



Luxury after the crisis: Pro logo or no logo?

By Jean-Noël Kapferer

The economic recession has hit luxury, as most other sectors. Many luxury brands have reeled by lack of clients and cash. Since then, many experts have predicted that post crisis luxury would be of a totally different kind. It was the end of luxury, as we knew it, the end of bling-bling, of prominent logos and high prices excesses. It is chanted everywhere in the media that this new luxury will be modest, bespoke. It should be the demise of conspicuous consumption.

For the author, luxury companies would be very cautious in giving faith to this unanimous and trendy opinion, especially if it is backed by cursory polls where respondents tend to give socially acceptable answers. Based on a deep understanding of the dynamics of luxury and on consumer research worldwide, one thing is sure: conspicuousness is here to stay, of course with differences within the luxury population. The future belongs to companies

who understand this need for status and adopt a true luxury strategy, very different from a premium strategy. Those who already did it are the ones, which in fact profitably grew during the crisis.

From absolute to relative luxury

Being characterized by the ability to spend considerable amounts of money beyond what the functional value of products would command, luxury has always been subject to moral criticism. During this period of economic crisis, the word 'shame' has often been used in the Western capitals: anecdotal evidence pointed out that consumers visiting luxury stores wanted their purchases in a blank bag to avoid flaunting luxury logotypes in the streets, by fear of moral condemnation.

In a rational world, where the value of things would be solely tied to their functional utility, there is no room for luxury. But this world would also be a-social. Luxury is intimately tied to the dynamics of living together, to the need to compare oneself to others, and to the between-person competition, which is at the heart of economic development in modern capitalism, worldwide. This is why conspicuousness is built-in into the luxury behaviour. However, still because of social competition dynamics, some groups need it more than others, up to the point where to differentiate themselves maximally from the commoners (P. Bourdieu, 1979), elite groups may even ask for very subdued and subtle forms of 'brand recognition', only recognizable to

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a few educated ones only (the ultimate sign of one's superiority).

The fact that some critics ask for a no-logo luxury or predict it as sure outcome of the present economic crisis is the sign that the core social function of luxury is still largely misunderstood. There is no single definition of luxury. Most of them do refer to well crafted, hedonistic and aesthetic objects, priced excessively above their functional utility, sold in exclusive stores delivering personal service and unique consumer experience, most often from a brand with history, heritage, the whole delivering a rare feeling of exclusivity. Now this is more a description of what people see or experience, than a true understanding. What difference for instance with premium or super premium products?

The difference is in the social function of luxury. Luxury is tied to the social hierarchy. Premium goods are just better goods: they are the best in class products, after examination of their comparative performance. Luxury is elsewhere. No comparison here, except between people themselves and their ability to stand out.

Looking back at history, luxury was the privilege and the signal of the powerful people (gods, semi-gods, kings, nobles, aristocrats...): they had access to gold, to castles, to royal pleasures and did not work. They hunted and engaged in war. Luxury was a measure of your rank, itself being inherited. With the French revolution, and mostly the industrial revolution, everyone in theory could access to power with the benefits of wealth and of a hedonistic life-style, surrounded by the most exquisite products coming from the whole world. At the early beginning of the 20th century living in a mansion, with the latest comfort, driving a car, going skiing where in themselves sign of

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luxury, owning a yacht. No brand was needed at that time: this *absolute luxury* was by essence conspicuous, visible by all, walking in the streets of New York, or London or Paris or along the wharfs.

Now, to foster economic growth in the West, the forces of imitation and self-elevation have been released. Everyone could hope to buy a part of the great life of these role models, held by the media as icons of our society: they had money, therefore power and glory.

We entered in the modern luxury, a *relative luxury*. The question has then become not do you own a car, but 'what car do you own? A Porsche or a Buick?' Enter the Brand! 'Where do you go skiing: Gstaadt or Aspen?'

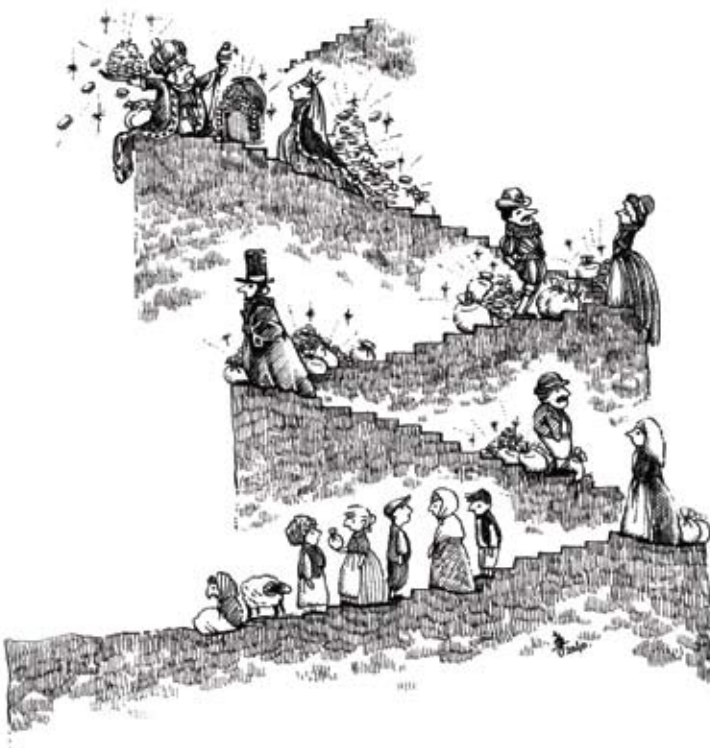
To summarize, in the aristocratic world, luxury was the son of an inherited social stratification. In our open societies, it is the signal of the latent social stratification. This is why it has gained so much importance. No other industry but luxury delivers status to so many people (Universities do it but to a few). But status is a zero sum attribute (Bothner and Goddard, 2009), if you get more of it, somebody will have less of it. This is why no one really wants to stay behind. Since consumption has become an extension of the self (Belk, 1987), status loaded objects are essential artefacts for impression management. In addition they deliver intrinsic pleasure to the owner or user. Everyone can build his/her own prestige vis-à-vis his /her immediate social network by having the right objects, signalled by the right brands.

