Luxury Brands in Emerging Markets

Edited by

Glyn Atwal
Douglas Bryson

'The acquisition of status, or social-esteem, is a primary driver of human behaviour. Yet the manifestation of this universal behaviour varies according to cultural specificity. With this book, Atwal and Bryson make a valuable contribution to our understanding of this universal truth by examining the meaning and growth of luxury consumption in emerging markets. This is an important lens, as the widening access and appreciation of luxury has not diminished its impact . . . rather, it has added new dimension to its appeal. The distinction between the "Old" and "New" world markets is becoming more porous, and it is imperative that managers understand these new loci of market influence.'

Dr Renée Richardson Gosline, Zenon Zannetos (1955) Career Development Professor, MIT Sloan School of Management, Cambridge, MA, USA

'This book offers an absorbing glimpse into the new "Wild West" frontiers of luxury. With terrains more exotic and characters more nuanced than in early Hollywood films, we are left in suspense as to how these five parallel plots of luxury market evolution will unfold. And regardless of the yet unknown twists and turns, it is important to chronicle the birth and growth of these emerging luxury markets . . . some of them will become the luxury market's 21st century Goliaths.'

George Bouvier, International Development Director, Polimoda International Institute of Fashion Design & Marketing, Florence, Italy

'The luxury industry is experiencing an interesting point-of-departure. Today, though the modern luxury industry has its roots in Europe, most of their growth and profitability are from emerging markets. In this book, the authors not only try to understand this point-of-departure, but also illustrate the rise of emerging market luxury brands, their growth trajectories, and how these brands interact with the traditional brands of the West. This new book, *Luxury Brands in Emerging Markets*, provides valuable insights into what makes these emerging and frontier economies grow and prosper. Most importantly, it responds to the need for practical approaches to tapping emerging markets for the luxury industry. It should assist current and future managers in navigating these high-potential but high-risk countries.'

Dr Ashok Som, Associate Dean of the Global MBA Programme, ESSEC Business School, France

'A prismatic series of perspectives on some of the world's most dynamic markets, affording a welcome addition to the universal truth that luxury is intrinsically related to culture.'

Rebecca Robins, Director, EMEA & Latin America, Interbrand, London, UK and co-author of *Meta-Luxury: Brands and the Culture of Excellence*.

'It's about time . . . unique and actionable insights addressing essential issues from different aspects of market dynamics to cultural implications of emerging 'aspirational' luxury markets and new frontier luxury markets. Well-researched, balanced perspectives, which reflect ever evolving global luxury market with full of insights for any luxury businesses and academics alike.'

Professor Jinah Oh, Chair, Luxury and Fashion Management, Savannah College of Art and Design, Savannah, GA, USA

'This book leads the way in providing the first comprehensive overview of all BRICS luxury markets. This is a must read for understanding the most up-to-date development of these markets, as it addressed current market obstacles and identified key strategic challenges for Western luxury brands' further development in the near future, complete with possible solutions.'

Dr Sindy Liu, Lecturer in Fashion Brand Management, London College of Fashion, London, UK

'*Luxury Brands in Emerging Markets* is a harmonious mosaic of observations by academics and experts of the luxury industry on this topic of extreme interest. The book approaches the issue of "luxury" through various lenses, looks at emerging markets with diverse levels of maturity, and proposes what to consider in making appropriate market segmentation and distribution choices. It is a book rich with advice on how to assess the present status of luxury in BRICS nations, and critically, identify possible development trajectories.'

Professor Roberta Crespi, Director of EMLUX – Master in Luxury Goods Management, Catholic University of the Sacred Heart, Milan, Italy

'This is an insightful piece on BRICS luxury markets. It is a page turner as well.'

Dr. Yi Qian, Assistant Professor of Marketing, Kellogg School of Management, Northwestern University, Evanston, IL, USA

'Very interesting and insightful, well-constructed and full of details, this book is for new-comers and for professionals alike. The BRICS emerging luxury markets are described here with a specific focus on the unique relationships between their local economies and consumers' attitudes, providing a complete and appealing range of guidelines for brands and managers who plan to successfully land in these countries.'

Alessandro Maria Ferreri, Global Director Brand & Commercial at Staff International – Only the Brave OTB Holding, Milan, Italy

Also by Glyn Atwal

THE LUXURY MARKET IN INDIA: Maharajas to Masses (*with Soumya Jain*)

Luxury Brands in Emerging Markets

Edited by

Glyn Atwal
Burgundy School of Business, France

Douglas Bryson
ESC Rennes School of Business, France

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Foreword

As you read this, the ‘developing world’ is rapidly overtaking the rest of the world as the key market for premium and luxury brands. With an ever-rising affluent population, coupled with a burgeoning middle class that is hungry for new experiences and brands, we have certainly reached the ‘tipping point’ in terms of luxury consumption worldwide.

Until very recently, the world of luxury was largely limited to Europe, North America, and Japan. However, the growing geographic shift in wealth, and the sheer size of the consumer base in emerging markets, has renovated the global luxury landscape. And this is not just a blip in the charts.

International luxury brands entered 25 new markets in 2013, including new and emerging markets such as China, India, Russia, and Brazil. Other high potential markets such as Nigeria, Mexico, and Indonesia have also attracted investment in light of the phenomenon of the rise of an affluent consumer class. There is no discernible limit to this trend.

Luxury is not entirely new to most of these emerging markets; the maharajahs of India and the tsars and emperors of Russia and China were prominent purveyors of luxury throughout history. However, these societies have recently witnessed wealth creation that is no longer confined to and reserved for the elite. This has given rise to a new generation of affluent, aspiring, and ambitious consumers whom we call ‘Generation AAA’.

Generation AAA are the new buyers of luxury brands, and fundamentally, they believe in rewarding themselves. They feel that they have worked very hard and they do indeed deserve the good things in life. Consequently, they buy brands to let themselves, and the world, know that they have ‘arrived’.

Yet, to speak of ‘luxury’ as meaning the same to all consumers across the board would be quite misleading. The concept of luxury differs greatly within countries, populations, and segments. As a result, luxury brand managers must be quick to adapt to the cultural nuances and local tastes of these increasingly discerning consumers. Nevertheless, there are some key dimensions of luxury that cut across various cultures:

- the need for demonstrated uniqueness;
- the role of luxury in self-definition;
- the need to be in a category of society above the rest; and finally
- the need to be, quite simply, exclusive of other segments of society.

Most of these attributes drive the desire and purchase of luxury goods. Evidently, brands need to play to these characteristics to connect with the existing and emerging affluent consumers.

However, as luxury markets evolve, so does the study of consumers' behaviours, attitudes, and preferences. This is why *Luxury Brands in Emerging Markets* is a precious resource. This book has been compiled primarily for industry professionals and their surveyors, both scholars and apprentices, with an eye towards a career in international luxury brand management. This book brings forward new dimensions to uncover and understand, suggesting future scenarios facing international luxury brands.

Glyn Atwal and Douglas Bryson have notably succeeded in providing a volume that provides critical insights that are often subtle, perhaps more often ignored, but are very significant. Within the chapters of this book are clearly laid out lessons which will help luxury players formulate effective strategies and develop their positions in emerging markets. With this book as a contemporary resource, luxury brand managers hold a solid foundation from which they can confidently build future strategies.

Luxury Brands in Emerging Markets will not only serve as a ground-breaking reference today, but will continue to spark conversations and debate around luxury brands, and their strategies, for years to come. The insights contained within this book sparkle as much as the luxury industry itself.

Amrita Banta
Managing Director
Agility Research & Strategy
Singapore

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Time is a luxury commodity and that is why we are deeply indebted to each and every contributor who has been so generous in sharing their valuable time, expertise, and experience. This is truly a collective effort that has helped to redraw the luxury map. Special thanks to Stéphane Sourdillat and his team at Little less Conversation (Paris) for the design of the book cover. We would also like to express our thanks to Virginia Thorp and Kiran Bolla at Palgrave Macmillan for their continual assistance.

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Our profound thanks to the many experts in academia and industry who informally offered invaluable guidance and suggestions, and undoubtedly helped us bring forth a book that surpassed our own abilities and expectations.

Glyn Atwal and Douglas Bryson

Contributors

Kevin Der Arslanian is a business analyst with the China Market Research Group (CMR) in Shanghai, China, and focuses on the luxury goods, information technology, and food and beverage sectors. He has appeared on CCTV and HuffPost Live, and has been quoted in *The Atlantic*, *The Christian Science Monitor*, and *Forbes*.

