. There was a division of labor between the industrial production of movements and the decoration of the complete watch. The latter was done by small companies in the context of industrial districts, enabling a high variety of designs (Donzé 2011). The growth of this specialty production relied not only on manufacturing technology, but also on retaining traditional know-how and training a new generation of skilled workers. Hence, Tiffany opened in 1878 an apprenticeship program to train designers and craftsmen. In Switzerland, a total of nine watch-making schools were founded between 1865 and 1914.

**Second stage: early globalization (1945–1980)**

Like other industries, the luxury business suffered from recessions, protectionism, and wars between 1914 and 1945. The higher cost of the franc in the 1920s and then the Great Depression hit French haute couture and other luxury trades hard (Jones and Pouillard 2009/2017). Haute couture exports fell consistently each year, from 2.4 billion French francs in 1925 to 49.2 million at the lowest point in 1936 (Rouzaud 1946). The import of French luxury products, such as haute couture and champagne, was subjected to high tariffs and sometimes prohibited entirely. For example, in spring 1932, French champagne was forbidden in Denmark for a few weeks, before a policy of quotas was introduced, and, in 1929, Romania temporarily forbade imports of French haute couture (Rouzaud 1946, 135).

Couturiers seeking to cope with the loss of international clients and raising tariffs increasingly turned to tie-in products, especially perfume and cosmetics, and the strategy of expanding boutiques selling couture-branded ready-to-wear. The French interwar luxury industries were pioneers in marketing techniques. Advertising techniques developed more slowly in France than in the United States, yet the French luxury firms Cartier, Lucien Lelong, and Worth hired American PR guru, Edward L. Bernays, to organize events and monitor press coverage of their brands (Martin 1992). Couturiers complained that the difficulties encountered on the global markets resulted in an increase of counterfeits. In reaction, they tried to build intellectual property rights portfolios to protect their designs and brands. This had limited impact on counterfeiters, but developed into an efficient way of marketing exclusivity (Pouillard 2011). During the postwar
reconstruction of France, luxury expert Claude Rouzaud made the case that haute couture, as an industry, created large value from small quantities of raw materials. Economic and political experts thus saw French couture and luxury goods as leaders in renewing the export of French goods (Rouzaud 1946).

After nearly three decades of stagnation and decline, the Western luxury business entered a new phase of growth and internationalization. During the postwar high-growth years, the structure and organization of luxury companies (mostly small family firms), as well as the luxury industry’s customers (wealthy people) basically did not change. However, one new non-Western market did emerge in the late 1960s: Japan. Its share of the total export of French leather goods between 1965 and 1980 rose from 0.8 percent to 18.1 percent, and for Swiss watches in the same years, from 1.9 percent to 3.6 percent. This first extension beyond Western markets was a period of early globalization. Companies had to learn how to organize their expansion in culturally different environments, making adaptations, for example, in market-entry strategy, distribution, and brand management.

In haute couture, the beginning of this second internationalization was marked by the foundation of the house of Christian Dior in 1946. The Paris-based firm became a multinational in 1948, with the opening of Christian Dior-New York. Other branches followed suit. C.D. Models was the British brand, founded in 1952; Christian Dior Venezuela, Inc. was founded in Caracas in 1953; and Christian Dior Del Sur, also founded in 1953, was the financial arm of the company in South America. During the oil boom in Venezuela, other French luxury businesses simultaneously opened branches there, notably jeweler Cartier and couturier Pierre Balmain. During the same years, the house of Dior signed exclusivity deals with high-end retailers in order to cover the markets of Mexico (1950), Cuba (1951), Chile (1952), and Australia (1952) (Okawa 2007; Palmer 2009; Jones and Pouillard 2009/2017). Dior was one the first French haute couture brands to enter Japan. It signed a licensing agreement with Daimaru department store in 1953, a strategy followed by numerous Western fashion companies up until the 1970s (e.g., Pierre Cardin in 1959, Lacoste in 1963, Burberry in 1970) (Donzé and Fujioka 2015).

Dior’s new business model globalized the haute couture brand on the basis of a series of licenses for perfumes, cosmetics, accessories, and ready-to-wear for women, and, later, for men and children. This model depended on the financial support of Marcel Boussac, France’s “king of cotton” who was also known as a breeder of racehorses. Boussac’s industrial group focused on mass-manufactured textiles, but included household appliances and French media. Dior was, thus, the luxury outpost of Boussac’s group. In 1957, the Dior firm accounted for 5 percent of total French exports. A major challenge was to avoid spreading the field of licenses too wide. Christian Dior put even his name on car interiors, and considered expanding into flower retail and food, but the latter initiatives were never pursued concretely.