Where is status coming from? From people with the ability to deliver status: the elites. What is typical in our modern world is that there is no more one single elite: in fact the evolution of luxury is a reflection of the fight between elites. Through luxury elites try to impose their own taste, held as superior. The luxury of Hollywood stars and sport celebrities is not the luxury the East Coast Wasp, mimicked for mass consumption by Ralph Lauren, which is not itself the luxury of young Chinese billionaires or Russian oligarchs, drawing behind them a crowd of emulators, nor the luxury of the billionaire geeks of the Silicon Valley.

Something is sure, the need for status calls for well-known and visible brands. Depending on the reference group of your status need, you will choose different brands, known by different people, sometimes by only a few of them only.

Modern economies trigger status needs

It is easy to understand why luxury has grown so much in our societies, and its future perspectives in the BRIC countries are considerable. Conspicuousness is at the heart of it. In 1978, to transform China into a fast growing economy Prime Minister Deng Xiao Ping said: "To get rich is glorious." After decades of communism, of uniformity, of forced and sometimes brutal equality, the forces of individual competition





were unleashed. Everyone could now aim at making more money: no shame. This was even a citizen obligation: glory would be received in return. Millions of people have left their village and joined the megapolis in search for employment. Their living habits would also be changed: tradition was gone. A new man emerged. Self made. The same thing hold true in India and Brazil, less in Russia. Soon it will be Africa's turn (it has most of the ores needed by the world). This new urban civilization has strong implications for status needs as recent research has shown.

We now live in the mating society. In the BRIC countries as well as in the emerging economies, the median age of marriage is going up. This leaves much more money for self-pleasure and more time for mating. Janssens et al. (2009) as well as Griskevicius (2007) have demonstrated that men's interest for high status goods increases in a mating environment. The mating perspective encourages men to attach greater meaning to displaying success through conspicuous objects. Let us recall that the Chinese luxury market, soon the second in the world before the USA (see Bain, 2010) is predominantly a male

luxury. They are mostly concerned by the race to success.

Now two other social phenomena may also breed the world luxury fever to paraphrase Chadha and Husband (2006). We live in storytelling societies. But the fairytales are now about people just like us who became celebrities and rich quite fast. This proximity creates identification: so many websites and blogs do tell us what they wear, how they dress, what they eat, now that they are rich and famous. It has been shown by Mandel, Patrova and Cialdini et al. (2006) that reading about a successful person just like oneself (coming for instance from the same school) increases consumers' expectations about their own future wealth, which in turn increases their desire for luxury brands. Let us remember that, in all countries, new magazines, in paper or on TV, now tell us 'Who are the richest? Who are America's richest below 40?' In addition these authors demonstrate that this increases the materialistic values of people exposed to such repetitive stories.

Finally in this race there will be more losers than winners. In a factory or in an office, only the chiefs are in power. Most of others feel a state of powerlessness: they have no control on others. Rucker and Galinsky (2008) have shown that because of its aversive nature, such people try to compensate, to restore power by acquiring high status objects 'especially if the products' status is visibly conspicuous'. This overspending is a placebo to restore a sense of power and we would add of dignity. One should never forget that in Confucianist Chinese society reputation and face saving are of paramount importance. We probably can extend this to other countries too where money tends to become the key evaluator of people's worth. This is why also in the USA there are racial differences in visible conspicuous consumption.

Adapting the price and logo to different segments

There is a luxury industry because luxury does not mean anymore being accessible to a niche of richest people. This does still concern yachts, private jets, exclusive trips in the Atacama desert living in a fully ecological, sustainable and zero CO2 resort. Bernard Arnault, Founder CEO of LVMH, world N°1 Luxury Group with more than 50 brands, summarizes modern luxury as: "The ordinary of extraordinary people and the extraordinary of ordinary people." This sentence is at the heart of the luxury strategy (see below). Luxury brands need both targets to thrive. When they lack one of them there is a problem: too few extraordinary people means that soon the brand will have to trade down its prices: it has lost its status giving clients. It has no other solution than to pay celebrities to flaunt its products: a sign of weakness. Having too few 'ordinary people' may also limit the dream of the brand by lack of visibility. Investments in mega stores need bringing also new clients into these temples.