Glyn Atwal is Associate Professor of Marketing at Burgundy School of Business, an international Graduate School of the French network of Grandes Ecoles. His teaching, research, and consultancy expertise focuses on marketing and strategy within the affluent and luxury space. He has presented at leading universities worldwide, including Harvard Business School, and is co-editor of *The Luxury Market in India: Maharajas to Masses*. Prior to academia, Glyn worked in industry for Saatchi & Saatchi, Young & Rubicam, and Publicis.

Douglas Bryson is Professor (Titulaire 1) at the ESC Rennes School of Business, France, where he created the Master of Science in International Marketing degree programme. He was educated at the Universities of Manitoba and New Brunswick in Canada, the University of Cambridge, UK, and the Warsaw School of Economics in Poland. He has carried out consulting work, coaching, and teaching in over a dozen countries in Europe, Asia, and North America. His recent research is a mosaic of applied social psychology and consumer behaviour topics, including creative work environments, new product adoption, antecedents and consequences of brand image, and issues in international luxury brand management. He has published in international journals such as the *Journal of World Business,* the *Journal of Consumer Marketing,* and *Qualitative Market Research: An International Journal.*

Ben Cavender is Associate Principal with the China Market Research Group (CMR) in Shanghai, China. His work focuses on market analysis, retail strategy, brand positioning, and growth strategies in the Chinese market for Fortune 500 companies, small and medium-sized enterprises (SMEs), and Chinese companies. He is a frequent guest on CNBC and Bloomberg TV, and is regularly quoted in *The Economist*, *The Wall Street Journal*, and *BusinessWeek*.

Conlyn Chan is Founder and Chief Executive Officer of Lawless Accessories, a high-end exotic skin handbag company based in New York City, US. Lawless Accessories has retail operations in the US, Japan, Taiwan, Hong

Kong, and China. Lawless handbags have been featured in *Vogue*, *Madame Figaro*, and *Tatler*. Conlyn has also been listed among 'China's Top 100 Most Influential Women' by *Insider Magazine* (December 2012).

Himadri Roy Chaudhuri is Associate Professor of Marketing at International Management Institute, Kolkata. He holds a PhD from the University of Calcutta, India, and has over 13 years' experience in industry, research, and teaching. His research interest lies in culture consumption theory, consumption, and well-being, and he has published in leading international journals, such as the *Journal of Consumer Behavior, Academy of Marketing Science Review*, and *Asia-Pacific Journal of Marketing & Logistics*.

Inka Crosswaite holds a PhD from the University of Cape Town, South Africa, and is presently the semiotics analyst at the global consultancy Added Value, at the South African office in Johannesburg. Before joining Added Value in 2005, she was a lecturer at the University of Cape Town and at the University of Stellenbosch, specializing in research methodology, semiotics, and cultural studies. Her experience has spanned ethnographic research, the analysis of consumer culture, local and global trend analysis, as well as research development.

Kartik Dave is Associate Professor in Marketing at the Birla Institute of Management Technology (BIMTECH), Greater Noida, India. He received his PhD from Mohanlal Sukhadia University in Udaipur, India. His main research interests are marketing, services marketing, branding, luxury marketing, and retail and human dimensions in marketing. He has published in refereed international journals, books, and conference proceedings. His teaching and research activities include collaborations with business schools in France, Spain, and Singapore.

Claudio Diniz is Vice-Coordinator for the Luxury Commission at the French Chamber of Commerce in São Paulo, Brazil, Coordinator of the MBA in Luxury Management at Istituto Europeo di Design (IED), São Paulo, and CEO of Maison du Luxe, a consultancy specializing in events management expertise. He writes a monthly column on luxury trends and insights for *Luxus Magazine* and is author of the book *O Mercado do Luxo no Brasil: Tendências e oportunidades* (2012). Claudio holds an MBA in luxury management from Faap University at São Paulo, Brazil, and has studied at the London College of Fashion, UK, and ESSEC Business School, France.

Elizabeth Ellis is Knowledge and Special Projects Leader at YSWARA, an African luxury brand that creates exquisite contemporary objects and accessories based on century-old African craftsmanship. In her role, she drives all of the company's initiatives aimed at preserving, promoting, and sharing

Africa's unique and poorly known cultural heritage, while ensuring the communities' sustainability. She is also the company's government liaison officer. She pursued studies in political science at the Université de Montréal in Canada and Lunds Universitet in Sweden.

Bernardo Figueiredo is a researcher at the University of Southern Denmark. He received his PhD in marketing from the University of New South Wales in Australia. His research examines how the globalization of markets and culture shapes consumption and marketing practices. He has special interest in marketing issues related to consumer culture, mobility, multiculturalism, cosmopolitanism, and developing markets. His work has won awards at international conferences in the marketing and consumer research field.

Pilar Rojas Gaviria obtained her doctoral degree in economics and management from Solvay Brussels School of Economics and Management, Belgium. She is now studying the role of consumption-related practices in migrant parents and their children's construction of moral meanings, sentiments, and responsibilities. She has published in leading journals including the *Journal of Consumer Behaviour*, *Research in Consumer Behavior*, *Advances in Consumer Research*, and *La Fabrique de l'Ethnicité: Consommation et Marketing*. She is also Visiting Professor at Universidad Esan in Lima, Peru.

Frédéric C. Godart is Assistant Professor of Organizational Behaviour at INSEAD, France. He received his PhD in sociology from Columbia University, New York. His research interests include the structure and dynamics of creative industries, the development of fashion as a significant economic activity, and the antecedents of creativity. He is the author of *Unveiling Fashion: Business, Culture, and Identity in the Most Glamorous Industry* (2012), as well as of several peer-reviewed articles in leading academic journals such as *Organization Science, Organization Studies, Annual Review of Sociology*, and *Social Forces*.

Michel Gutsatz is Senior Professor of Marketing and Director of MBAs and DBA at Kedge Business School (Marseille, Bordeaux, Paris, and Shanghai) and Adjunct Professor at China Europe International Business School (CEIBS) in Shanghai where he organizes the annual Prestige Brand Conference. He is also an international consultant with clients encompassing investment funds, luxury brands, mass brands, retailers as well as brand suppliers. His blog BrandWatch at *www.michelgutsatz.com* is a reference in brand strategy. Michel is co-author of *Luxury Retail Management – How the World's Top Brands Provide Quality Product & Service Support* (2012) and *Luxury Talent Management – Leading & Managing Luxury Brands* (2013).

Jonas Hoffmann is Associate Professor of Marketing at SKEMA Business School, France. He is an expert in the luxury industry in emerging countries, and in executive training and consulting in Europe, China, and Brazil. He is a frequent panellist at international professional events such as the China Luxury Summit. He has co-authored/co-edited the following books: *Sustainable Innovation Strategy* (2013), *Global Luxury Trends* (2012), and *Luxury Strategy in Action* (2011).

Soumya Jain is the Chief Editor and CEO of *LuxuryFacts,* an online luxury magazine based in India, and co-editor of *The Luxury Market in India: Maharajas to Masses* (2012). She is also a visiting lecturer in luxury marketing at leading business schools in India. Prior to *LuxuryFacts,* she was a member of the editorial staff for the magazines *MillionaireAsia India* and *Asia-Pacific Boating India.*

Irina Kulikova is a consultant in the Moscow office of Bain & Company, Inc. With several years in strategic consulting, she has worked on multiple projects in luxury retail, beauty products, and FMCG. Her previous experience also includes several years in industry, including marketing at L'Oréal, as well as start-up online fashion retail in South Africa. She holds a bachelor's degree in economics from Moscow State University, an MBA degree from INSEAD, and two master's degrees in economics from the Higher School of Economics of Moscow, Russia, and from the University of Paris I – Pantheon Sorbonne, France. Irina has worked and lived in several countries, including Russia, the Ukraine, France, Singapore, and South Africa, and speaks fluent Russian, English, and French.