Yet, the postwar growth of the French luxury business resulted not only from the action of individual firms such as Christian Dior, but also that of collective institutions, in continuity with the previous period. Most of the firms were small and medium-sized enterprises (SMEs), and thus they could not engage alone in lobbying and promotion. Hence, in 1954, the perfumer Jean-Jacques Guerlain founded the Comité Colbert. This trade association federates most of the French luxury firms and lobbies the French government for favorable tax conditions, protection from substitute products, and to promote the image of the French luxury industries on domestic and international markets (Okawa 2007; Palmer 2009).

The postwar period was also characterized by the development of new fashion centers besides Paris, notably London and a group of Italian cities. These new fashion cities were often nurtured by older industrial or creative clusters. Florence, Milan, and Rome competed for the title of fashion capital until the 1960s, when Milan came to the fore. Milan now hosts one of the four
big global fashion weeks, along with London, New York, and Paris. Paris weeks of haute couture shows had been organized consistently since 1911, and the New York fashion week was institutionalized by the city authority in 1957 (Merlo and Polese 2006). Gucci had been founded by Guccio Gucci in Florence in 1921 and specialized first and foremost in leather goods. It became a symbol of Italian luxury, along with Prada (1913), Fendi (1925), Salvatore Ferragamo (1928), and Bottega Veneta (1966). Italian leather goods had their fashion ups and downs. In the 1970s and 1980s, firms such as Bottega Veneta and Gucci became characterized by the overuse of logos, one of the markers of a loss of prestige and consumer saturation. Such cases therefore nuance the idea that personal goods are static designs, and show that luxury brands remain sensitive to trends (Merlo and Polese 2006).

After World War II, the watch- and jewel-making industries were characterized by the coexistence of small traditional companies, which followed the model of the previous period, and other enterprises that moved to a new model of large companies. New investors outside founding families supported this second group of firms, and transformed their management. In jewelry, most firms, such as Bulgari, Harry Winston, and Cartier, were still small family businesses that developed luxury goods for wealthy customers, mostly in Western countries. As for Tiffany, it embodies the example of a small business gradually transformed into a large enterprise. After its takeover by an investing company, Hover Corporation, Tiffany adopted a new product development strategy, based on cooperation with star designers, and the launch of cheap jewelry to expand its customers base (Phillips 2006). Moreover, at the same time, Tiffany started to open other branches outside New York in the United States, particularly in California (1963–1966). In 1972, it inaugurated a salon in Mitsukoshi department store in Tokyo, Japan. The consequence of this development was a growth in annual sales from seven million USD in 1955 to 23 million USD in 1970 (International Directory 1996).

The Swiss luxury watch industry presents the same divide. Several small family firms, such as Patek, Philippe & Co., and Vacheron & Constantin, pursued their business model based on manufacturing of a broad range of models for niche markets. A few newcomers established in the luxury watch business following this model, the best example being Piaget. This company was originally a supplier of watch movements and complete watches for other firms, among them Cartier and Tiffany. In 1959, it opened its own shop in Geneva, followed by a plant the next year, and then launched its own brand of jewel watches. During these early postwar years, other companies chose to adopt a new work organization, characterized by the standardization of models and mass production, in order to expand sales and their customer base. Using machines rather than artisans to make watches did not harm the luxury branding of these watches, since high precision and durability are key elements in determining the marketplace competitiveness of watches. Among the companies following this pathway to modernization were Longines, Omega, and, especially, Rolex. The latter was not particularly famous as a luxury brand before the 1950s. It became a worldwide symbol of luxury and individual success through a two-fold strategy. First, it rationalized the number of models and engaged in the mass production of high-quality goods to ensure the best level of accuracy. Production rose from about 40,000 watches in 1960 to nearly 200,000 in 1970. These figures show that Rolex watches were not aimed at niche markets and a small international wealthy elite, but rather at the new urban upper-middle classes. This marketing target was the second part of Rolex’s strategy. It focused mainly on the United States, where the company opened a sales subsidiary in 1948 (Donzé 2011). This early globalization, or second phase in the global development of luxury, creates a slightly different chronology than for other industries. New investments in capital, the rise of new elites, and the democratization of luxury are characteristics of the development of luxury during the Thirty Glorious Years.
Third stage: mature globalization (since 1980)