Now the status needs of different segments are not the same. People who already have richness and status have little to prove. They draw no glory to exhibit their wealth. In fact they compare themselves only to their peers. They like brands known by them only (Patek

The status needs of different segments are not the same. People who already have richness and status have little to prove. They compare themselves only to their peers. They like brands known by them only (e.g. Patek Philippe instead of Rolex).

Philippe instead of Rolex). Just as they like to patronize Golf Clubs where the entry fee is so high that it really sets up a social barrier. If they buy an expensive Vuitton bag or suitcase it is because they recognize it is a precious object. They have reached the freedom to choose for themselves, unlike most of us who choose with others in mind. These people will like brands who hide their logo, being recognized only by their typical pattern or design: as Bottega Venetta does. This means that only those in the know are able to identify what you wear. People with less status but a lot of money are craving for status. They buy visible status. A recent research (Jee Han, et al., 2010) confirmed that the preference for preeminent logos was totally predicted by these two factors: richness and status. In addition they show that a third group (with less money but a high need for status) was also looking after big logos. This is the target of Ralph Lauren recently launched big pony polos (with a super large logo on the chest). No surprise, this group is also the core target of counterfeited products. The essence of the counterfeit industry is to sell very visible logos on low quality products. This group is not looking after a durable product. But a fast class.

Luxury brands grow by catering to different segments of people. To take world most famous luxury brand, Louis Vuitton, it must manage the logo sensitivity of its different client groups. Vuitton uses a dual strategy:

- Introducing expensive new product lines to capitalize on the need for uniqueness of some people, called 'snobs' by W. Amaldoss and S. Jain (2005). Snobs are those people whose utility from a product decreases as more people can exhibit it.
- Varying the logo pre-eminence: in fact the more expensive a bag is, the less preeminent. And vice versa. Nunes et al (2010) showed that, on Vuitton e-commerce boutique, one incremental unit of logo discreetness cost 26 dollars. For Gucci it was more expensive: 122 dollars. The same holds true for Mercedes Benz: the logo on an A Class has a 16 cm diameter. On an S Class it is 6 cm. Nunes et al. made a statistical regression analysis and found that each 1 cm reduction cost \$5000 US more for the client.

Why conspicuousness will come back: It never left!

We have demonstrated that the forces driving conspicuousness have never been so strong in luxury high growth countries. What about the western world? The rumour mill keeps on repeating that logos should now be discreet. Conspicuousness is out. There are three problems with prediction.

The first one is that it is trendy. In fact it is the kind of answer that one finds in typical surveys where people are interviewed on whether or not 'luxury logos are overly visible and their size should be reduced today'. The answer is typically a socially acceptable one would expect today. Interestingly Han et al. (2007) have compared negative opinions about the size of luxury logos and subsequent luxury purchases: these researchers found that people's preferences in 'non logo-exposed' products did not correlate with actual purchases!

Still another recent study run in the USA compared the gamut of bags presented on the website, between 2008 and 2009, by Gucci and Vuitton, the two most profitable luxury brands, with the highest brand equity as measured by Interbrand (2010). The authors (Nunes

et al., 2009) make the assumption that such companies are well managed and that their new products and new prices are introduced to match the consumer demand. During the apex of the economic crisis in the USA, new products introduced displayed the logo much more than products which were withdrawn! In addition all prices went up! Financial results of the US branch of PPR and LVMH indicate that this strategy was beneficial. The crisis has wiped out of the stores those who could only buy the most accessible products, just like the cheapest Porsches lost half of their sales in 2008. But the luxury clients have not lost their need to signal status. They are the core target of the luxury brands.

Back to luxury?

Dealing with the future of luxury, the problem is that a lot of opinions are being held and believed, not because they are grounded on research or on facts, but because they are repeated by everybody, just like rumours.

Two researchers launched the slogan of *Inconspicuous Consumption* (Granot, Brashear, 2007). They call it the 'Populace paradigm' (popular opulence) because 'it involves the mass production and distribution of *premium* goods and services, enabling the majority of consumers to pick and choose their consumption of New Luxury brands'. Interestingly these authors use the word premium goods, thus overlooking the fundamental difference between a luxury strategy and a premium strategy (also called trading up strategy). Luxury exists because just some people cannot access to it. Since richness is growing everywhere in the world, thanks to fast economic growth,

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luxury must never be made too accessible if it wants to remain the dream of those with growing revenues and wealth. Even when made accessible its pricing should be discriminatory pricing. As a consequence most of the brands that like to call themselves luxury are not in fact following a luxury strategy. They are more driven by a fashion business model. It is noticeable that the brand that most follows a luxury strategy, Hermes, is also the most profitable of the sector (Tabatoni, Kapferer, 2010) and that which grew by 8.5 % throughout the economic crisis.

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