Swaady Martin-Leke is Founder and CEO of the African luxury brand YSWARA. After a successful ten-year career at General Electric, where she held several leadership positions, Swaady decided to follow her passion for African culture and heritage. She has received numerous distinctions and awards. Among them, she was selected as 'New Leader of the Future' by the Forum of Crans Montana in 2011. In 2012, she was chosen to be part of the prestigious Archbishop Tutu Leadership Fellowship Programme, and named one of the 'Youngest Power Women in Africa' by Forbes. Swaady holds a master's degree in economic sciences from the University of Lausanne, Switzerland, and an international MBA from the London School of Economics, the Stern Business School of New York University, and HEC Paris Business School.

Sitanath Mazumdar is Professor of Systems and Marketing at Calcutta University, India. He has held various senior positions at Calcutta University, such as Dean, Faculty Council for Post Graduate Studies in Commerce, and

Convener of the PhD Committee for the Department of Business Management. He is also an external advisor at various State and Central Universities. He has published widely in national and international journals and is the recipient of numerous awards for his work.

Nacima Ourahmoune is Professor of Marketing and Director of the Marketing, Consumption & Society Research Centre at NEOMA Business School, Reims campus, France. Nacima obtained her doctorate from ESSEC Business School, France. Her academic research tackles socio-cultural aspects of consumption and of branding in different areas such as fashion/luxury, gender issues, privacy/intimacy, and emerging markets. She also contributes to consultancy projects, using qualitative research methods and bringing a cultural focus to managerial issues. Her work has been presented at leading international conferences and published in journals including *Marketing Theory* and *Advances in Consumer Research*.

Serena Rovai is Director of the Europe-Asia Centre for Management and Innovation at Grenoble Ecole de Management (GEM), France, and created the Master of Science in Fashion, Design and Luxury Management degree in the Grenoble and London campuses. In her previous role, she was Director of the Uni-Italia Centre in Beijing. She has published widely in management and scientific journals such as the *International Journal of Human Resources Development, IO Management Magazine,* and *Economia e Management*. She has lived in different countries in the Middle East and Asia, including China, for the past ten years.

Paul Sanders is Associate Professor at NEOMA Business School, Reims campus, France. He holds a PhD from the University of Cambridge and a DEA from Sciences Po Paris. His teaching and research interests cover the international business environment with an emphasis on geopolitics, ethics, and Russia as an emerging market.

Kunal Sinha is Chief Knowledge Officer, China, and Regional Cultural Insights Director, Ogilvy & Mather Asia/Pacific, based in Shanghai, China. A 24-year veteran of the advertising industry, he is an 11-time winner of the WPP Atticus award for original thinking in marketing services, including three Grand Prix. He was listed in the millennium edition of the *Who's Who in the World* and has spoken at leading universities including Harvard Business School, Kellogg School of Management, Cambridge University, and London Business School. His contributions include academic papers, blogs, columns in business and trade media, and four books including two on creativity: the award-winning *China's Creative Imperative* (2008) and *Raw: Pervasive Creativity in Asia* (2012).

Nilanjana Sinha is Assistant Professor of Marketing at NSHM Business School, Kolkata, India. She is also a research scholar currently pursuing her PhD in the area of cultural branding from Calcutta University. Her research interest lies in experiential marketing, consumer identity, and culinary culture. She has published in national journals and contributed to several books.

Tommy Tse is Lecturer in the Department of Communications Studies, Hong Kong Baptist University (HKBU). His PhD degree, from the University of Hong Kong (HKU), specialized in the interdisciplinary study of fashion communication, media, and culture industries. Prior to HKBU, he acquired experience and knowledge in marketing, advertising, public relations, and media writing in various print media companies, and integrated services agencies, including ADO and TBWA.

Paulina Tsimakhovich is an independent marketing researcher based in Reims, France. She is a graduate of the Open University, UK, and holds a specialized master's degree from the Burgundy School of Business, France.

Len Tiu Wright is Professor of Marketing at the University of Huddersfield, UK. She was formerly Research Professor at De Montfort University and Visiting Professor at Keele University. Len Tiu has retailing, consultancy, and industrial experience, and has researched in the Far East, Europe, and North America. Her writings have appeared in books, in American and European academic journals, and at conferences, where some have been winners of best paper awards. She is on the editorial boards of a number of leading marketing journals. She is the founding editor of *Qualitative Market Research: An International Journal*.

Daria Yadernaya is Managing Director of Esper Group, a leading think-tank and consultancy within the fashion industry in Russia. She also lectures at the British Higher School of Design in Moscow and at the Moscow State University for International Relations under the aegis of the Russian Ministry of Foreign Affairs.

Yue Zhao received her MPhil and PhD degrees in business administration, specializing in strategy, from ESSEC Business School in Paris, after studying economics and finance at Peking University, China. Her doctoral thesis investigated the history and evolution of *haute couture* and *prêt-à-porter* fashion. She is currently Assistant Professor at ESG Management School in Paris, where she teaches luxury management and business strategy.

Introduction

Glyn Atwal and Douglas Bryson

A video showing a nine-year-old boy driving a Ferrari, with his seven-year-old brother in the passenger seat, went viral on YouTube.[1] It was not only the age of the driver and the irresponsibility of the parents that was startling, but also that the incident took place in the southern Indian state of Kerala. This may be an extreme example of the proliferation of a luxury item found in an unexpected context, but the amateur video footage clearly shows that the market for contemporary luxury is far from being a Western phenomenon.

If we stay with the car analogy, emerging economies are set to overtake developed economies in the fast lane. McKinsey (2012) estimates that annual consumption in emerging markets will increase from US$ 12 trillion in 2010 to US$ 30 trillion by 2025, and account for nearly 50 per cent of the world's total consumption, up from 32 per cent in 2010. The implications are indeed significant within the luxury domain. Emerging markets – led by China – now account for approximately 50 per cent of all luxury sales. It may even be misleading to suggest that China is emerging, as it has already emerged to a noticeable degree and is set to become the world's largest luxury goods market. Although it is not a mature market, Greater China is the biggest market for an increasing number of luxury fashion brands. Similarly, the premium car market in China is the second largest market in the world and with demand increasing, it is forecast to overtake the United States in 2016 (McKinsey 2013).

However, luxury in emerging markets is not just about China. For example, Brazil is the world's largest market for perfumes and fragrances, and India continues to be the world's largest gold jewellery market. Stories of new high growth market opportunities are stemming from unlikely places. Louis Vuitton made headlines when it opened a store in Ulan Bator in Mongolia, and Almaty in Kazakhstan. Porsche surprised the world of motoring when it opened the world's biggest Porsche Centre, which includes a 2,000 square metre showroom in Johannesburg, South Africa. Similarly, French champagne houses went giddy on discovering that Nigeria is the second fastest growing market in the world for champagne, and is now among the top 20 champagne markets in the world (Euromonitor International 2012). The market for luxury is truly global, and emerging markets are very likely to outperform developed economies, in growing numbers of luxury sectors.

It is therefore quite obvious that luxury brand owners will benefit the most by focusing on these increasingly affluent markets. It has already been recognised in several luxury sectors and it is no coincidence that *Vogue* produces local editions in Russia, Taiwan, India, Mexico, Brazil and Latin America, South Korea, Turkey, China, Thailand, and the Ukraine. However, market success will need to be planned and executed with strategic insight combined with local market relevance and local knowledge.

However, success is far from guaranteed. Numerous luxury, premium, and fashion brands have become case studies for market entry failure in emerging markets. Esprit, Dunhill, and Aigner have all withdrawn from the Indian market. Even Bulgari closed its only mono-brand store in Mumbai. Fendi, Bottega Veneta, and Chanel have recently closed stores in the Russian city of Yekaterinburg. China is also proving to be an unpredictable and challenging environment as the market changes and matures. Louis Vuitton, Burberry, and Gucci are reportedly slowing down their retail expansion and Audemars Piguet is closing six of its 22 stores in China (Minder 2013).

This raises important questions for international luxury brands: how can luxury brands best avoid the hazards that lead to market stagnation or worse, and instead identify and leverage growth opportunities in high-potential markets? *Luxury Brands in Emerging Markets* sets out to decode the luxury markets in the primary emerging markets, or what we prefer to call aspirational markets. We believe that the sometimes differing expressions of aspirations set these high-growth economies apart from so-called developed or advanced economies. It is the aspiration of the consumer to improve one's economic and social status, the aspiration to excel in knowledge of luxury, and the aspiration to succeed and exceed expectations. The American dream is being adopted and adapted into the Chinese dream, the Indian dream, or in some form, the dream of each of the emerging markets. We expect, in many cases, that the new frontier markets, those growing fast with burgeoning affluent and growing middle classes, will follow a similar evolution in the future.