The luxury industry experienced a major change during the 1980s, characterized by three features (Donzé & Fujioka 2017b). First, multinational enterprises and public joint stock companies became the major actors in this business. Mergers and acquisitions (M&As) gave birth to diversified large groups, such as LVMH (1987) and Compagnie Financière Richemont (1988), which dominate the luxury industry today (Deloitte 2015). Smaller and less diversified companies followed the same strategy to take over other firms and build a portfolio of brands. For example, during the 1980s, L’Oréal Luxe acquired Helena Rubinstein and purchased licenses to produce cosmetics for the brands Ralph Lauren, Paloma Picasso, and Giorgio Armani (Marseille 2009).

This industrial reorganization necessitated a large amount of capital, and thus most of the luxury companies entered stock exchanges to finance their expansion. In 2015, among the top 25 luxury companies ranked by Deloitte, only three were not listed (Giorgio Armani, Rolex, and Swarovski) (Deloitte 2015). Despite this entry into financial markets, most of the luxury companies are controlled, usually through special voting rights, by a new generation of entrepreneurs, such as Bernard Arnault (LVMH), François Pinault (Kering), and Nicolas Hayek (Swatch Group), who built these groups and implemented new strategies for the last phase of globalization.

The second change was the globalization of brands, which was fostered by the emergence of Asia as the fastest growing market for luxury goods (Donzé & Fujioka 2017b). Until the 1970s, the international expansion of luxury goods essentially relied on cooperation with local partners, through licensing or sales agreements, so that the brand identity and design differed, depending on the country and region. However, building global brands, that is, brands with highly standardized identities that were strongly controlled by headquarters, became a new challenge for global expansion in the 1990s (Lopes 2007). This strategy of brands globalization went hand in hand with the development of vertical distribution, particularly through the development of mono-brand stores (Moore et al. 2010), in which Louis Vuitton was a pioneer. The company opened its first independent store in the United States in 1980 and steadily developed its sales network (owning 345 mono-brand stores, worldwide, in 2005). The total number of stores owned by LVMH amounted to 1,286 in 2000 and 3,860 in 2015 (LVMH 2000, 2015). This expansion of retail was made possible by the capital provided by the access to stock exchanges.

It made it possible to internalize profits from sales and to better control the image of the brand, particularly in emerging countries such as China.

Finally, the third characteristic feature of this period was the democratization of consumption, which was linked to the industrial reorganization and the globalization of brands. The newly transformed luxury companies aimed at improving their financial profitability, through the extension of their customer base. The democratization of luxury consumption has been shown to be a driving force for the growth of this business (Danziger 2005). For example, Fernie et al. (1997) showed that the development of mono-brand stores in big cities such as London enabled producers of luxury goods to reach directly a growing number of new customers. Using celebrities as ambassadors also facilitated communication between brands and mass consumers (McCracken, 1989) as did the hiring of celebrity designers to create or style a collection for the mass market. Some marketing scholars have coined the term “masstige” (combining “mass” and “prestige”) to refer to this new strategy of promoting the mass consumption and democratization of luxury goods (Truong et al. 2009).

Fashion and accessories remain at the heart of the large luxury industry groups. From the 1960s onwards, the haute couture model became obsolete. The rising price of labor costs in Europe directly affected the cost of haute couture garments, and the clientele able to afford them
shrank. Haute couture has become a creative laboratory for other fashion and luxury industries, and sells to only a few hundred clients across the world.

Over the last decade, luxury firms, notably Chanel and Prada, have bought workshops and small firms specializing in rare handcrafts. Chanel, a private luxury group owned by Alain and Gérard Wertheimer, whose grandfather acquired a controlling share in Gabrielle Chanel’s perfumes in 1924, has been steadily gathering such workshops into a special branch called “Paraflection,” which includes embroidery house Lesage (formerly Michonet, founded in 1858), flower maker Guillet (1869), feather artisan Lemarié (1880), bootmaker Massaro (1884), glove maker Causse (1892), hatmaker Maison Michel (1936), Montex embroidery (1939), costume jeweler Robert Goossens (1953), and the Scottish knitwear firm Barrie (1903) (Deloitte 2015). Managers of luxury groups state that the purpose of such a strategy is not to acquire full control over their suppliers, but, rather, to preserve craftsmanship heritage from creative destruction.