As international luxury companies look to expand their global footprint, they will be challenged to unlock these aspirations and dreams, but will also need to take into account local traditions, histories, and idiosyncratic meanings. It is this challenge that has wide-ranging implications for luxury brand strategies in emerging markets. Each market is unique, with variations in distinctive characteristics of many economic, social, cultural, regulatory, and competitive aspects. A visit to Shanghai, Mumbai, Moscow, São Paulo, or Johannesburg, each tells its unique story of luxury in which alternative concepts of beauty, style, and status are ingrained in the local nuances of what luxury means, and what it is used for.

Luxury Brands in Emerging Markets addresses salient issues that are critical to success and lead to a sustainable return on investment. In an attempt to present various perspectives, we have brought together academics and practitioners, all specialists in their domain. Contributors were challenged to go beyond conventional thinking, and to provide forward-thinking perspectives. We encouraged diversity of viewpoints and opinions, in order to provoke dialogue and debate in the boardroom, as well as in classrooms that are preparing future luxury company executives.

Not surprisingly, our contributors do not see the world identically. This is a positive outcome that provides an open space, which can only ever be partially filled. This book provides some of that filling, with knowledge from research findings, thought-provoking analyses and ideas, and novel insights at the very frontiers of new knowledge and practice. There is clearly more to learn, and there always will be. These emerging markets are incessantly evolving. It is today's knowledge, and a shared conscious recognition of the continuous need for new market intelligence, that will spur luxury brand executives to creatively amass the expertise and resources to solve complex issues and deliver business success.

This book focuses on the big emerging markets Brazil, Russia, India, and China (BRIC nations), but also briefly ventures into one promising new frontier market: South Africa, and its surrounding African context. The countries given coverage in the book are clearly just a start, and were chosen due to their status as being commonly grouped together as emerging markets, with some history of luxury brand presence. We expected to glean some lessons from the experiences of luxury brands within these countries that might elucidate ways forward for companies not yet present, and also light the way into new frontier markets as the spotlight invariable turns to these new luxury brand destinations. Some of these new markets appear to be Mexico, Turkey, Columbia, Indonesia, Malaysia, etc., and this list expands every year as different countries become more capable of expanding their affluent and middle classes.

Writing from France, naturally, we asked a certain French champagne producer to give us his insight into future high-growth markets. He slowly smiled and declared in a matter-of-fact tone: 'Where there are cranes, there is a market for champagne.' Luxury brand owners should look forward to expansion and be open to where that will actually occur.

Note

1. The video can be viewed at http://www.youtube.com/watch?v=Tm2xgHeULSc

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Part I

Brazil

1
Understanding the Brazilian Luxury Consumer

Claudio Diniz, Glyn Atwal, and Douglas Bryson

Economic prosperity in Brazil, as is evident in other emerging markets, has created new high-end consumer markets. According to Euromonitor International (2012), Brazil's luxury goods market has grown rapidly in the last decade and was valued at over US$ 7 billion in 2011. Other market estimates indicate that the Brazilian luxury market is close to US$ 12 billion (MCF Consultoria and GfK 2011). The high potential of the seventh largest national economy continues to attract ever increasing attention of international luxury brands. For example, the JK Iguatemi mall in São Paulo, which opened in June 2012, has given luxury brands such as Burberry, Gucci, and Prada, an increasingly prominent footprint. Difficulties encountered by international luxury brands, such as high taxes, red tape, and lack of infrastructure, continue to hinder market entry and expansion plans. However, the failure to gain a deep understanding of the Brazilian luxury consumer should not be overlooked. This chapter sets out to decode the luxury consumer. Indicated actions stemming from our analysis will give international luxury brands the necessary knowhow to capture a greater share of the bourgeoning luxury market in Brazil.

Emerging prosperity

Extreme income inequality in Brazil has traditionally meant that wealth was exclusive to a small elite minority. Profiling and targeting the Brazilian luxury consumer was essentially the 'global luxury consumer' who shared traits similar to the very affluent luxury consumer in North America, Europe, or Asia. The game changer that is redrawing the market for luxury brands is the growth of Brazil's middle and affluent classes. Income growth projections suggest that luxury goods will be financially accessible to wider sections of the population. Boston Consulting Group projects that in 2012, 20 million emergent and established households will account for around 29 per cent of the total, and represent 35 per cent of Brazil's income (BCG 2013). These are consumers who will typically trade up and use credit to acquire premium and affordable luxury items. While they may not be able to afford a Chanel handbag, they can access the universe of Chanel by purchasing Chanel sunglasses or cosmetics. An interesting perspective is given by Edmonds (2011): 'When a good life is defined through the ability to buy goods then rights may be reinterpreted to mean not equality before the law, but equality in the market.'

Affluent households will still be a critical source for luxury sales as the increase in the number of these households will account for a projected 29 per cent of all Brazilian consumption in 2020 (BCG 2013). Data from Credit Suisse indicates that there are currently 227,000 millionaires in Brazil and this number is set to increase to 497,000 by 2017 (Polland 2012). Greater spending power at the top of the wealth pyramid will have positive implications for the growth of numerous luxury goods and services categories, from pens and watches to yachts and high-end real estate. The luxury market in Brazil is evolving. As a result, luxury brands need to create a compelling proposition that is relevant to the very affluent, but also accessible to first-time luxury consumers.

Demographic bonus

Brazil's momentum to developing into a high-growth consumer market can be partly attributed to its 'demographic bonus'. About two-thirds of the country's population is between the ages of 15 and 64, the most economically productive age group. This demographic dividend was a result of a strong decrease in birth rates after the 1970s, while mortality rates decreased at a slower pace. It is projected that the growth rate of this economically active group will peak at the start of the next decade (Newmann 2011). This demographic dynamic will provide significant opportunities for luxury brands, but will also mean that luxury brand owners will need to adopt a more 'youthful' marketing approach as opposed to developed markets in the United States or Europe. According to a survey conducted by MCF Consultoria/GfK (2011), 33 per cent of luxury consumers in Brazil are between 36 and 45 years old, and another 32 per cent are between 25 and 35 years old.

Market concentration

Seventy per cent of Brazil's domestic luxury consumption takes place within São Paulo (Cox 2012). Prominent luxury retail malls include Cidade Jardim (e.g. TAG Heuer, Cartier, Louis Vuitton) and Iguatemi (e.g. Burberry, Gucci, Louis Vuitton). The dominance of São Paulo is perhaps not surprising given that São Paulo is the largest city in Latin America, and the third biggest in the world by population. The city is considered as Brazil's financial capital and is the focus of the economic activity of the country. São Paulo comes ninth in global rankings of cities with the most High Net Wealth Individuals (HNWIs) with net assets of over US$ 30 million (Knight Frank 2013). This wealth has certainly left an impression on the city; there are 420 helicopters registered in São Paulo, a total that is second only to that in New York City, according to the Brazilian Association of Helicopter Pilots (Geromel 2013).

Other luxury destinations include Rio de Janeiro and Brasilia. The World Cup in 2014 and the Summer Olympics in 2016, as well as the expectation of growth in petrol production, will strengthen Rio de Janeiro's position as an important luxury market destination. The launching of the Leblon Shopping Mall (e.g. Chanel, Ferragamo, Ermenegildo Zegna), the revival of Sao Conrado Fashion Mall (e.g. Diesel, Armani, Ermenegildo Zegna), and the opening of the Village Mall (e.g. Tory Burch, Burberry) are recent developments that have improved the city's luxury brand retail infrastructure. Brasilia has the highest income per capita in Brazil, and is emerging as an alternative luxury destination to São Paulo and Rio de Janeiro. For example, the Magrella mall in Brasilia (e.g. Céline, Stella McCartney, Lanvin, Roberto Cavalli) has evolved as an important luxury retail landmark. However, rising incomes beyond the Rio–São Paulo axis are creating further opportunities for luxury retail. For example, in October 2012 the shopping centre Riomar was launched in Recife (the largest metropolitan area of the North/Northeast) and has become home to H. Stern, Burberry, and Hugo Boss. In September 2013, Iguatemi mall, which includes over 200 stores such as Canali, Coach and Tod's, opened in Ribeirão Preto (São Paulo State). Patio Batel was recently opened in Curitiba in the Southern region of Brazil, bringing Louis Vuitton, Burberry, Coach, and Versace together under one roof. Remarkably, according to Euromonitor International, US$ 3 billion is expected to be spent on 100 new Brazilian shopping malls by 2014 (Mount 2012), which will give premium and lifestyle brands broader access to new geographical markets.

Regional differences

Many international companies have often approached Brazil as one market. However, this is a vast oversimplification; a misconception perpetuated by the great distances from luxury producers' HQs to Brazilian soil. Each region has its own idiosyncrasies and consumer habits vary widely, which can have implications on how luxury brands should connect with the potential luxury buyer. Affluent consumers from the North or Northeast visit São Paulo about once a month to shop, and they love to enter a shop where the sales assistant will play their favourite song, or will serve them champagne and remember their favourite styles. Although often aware that they are paying a higher price than they would abroad, they are unconcerned. As many of them are not fluent in English or French, they do not experience the same type of customer service in New York, Miami, or Paris. They like to be pampered, and form a cosy bond with their salesperson. Due to the language barrier, they do not experience a 'thrill', which is an essential aspect of the luxury brand experience, when shopping abroad. Elsewhere, Carioca women from Rio are remarkably easy-going and extroverted; they do not hesitate to enter shops or jewellers in their swimwear. In São Paulo, on the other hand, they are likely to dress up, get a manicure and a hairdo to go shopping, and have a more formal attitude and attire. In Brasilia, the nation's political capital, luxury consumers prefer to pay cash rather than to charge their credit cards. Brazil is in fact many dissimilar markets within one nation.

Shopping abroad

It is reported that 80 per cent of luxury items owned by Brazilians are in fact 'tourist purchases' (A.T. Kearney 2013). Brazilians outspend even the Chinese when they visit cities in the United States, spending on average US$ 4,940 per stateside trip (Cox 2012). The incentive for Brazilians to purchase luxury items abroad, whether in Europe (Paris, Milan, London) or the United States (Miami, New York) is huge given the price differences. Even with the 6.38 per cent extra charge on international purchases by credit card, it is still much more advantageous to buy abroad than locally. Taxes and import costs mean that luxury goods sold in Brazil are far more expensive than in the United States. In the clothing sector, taxes charged range from 80 to 120 per cent, while in the jewellery sector they are between 28 and 44 per cent. To put this into perspective, an automobile costing the equivalent of R$ 45,000 in primary markets around the world will cost R$ 75,000 in Brazil. Higher prices might allow for higher margins for luxury brand owners, but it also means that many luxury goods remain out of reach for many aspiring middle class consumers who would otherwise fall into this category of consumer.

Having vs. being

A feature of luxury consumption in Brazil is related to sensations, where 'having' is more important than 'being'. That means that the lack of content for 'being' requires higher levels of 'having' as a password to a social group, and to access its status. Although, due to crime, there is a concern for public safety, Mazza and Stul (2012) assert that there is a need for Brazilians to publicly display their social and lifestyle status: 'Luxury is associated with exclusivity: Why own or do something exclusive if no one knows about it?' This condition of 'having', however, reflects two sides of consumerism: the satisfaction of a personal need and social ascension, i.e. belonging to a group. 'Many consumption decisions are intended, consciously or subconsciously, meant to signal one's place in the social continuum. Clothing, hair styles, club memberships, automobiles, and housing neighbourhoods all have some component of social identification associated with them' (Friedman and Grilo 2005, p.2). Interestingly, this phenomenon strikes a chord with both the emerging 'new money' and traditional 'old money' segments of the luxury consumer population. For instance, the traditional elite, founded on social prerogative, adapts its purchasing behaviour in order to maintain its social distinction. This was the case when the emerging group began purchasing designer clothes for ostentation, and the traditional group responded by wearing personalized designer clothes. Similarly, the need to acquire social distinction via knowledge, e.g. the choice of a wine's best year, or region of origin, suggests that this group of consumers is searching for codes of consumption in order to differentiate themselves from the emerging group.

Appearance

There is a commonly held assumption that Brazilians are obsessed by their physical appearance. Brazil in 2011 had the second highest number of plastic surgery procedures in the world (Lapper and Stillman 2013) and is the world's second biggest market for gyms (Reuters 2012). It is also set to overtake Japan as the second largest beauty market (Erlich 2012). This culture of perfecting one's physical appearance suggests that attractiveness is in fact related to social status. As pointed out by Edmonds (2011): 'For many consumers attractiveness is essential to economic and sexual competition, social visibility, and mental well-being.' Sephora, for example, aims to leverage this huge market opportunity. It opened its first store in Brazil in July 2012, and has plans to open an additional 39 stores over the next five years. It has also acquired a 70 per cent controlling stake in Sack's, a Brazilian online retailer of fragrances, cosmetics, and toiletries (Bonifacio 2012). The societal and peer pressures of 'appearance' are however extended to combine beauty with fashion. As observed by Broide *et al.* (2012a): 'Fashion and beauty is not an indulgence, but very nearly a necessity for every demographic and income group in Brazil.' Brazilian consumers are extremely fashion conscious and data released by Euromonitor International (2012) shows that designer clothing and footwear constitutes 37 per cent, and luxury accessories 17 per cent, of spending of luxury goods consumption by category in 2011. The notion of 'appearance' is a very Brazilian specific attribute as noted by Mazza and Stul (2012): 'They like to go to places that are famous for the people who go there rather than the place itself.'

Impulsive

A defining and perhaps unique feature of the Brazilian consumer is their strong inclination towards spontaneity. With little consideration to any self-set budget limits, Brazilians often buy fashion and luxury items on impulse. Purchases are habitually made on credit and are mostly paid off in instalments. In a consumer's mind, she is not spending R$ 5,000 but 10 instalments of R$ 500 each: a bargain. More than 70 per cent of luxury product sales are in fact paid with credit card instalments (Mazza and Stul 2012). To be able to buy more, Brazilians often pay the minimum charge on their credit bill, which allows them to buy more without paying the total balance up front. Brazilian customers, often more emotional than rational when faced with a possibility to spend, are a unique case for the luxury market. As noted by Roland Villard, chef at Le Pré Catelan (Copacabana), Brazilians are willing to splurge on a bottle of champagne without thinking of the cost if the champagne is for the purposes of having a good time: *'Tout le monde va boire une fois dans sa vie du champagne, c'est comme s'offrir un petit morceau de France; les Brésiliens n'ont pas la prudence des Européens, ils font des sacrifices pour faire la fête'*[1] (Oualalou 2012, p.8). Even a large number of consumers, who frequently travel abroad, buy luxury brands locally as well. If they desire a product they buy it immediately, as they cannot wait for the next trip abroad to buy it. Similarly, in terms of buying items online, there is 'an unwillingness to wait for an item and the desire to touch and feel it' (Broide *et al.* 2012b). This impulsive shopping behaviour can be attributed to '... very near memories of hyperinflation, when it didn't make sense to save. Moreover, many of the rich are newly so, with the impulses that often accompany that group. They are in their 30s and 40s and they want their fun now' (Mazza and Stul 2012).

Social

The need for social relationships and interactions is a distinctive attribute of consumer behaviour in Brazil that transcends social and income groups. For example, a McKinsey study found in a mass-market apparel study of Brazilian shoppers that 54 per cent of respondents purchase clothing for going out with family and friends, compared to 32 per cent in Russia, 23 per cent in India, and 24 per cent in China (McKinsey 2007). The shopping experience in the growing number of malls is also a group leisure time activity that brings family and friends together. Moreover, social activity has a very strong online significance. According to Broide *et al.* (2012b), Brazilians spend more than twice as much time online as the British, French, or Spanish, and remarkably, more time than Americans on social networking sites. In fact, Brazilians have the highest number of online 'friends' in the world. According to a report by TNS (2011), the typical Brazilian has an average of 231 social network friends, and 357 for those accessing the Internet via their mobile phones, vs. an average of 176 in Latin America, and 120 globally.

Consumers globally use social media to obtain friends' opinions on a product they are considering buying and comment on product and brand experiences – positive or negative. This is of significance for luxury brands where nine out of ten Brazilians listen to the recommendations of their friends and acquaintances before making a complex purchasing decision (Barros *et al.* 2012). Although the obvious lesson for luxury brands is to develop effective word-of-mouth strategies, brands need to consider, within a holistic context, if their brands are delivering a truly 'social centric' experience. One striking example of success in this domain is the Brazilian shoe brand Melissa, which used 350,000 Post-it Notes as 'pixels' for a film with the theme of the 'Power of Love', which was played at their flagship store in São Paulo.[2] What made this event highly involving was that 30,000 messages about love were written by passers-by on the Post-its that were consequently used in the animated film.