Many luxury fashion firms have switched from haute couture to luxury or designer ready-to-wear, that is best suited to the evolution of the luxury business in the twenty-first century. Haute couture remains a creative reference on which luxury groups have built global brands that sell perfumes, accessories, and leather goods globally. Today, just over a dozen haute couture firms satisfy the stringent membership criteria originally designed to define and protect the know-how and prestige of the industry in the Chambre Syndicale de la Couture Parisienne. Before World War II, there were over 100 (Grumbach 2008).

Handbags in particular have become central to the strategies of luxury firms. During the last globalization of the luxury industries, luggage entrepreneurs started producing haute couture or luxury ready-to-wear lines as a way to market their products. In a symmetrical movement, most haute couture firms now retail their own leather goods, in addition to selling branded ready-to-wear, perfumes, and cosmetics. As we have seen, in some instances, leather goods are at the core of the know-how of luxury groups. But, for the most part, they are no longer produced to satisfy the whims of regular customers. Rather luggage makers’ core business depends on product lines that offer a relatively limited number of sizes and options. Because luxury brand handbags sold worldwide do not require fitting, they yield important margins. The margins become particularly significant when brands known for leather goods launch lines in other materials, as in the case of Prada’s nylon bags, which are status-enhancing goods yet at the same time quite cheap to produce (Thomas 2007). Luxury groups have also relocated parts of production outside Europe, as did Burberry and Delvaux in the 2000s, when they outsourced some production to China and Vietnam. The acquisition of know-how by non-Western countries has changed traditional views about the places of production, including for high luxury (Tokatli 2008).

Firms, such as Gucci and Bottega Veneta, that lost prestige during the 1980s were next reinvigorated by new management that either re-focused the brand or the core craftsmanship expertise (Bottega Veneta) and/or hired new creative designers to revive their brands (Gucci). Today, some firms seem to prefer to remain more exclusive, such as Goyard and Moynat, yet these businesses are growing, notably in Asia, and their relative discretion therefore appears to be a part of a marketing strategy that uses relevant channels of communications, such as influencers, and digital media.

The Belgian brand Delvaux has adopted similar strategies of exclusivity, but has grown globally, especially since 2011, when 80 percent of the shares were bought by Hong Kong based Fung Group and stores were opened in Asia. Such developments created new challenges, yet these concern marketing rather than product quality. Louis Vuitton, for example, states that its products continue to be made, using traditional methods, in the workshops of Asnières, in the banlieue of Paris, although some manufacturing for the brand has been relocated abroad.
Luxury

Hermès remains a powerful and remarkably stable brand in the leather goods business. In contrast to Vuitton, it is still controlled by descendants of the founder’s family. Starting in 2001 however, LVMH group acquired shares of Hermès through derivatives, and, by 2010, it controlled over 14 percent of the private group. At that point, the French authority on financial markets (AMF) investigated Hermès’s ownership, and litigation between Hermès and LVMH ensued. In 2011, the LVMH’s ownership in Hermès rose to 22 percent. Eventually, the AMF found that LVMH had secretly bought shares of Hermès with the intent of building a minority stake, and possibly realizing an equity swap without Hermès group knowing it. In 2014, LVMH agreed to release its Hermès shares to minority shareholders who had no intention of buying more shares in the private-owned group. The Hermès family was thus able to maintain control over the group (Roberts 2014).

Counterfeits are both a challenge to the luxury trade, and an indicator of a brand’s success (Nueno and Quelch 1998, 63). Historically, France has had the strictest policies against counterfeiters. The European Union has largely followed suit, its policies fostered by Germany and France, both of which feature among the most protective intellectual property rights systems, and also by Belgium and Italy. To this day, there is no streamlined international counterfeiting law, and experts disagree about the harmfulness of counterfeits (Nia and Lynne Zaichkowsky 2000).

A more tangible challenge for luxury brands is the dilution of brand identity and value that can result from the overuse of licenses. A textbook case is French couturier Pierre Cardin, whose image was permanently altered by allowing licenses for too wide an array of products, including small consumer goods such as tablecloths and ashtrays. Other brands, such as Gucci and Dior, have also based their global growth on licenses. These two brands experienced important erosions of their images in the 1980s but, unlike Cardin, they were able to recover. Restoring the image of luxury brands is often a decades-long process. The strategies of decentralization pursued by groups such as LVMH under the helm of Bernard Arnault have actively recruited designers and given them conditions to nurture their creativity, thereby adding the luster of art to the visibility of the brand.