Local pride

Brazilians have pride in their own very distinctive identity, which is reflected widely in their consumption attitudes and habits. For instance, a mass-market apparel study of Brazilian shoppers found that 81 per cent of Brazilian respondents agree with the statement, 'I trust local brands' and only 11 per cent of Brazilians agree that 'foreign brands are higher quality than local brands' (McKinsey 2007). This phenomenon is also very much evident within the luxury domain where many domestic luxury brands are able to combine Brazilian heritage with contemporary lifestyle. It is stated that 50 per cent of Brazil's luxury market share is attributed to local brands (Cox 2013). As a result, local premium and luxury brands enjoy a strong following in a broad range of categories including fashion (e.g. Osklen, Carlos Miele), beauty (e.g. Natura), and jewellery (e.g. H. Stern). Brazilians are open-minded, but are also looking closer to home for identity and inspiration. For example, certain iconic Brazilian top models such as Gisele Bundchen, Alessandra Ambrosio, or Adriana Lima, are particularly influential role models. International luxury brands should not underestimate the extent to which local pride influences consumption patterns. As Quelch and Jocz (2012 p.192) observe within a general context, 'There are highly resilient, well managed brands in local markets that are successfully defending themselves against multinational corporations. Consumers may experiment with global brands but then return to favourite local brands – which in many cases improve their quality as direct response to competitive pressure from global marketers.'

Summary

Brazil is the fifth most populous nation in the world and holds enormous market potential. The affluent classes are expanding and more and more Brazilians are becoming financially capable of consuming luxury brands – and they are increasingly doing so. The 2014 World Cup, to be played throughout the nation, and 2016 Summer Olympics in Rio de Janeiro, will firmly keep Brazil in the international limelight over the coming years and ensure a virtuous circle of investment in infrastructure, and pertinently, further stimulate the growth of the middle and more affluent classes. This leads to a very positive forecast for many markets, including the luxury sectors of the economy.

However, for international luxury brands to flourish in this fertile ground, marketers may need to reorient their approach to accept and deeply understand today's concentrated marketplace, and the diversity of Brazilian consumers. The future may see this concentrated market become dissipated by growth in other cities and regions, and the variable nature of the consumers means that a 'one size fits all' Brazilian marketing strategy is very likely to provide sub-par results now, and become even less relevant over time. This provides a challenge to marketers in terms of how to creatively solve the problem of getting known, having a coherent brand image, being accepted, and adopted throughout this immense country. Further, 'Made in Brazil' luxury is not necessarily a weaker market position, as may be the case in other countries. To succeed, luxury brands will need to do more than just resonate with their Brazilian target market, something which might not be as easily segmented and identified as markets in their home countries. Nonetheless, although luxury brands may have several barriers to overcome, the rewards appear seductive indeed.

Notes

1. Translation: 'Everyone must drink champagne at least once in his life, it is like giving oneself a little taste of France; Brazilians are not as restrained as Europeans, they make sacrifices to celebrate.'
2. The Power of Love campaign can be viewed at http://vimeo.com/35224982

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2
Novel Luxury: Made in Brazil

Jonas Hoffmann

The rise of Brazilian luxury brands, not only in Brazil, but in other international markets, has created new and significant market opportunities. However, challenges will need to be overcome if Brazilian luxury brands are to succeed in an increasingly cluttered and competitive brand environment. This chapter gives an overview of the Brazilian luxury market, highlighting consumers' perceptions of luxury brands. This will follow with a framework identifying possible paths for building Brazilian luxury brands.

Market growth, major centres, and estimating luxury brand preferences

The Brazilian luxury market is developing at a fast pace. It is expected that the market value will reach R$ 20.1 billion in 2012, in increase of 8 per cent from 2011. Comparatively, the growth in gross domestic product (GDP) was 1.6 per cent (MCF Consultoria and GfK (2011)). McKinsey (2012) has estimated that three million Brazilians can afford luxury goods, while Forbes (2012) has identified 30 billionaires in Brazil, half of them self-made, and the other half inheriting their fortune.

Most of the luxury consumption market is concentrated at São Paulo, followed by Rio de Janeiro, where a massive surge in infrastructural investment is evident in light of Brazil having been chosen to host the Football World Cup and the Olympic Games in 2014 and 2016, respectively.[1] Belo Horizonte and Curitiba are Brazil's so-called tier two cities, where the Iguatemi shopping mall has become a popular luxury retail destination.

Personal luxury goods purchases are nevertheless mainly done abroad, in cities such as Miami, New York, or Paris.[2] The *custo Brasil* (Brazilian cost), a combination of red tape, taxes, and logistics costs, is the main explanation for the price of the same item often being twice or even three times more expensive than in Paris or the US. Digital Luxury Group (DLG 2013) gives the example of a Porsche Carrera convertible, which costs US$ 96,200 in the US and US$ 355,000 in Brazil.

The market is still in its early stages, as shown by the World Luxury Index™ – Brazil released by the Digital Luxury Group, which identifies the top 50 most searched for luxury brands on the Internet (DLG 2013). The study analysed more than 20 million online Google searches with respect to more than 300 brands in the first six months of 2012. Six categories were analysed: cars, fashion, beauty, hospitality, watches, and jewellery. Cars represented 49 per cent of the searches, beauty – 18 per cent, fashion – 13 per cent, hospitality – 11 per cent, watches – 7 per cent, and jewellery – 2 per cent. Although the study did not specifically identify searches made by luxury consumers, the findings are able to give an insight into the aspirations and preferences of the Brazilian consumer.

In the car industry, Audi, BMW, and Mercedes-Benz occupy the top three market share positions, closely followed by Range Rover, Ferrari, and Porsche. Brazilians' passion for high end cars despite high taxes and the need to install armour in top range cars has been used extensively as the basis of marketing pitches, such as the one by Ipiranga, a petrol distribution company, who used the line: '*Apaixonados por carro, como todo brasileiro*', which means, 'Passionate about cars, as every Brazilian'.

The top three searches for fashion brands were Lacoste, Calvin Klein, and Chanel. Lacoste has been active in Brazil for more than 30 years and has recently hired Gustavo Kuerten, the triple Roland Garros tennis tournament winner, as a global ambassador. A few years ago, the brand collaborated with Fernando and Humberto Campana, who are known as *irmãos Campana* (Campana Brothers) and are designers of iconic pieces such as the Favela chair and the Bambu lamp, which feature prominently amongst the Brazilian elite. Lacoste has been producing for a long time[3] in Brazil and has reinforced its control over suppliers, thus enabling competitive prices and fewer counterfeit products. Calvin Klein and Ralph Lauren profit from Brazilians' close shopping ties with the US. Another explanation for the results is that Brazilians like casual fashion. Apparel is the leading fashion category, being led by Ralph Lauren, Lacoste, and Armani. This comes as no surprise for someone strolling into an Iguatemi shopping centre on a Saturday afternoon in São Paulo, Brasilia, or Porto Alegre. Chanel's popularity, however, may come as a surprise given the brand has a limited retail foothold in the country. These results nevertheless clearly demonstrate the opportunity for luxury brands to educate and develop the market further.

The top three most searched-for make-up brands were MAC, Make Up for Ever, and Lancôme. MAC is third in the overall ranking, demonstrating that it is a relevant aspirational cosmetic brand for Brazilian women. MAC entered the Brazilian market in 2002 and had 25 stores in the country in 2012. The top three perfume brands are Armani, Chanel, and Dior, and the three most searched-for skin care brands are MAC, Clinique, and Lancôme. Appearance is an important value in Brazil, which is a world leader in cosmetic surgery. DLG (2013) reports that per capita spending on beauty and personal care is approximately US$ 260, which is a similar spending level to the US.

The most searched-for brands in the hospitality sector are Hilton, Sheraton, and Tivoli. Hilton and Sheraton have been investing in the market for several years. They may not be seen strictly as luxury hotel destinations in Europe, but these two five star hotel companies in Brazil once again illustrate the current (early) market stage.

The three most searched-for watch brands are Omega, Rolex, and TAG Heuer. Rolex has been present in the market for several years, since the opening of the economy by impeached president Fernando Collor de Mello in the early 1990s, and has been a symbol of the Brazilian *nouveau-riche*. According to DLG (2013), the most searched-for luxury watch collections imply preferences for Men's, Sports, and Chronograph time pieces. Most high demand models of TAG Heuer are, for instance, Carrera, Monaco, Grand Carrera, and Formula 1. Indeed, Brazil's most successful Formula 1 pilot, Ayrton Senna, was once a TAG Heuer ambassador, and Brazilians are passionate fans of car races, especially Formula 1.

Lastly, the DLG (2013) rankings showed that the three jewellery brands most searched for are Swarovski, Tiffany, and Cartier. The Austrian crystal maker succeeds in addressing a market that, in spite of being one of the world's biggest producers of precious and semi-precious stones, is slowly integrating international luxury jewellery brands.

Another sign of the early stage of the market, and perhaps to a lesser degree a by-product of the study's methodology, is the confusing presentation of premium and luxury brands. It is indeed important to distinguish between fashion, premium, and luxury goods (Kapferer and Bastien 2009), and within the luxury goods category, between accessible, absolute, and ultra/meta luxury (Ricca and Robins 2012). Even if the borders between these categories are not clear-cut, a brand like Coach exemplifies the first level, Hermès the second, and Graff the third (HSBC 2012).

Interestingly, Brazilian luxury brands are absent in this DLG ranking. Indeed, according to CPP-Luxury (2013), 'a significant percentage of consumers are unaware of Brazilian luxury brands, showing a large hole in domestic supply'. As in many other emerging markets, the market mood and fascination is centred on international brands such as Hermès, Chanel, and Louis Vuitton. However, an increasing number of local luxury brands are starting to emerge. Our objective is to take a look at these pioneers. In the next section, we present a framework that was developed originally to understand *Made in* China luxury value propositions (Hoffmann and Hoffmann 2013). We believe that this luxury brand-building framework is also applicable to *Made in* Brazil, and more broadly to many other emerging countries.

Luxury brand building

A luxury offering corresponds to someone's dream, it is a source of pleasure, a sign of status; it is unique, incorporating a certain heritage and refined craftsmanship. Its identification does not stem from a customer need – only when needs are satisfied do we enter the realm of desires.

The brand identity expresses this potential of an offer to correspond to a client's dream. Brand identities are culturally framed: what people dream of in India or Brazil is different from what people dream of in France, Germany, or the US. We understand brand identity under the view of Douglas Holt's cultural branding (Holt 2004, Holt and Cameron 2010). Luxury brands are iconic brands and their market evolution is better explained through socio-historical analysis, a perspective currently lacking in psychology-based luxury brand-building models (Kapferer and Bastien 2009). It is impossible to understand the rise of Chanel without understanding France's society in the early 20th century; similarly, it is impossible to understand Chanel's current success in China without understanding where this society currently stands on gender issues and the role of women.

Given the strong focus of luxury incumbents on country of origin and heritage, a meaningful frame for newcomers from Brazil, China, or Korea is to differentiate three orientations of luxury brand identities: 'looking to the past', 'looking to the present' and 'looking to the future' (Hoffmann and Hoffmann 2013).

Looking to the past

'Looking to the past' brand identities are those that draw inspiration from history, revitalizing a dormant brand, refined craftsmanship and heritage.

China and India have a long history in this regard. Merchants from Europe have long crossed Asia to trade Chinese silk, creating what came to be known as the Silk Road. India has been the inspiration for numerous jewellery brands, such as Cartier, while others focus on revitalizing exceptional craftsmanship, for example Shang Xia.

What about Brazil? Five hundred years did not give birth to a history of refined craftsmanship or luxury heritage. The centre of gravity until the early 19th century was the colonial power, Portugal; it influenced everything and banned the local development of industrial activities. Things did not evolve significantly with the country's independence, and industrialization only took place in the early 20th century. The tiny elite that consumed luxury goods was educated abroad, in France in the 19th, and in the US in the 20th century, and imported their desired sophisticated goods from the 'developed countries.'

One could consider that Brazil has a history as a producer/miner of raw materials such as gold, gemstones, and coffee. This is objectively true, and a visit to the Minas Gerais state will show to what extent rich minerals have been extracted in the last two centuries. This also applies to precious and semi-precious gemstones. Nevertheless, these gems have been, for the most part, exported in a raw state to be polished abroad. There has been no significant development of a local industry to aggregate value to these natural resources. Coffee is another striking example: the world's biggest producer of coffee beans has no widely recognized international coffee brand. This represents a major challenge for Brazil as a country – how to add value to its magnificent natural resources, as Embraer did with airplanes. It can therefore be deduced that developing a luxury brand identity with a focus on 'looking to the past' should not be followed given the lack of heritage and history of sophisticated craftsmanship within the luxury domain.

Looking to the present

Brand identities 'looking to the present' are grounded in contemporary values, building bridges between cultures, and focusing on lifestyle.

Kumar and Steenkamp (2013) refer to cultural branding based on contemporary myths and cite Havaianas, the ubiquitous Brazilian flip-flops. This is not a luxury brand, but its international success can provide cues for luxury newcomers. It uses cultural meanings associated with Brazil's people and values, such as 'vibrant colours, sensuality (dancing and carnival), youth, joy, fun, positivism, simplicity, and sense of humour' (Kumar and Steenkamp 2013, p.161) to develop a lifestyle positioning. It is currently widely recognized in Europe and the US as a must-have item for the summer season.

Indeed, fashion is a sector where this orientation finds fertile ground. For example, Korean designers have been profiting from the awareness generated by Korean pop groups and the phenomenal success of Psy and its Gangnam style to develop original outfits. Interestingly, Korea's biggest company/conglomerate, Samsung, long before being a leader in televisions, smartphones, and tablets, was a textile group; a business the company is still actively developing.

In Brazil, brands/designers such as Osklen, Issa, Carlos Miele, Alexandre Herchcovitch, Ricardo Almeida, Lucas Nascimento, and Z&Douen are producing highly sought-after collections that are starting to be recognized outside of Brazil.

In hospitality, the development of groups in the vein of Fasano and Renaissance, exemplify the potential for this approach. This is also the case for Asian brands, such as Mandarin Oriental, which have been expanding worldwide, and in Dubai where the Burj al Arab seven star hotel symbolizes Emirati hospitality.

Jewellery is another sector where companies have been succeeding in creating emerging luxury brands by adopting this orientation. Qeelin, recently acquired by Kering, has been designing exquisite jewellery inspired by Chinese symbols for the past ten years. For example, the panda, the lotus flower, and the number eight, which have found resonance amongst many of the world's celebrities. In Brazil, for the last half century, H. Stern has been one of the very few contemporary symbols of *Made in Brazil* luxury, creating magnificent pieces using Brazilian gemstones and noble materials.

Finally, gastronomy is a promising sector. Alex Atala's D.O.M. Restaurant has been consistently ranked among the world's best. The chef succeeded in creating a 'new gastronomic experience, rescuing the most authentic flavours[4] of Brazilian cuisine according to a contemporary gaze' (D.O.M. 2013). Brazil's impressively rich bio-diversity is indeed a source for talented chefs to nurture their creations.

Looking to the future

'Looking to the future' brand identities are those that propose a viable future view for a luxury category, innovating technologically and/or culturally, reframing the meanings and values associated to this category.

Interesting examples in the watchmaking industry are Richard Mille, HYT, and Cyrus. Richard Mille was created in 2001 with a value proposition of creating a 21st century watch. In general, most luxury watches were geared towards the past, using today's materials to build watches inspired by the 19th century. By integrating new materials and composites, from the aeronautics and car industries, for example, a certain artistic and architectural dimension, and the best *haute horlogerie* enabled by Swiss fabrication, Richard Mille launched a series of ultra-performing timepieces.

Osklen, the Brazilian fashion company also fits into this category (Hoffmann 2013). Osklen has a deep ecological commitment through all steps of its business processes, from raw materials extraction, to point-of-sale carbon neutrality, driven by its 'larger than life' creative director, Oskar Metsavaht. Osklen gained momentum since 2008, being identified by the World Wild Foundation – UK (WWF-UK) as a 'Future Maker', as one of the ten most influential and inspiring brands in the world by World Global Style Network (WGSN), the fourth most creative company in Brazil, and the Emergent Luxury Company of the Year (2011) by the Luxury Briefing Awards.