Another – and to some extent related – challenge for luxury global firms occurs when a brand is attracting clients whom the brand management does not consider to be desirable. In the 1980s and 1990s, Vuitton and Gucci experienced saturation. The British firm Burberry, at some point favored by the British subculture of the Chavs, was a case of a firm confronted with the need to regain the trust of a more traditional clientele, and to restore its image that had been altered by the specific subculture exposed by its new clients through their use of the brand codes (Hayward and Yar 2006).

In the jewel and watch industries, most of the individual companies were merged into large groups or entered stock exchanges, and followed the new strategy described above. Cartier is a case in point. The French jeweler faced financial problems in the early 1970s and was taken over by Alain-Dominique Perrin, backed by a few investors, among which the South-African businessman Anton Ruppert. In 1973, he launched a new collection of accessories named “Must de Cartier,” re-positioning the brand as an accessible luxury and accelerating worldwide sales. The need for capital to pursue expansion, notably by purchasing other companies, led Ruppert to invest more actively in Cartier. He founded Richemont in 1988, which controls Cartier, and the same year, he took over the Swiss watch companies Piaget and Baume & Mercier. This launched the basis of a multinational enterprise which is today number two in the luxury business (Donzé 2017).

Although most jewel and watch brands belong today to luxury groups, their acquisition occurred for two different reasons. In the case of jewelry, independent companies were acquired by investors interested in adding a jewelry brand to their portfolios, as in the cases of Cartier and
Van Cleef & Arpels (acquired by Richemont in 1999), Boucheron (Kering in 2000), Bulgari (LVMH in 2012), and Harry Winston (Swatch Group in 2013). Tiffany remains the only independent jewel maker today. It was purchased by the cosmetic group Avon Products (1978), and became public in 1987. As for watch brands, even if they are also acquired by large groups in order to diversify their portfolio, they have a second function different from jewels: internalizing manufacturing capabilities made it possible to launch watches for other brands, particularly in fashion. LVMH provides a good, but not unique, example. In 1999, it took over two Swiss watch companies, Tag Heuer and Zénith, and, two years later, opened a workshop to assemble watches for Christian Dior and Louis Vuitton. This process of creating synergies between brands is what Moore and Birtwistle (2005) call the “parenting advantage.”

Conclusion

The areas covered and the products sold by the luxury business have changed over time. Luxury became more profitable when it became accessible. In this chapter, we focused on personal luxury goods. Other classical areas of luxury that are mainstays include gastronomic restaurants and luxury automobiles. The notion of service, which is a part of the specific marketing of luxury, is essential to the development of the luxury industry as a lifestyle industry, and the rise of concepts such as the luxury apartment.

New transformations occurred in recent decades when luxury industries encountered the digital age, which both challenged the notion of personal service to the client, but also offered new possibilities, notably in terms of the information available about clients and their preferences (Nueno and Quelch 1998, 66). Luxury brands increasingly have their own webshops. Specialized websites, such as MyTheresa and Net-à-Porter, have flourished, bringing the digital retailing of luxury through a period of a fast, steep growth.

The globalization of the luxury business occurred in four stages. First, internationalization occurred before 1914, and saw, in addition to the ancient global commerce of luxury products, the development of early luxury multinationals. This network was largely dismantled in the next period, which included the economic upheavals of the Great Depression as well as the economic impact of the two world wars. The third stage was marked by a second and incomplete globalization during the economic boom following World War II. Luxury brands developed licensing strategies, allowing them to capitalize on luxury-brand image at the global level. This model suffered from the first oil shock in the early 1970s, and the image of many firms was eroded by the over-use of licenses. The fourth stage, and the third period of globalization, began in the 1980s and is characterized by the construction of global luxury groups through M&As.

The entrepreneurs and companies of the luxury industry also contributed to making the world more global through the diffusion of a highly unified culture of consumption. Since the early modern period, the expansion of this industry geographically (from Western countries to the whole world) and socially (the so-called democratization of luxury) has been closely related to the desire of a fast-growing number of people throughout the world to express their sense of belonging to a developed, wealthy, and global elite through the consumption of luxury goods.

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Luxury