The work of the Campana Brothers, the well-known Brazilian designers, is another role model for creators aiming to create luxury brands *Made in Brazil* (Alfred *et al*. 2010, Naccache, A. (Org.) 2013). Fernando and Humberto Campana are based in the Santa Cecilia neighbourhood in São Paulo, and are the creators of iconic pieces such as the *Vermelha* chair, the *Favela* Chair, and the *Multidão* chair. They take inspiration from Brazil's contrasts and paradoxes to effectuate a transformation and create 'something out of nothing'. Using everyday materials such as red rope, wooden chips, discarded planks, and upholstered fabrics, they create new forms and shapes. The *Favela* chair symbolizes this approach: it takes inspiration from *gambiarra*, the problem-solving approach of people living in Brazilian *favelas*. Given the absence of means, people take any available materials such as cardboard, metal, tissues, etc. to manually build their residences (Alfred *et al.* 2010). Consequently, the *favela* chair consists of dozens of wooden chips that look like leftover and discarded planks, manually assembled. Indeed,

> the inventiveness of Brazil's poor and their ability to adapt, modify, and reuse materials is a crucial element in the Campana's approach to design (...) this dialectic between the lowly and the luxurious is often curiously self-evident in their works, raising questions about material value and the different kinds of value that culture and society place on objects. With such reflexivity, the pieces exude a forthright and engaging awareness of the current condition – its issues, problems, paradoxes, contrasts and, indeed, its beauty.
>
> (Alfred *et al.* 2010, p.23)

The Mosaico collection developed with H. Stern exemplifies this capacity of the Campana Brothers to be inspired by an everyday shape, in this case the most common drain gratings found in São Paulo, to design exquisite rings and bracelets using gold and diamonds. This kind of self-derision has been more recently expressed in their 2013 'Dangerous Luxury' exhibition held at Monaco, where they ironically present pieces featuring crocodiles and other reptiles.

The Campana brothers' work has received widespread recognition not only for its beauty or originality, but also by its strong socio-political content. This contrasts with the dominant minimalist view of Western design back in the 1990s, when the brothers started to gain international recognition. Sustainability and recycling are central elements in their creations and bring a healthy debate on the excesses on the economic ideology of planned obsolescence. As a result, Fernando and Humberto Campana integrate Brazil's idiosyncrasies to speak an 'international language of transformation and reinvention, of pluralism and hybridization' (Alfred *et al.* 2010, p.15). They develop 'a distinctively twenty-first century creative process' where products are 'universal as well as individual, the local will feed back to the global and will animate world brands to become fervently interactive and reactive' (Alfred *et al.* 2010, p.17).

Implications and conclusions

Brazilian luxury brands that choose to pursue a luxury brand identity that 'looks to the past' are likely to result in failure; Brazil lacks a compelling or distinctive history of craftsmanship or heritage to justify such an approach. There is however, scope and flexibility for companies and designers to push luxury brand identities that are 'looking to the present' and 'looking to the future'.

This can be achieved in a number of ways. Taking universal aspects of the country's culture is certainly a starting point. Brazil has a young, connected, creative population; it is full of contrasts and paradoxes, notably the joy of life and urban violence, and poverty and wealth. It is full of talents able to mix influences from different sources and create novelty, just as more than 50 years ago, João Gilberto, Tom Jobim, and Vinicius de Moraes combined jazz and samba to create the bossa nova.

The work of Osklen and the Campana brothers symbolize a brand identity that is 'looking to the future' in its attempt to reframe the meaning of luxury itself. An analysis under the lenses of Holt's (2004) cultural branding show that both created a language different from the 'cultural orthodoxy' based on a certain 'social disruption' (represented by sustainability/socio-political values). Despite being niche brands, this seems a promising path for Brazilian creators: taking ground on Brazilian contrasts and idiosyncrasies to create brands that deliver a universal message; a message that can resonate internationally because it originates from a 'peripheral' actor. As customers in Brazil, and in other markets, gradually move from buying just a logo, to becoming interested in the quality, personality and soul of a luxury brand, 'Made in Brazil' luxury needs to develop its very own brand story.

Notes

1. This generated a considerable amount of protest regarding the government's priorities.
2. American Express figures presented during the FT Business of Luxury Summit in 2012.
3. In 1978, Lacoste signed an apparel manufacturing and distribution license in Brazil.
4. Examples of new ingredients, at the time not much explored, include *açaí, jambu, tucupi, pupunha*, and *cupuaçu*.

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3
The Cultural Construction of Brazilian Bodies and Status

Nacima Ourahmoune, Bernardo Figueiredo, and Pilar Rojas

Brands may be regarded as cultural platforms with ideological statements (Askegaard 2006, O'Guinn and Muniz 2004) as they are filled with societal values transferred via advertising, fashion and design (McCracken 1986). Luxury brands in particular are highly connected to socio-historical elements that imbue the brands' identity (Lipovetsky and Roux 2003). Storytelling in luxury branding is a strategic element of brand success (Kapferer and Bastien 2009). To convey consistent luxury brand narratives in an emerging market, managers should dig deeply in the socio-historical construction of beauty ideals in its specific cultural context. In this chapter, we propose to tackle the issue of mapping the diverse Brazilian cultural territories of expression available to global and local luxury brands.

Brazil has a particularly rich and complex dialectics of the body based on specific macro-social patterns regarding race, gender, and class (Goldenberg 2010). Brazil's cult of the body is acknowledged worldwide as a socio-cultural phenomenon that drives market development in areas such as cosmetic surgery, diet medicine, and beauty products, as the body is central and turned into visible capital that helps consumers navigate the social hierarchies (Goldenberg 2010). Today, global luxury brands are intensifying their presence in a country that shows growth and improved living conditions, while retaining sharp social contrasts (*The Economist* 2013).

We examine the relationship between luxury brands and the role of the female body in Brazilian culture. By combining a socio-semiotic approach (Floch 2001, Holt and Thompson 2004, Kozinets 2008, Oswald 2012, Ourahmoune and Nyeck 2007, Ourahmoune and Ozçaglar-Toulouse 2012) to cultural branding, we map the cultural field of significant distinctions to reveal competitive grids, and link brand identity to consumer culture. How do Brazilian and global luxury brands position themselves in a market where intense relationships between social status and body/appearance create specific symbolic distortions in that marketplace, therefore generating both barriers and points of leverage to success and growth? To illustrate the dialectics of social status and bodily appearances in the Brazilian context, we focus on the female body and examine the strategic positioning of Brazilian and global luxury brands in the body-related *consumptionscape* (Ger and Belk 1996).

Social historical construction of beauty ideals

Two contrasting ideals of feminine beauty have co-existed in Brazil since the country was colonized by Europeans. On the one hand, there is the tropical beauty ideal, which refers to the mestizo body that resulted from racial mixing among white European settlers, African slaves, and indigenous people. Tropical beauty has been historically associated with the idea of a natural sensuality, represented by curvaceous bodies (Freyre 1987) and 'short, tan skin, black, long, wiry hair, a slim waistline, large buttocks' (Goldenberg 2010, p.220). The tropical imagery, well described in Jorge Amado's famous Brazilian novel *Gabriela Cravo e Canela* (1962), depicts the tropical woman in constant acts of playful seduction or naïve provocation. On the other hand, Brazilian imagery also contains beauty ideals connected (by opposition) to Northern European phenotypes comprising tall, flat, fair-skinned, blonde, straight-haired bodies, represented by the archetypical figure of the cold-hearted and inaccessible 'Ice Queen' (Edmonds 2010).

Although these two types of beauty ideals co-exist in everyday life, they have historically occupied different positions in Brazilian society. European 'white' features have historically been associated with the dominant classes in Brazil. Being white translated into being rich, proper, with the 'right' background. In contrast, being perceived as having mixed race origins has been historically associated with African slaves, peasant workers, and the poor. In this scenario, European ideals of beauty and fashion were valued by the Brazilian elites (Russell-Wood 1977). The elites looked upon European (especially Northern) phenotypes as superior, and anything that came from Europe was automatically linked to superior quality and capable of bringing status and social visibility. Interestingly, tropical beauty was acknowledged as the natural source of sensuality and attractiveness, and remained in the social imagery of Brazilians, including the elite, as the source of true seductive power (Queiroz 2000). However, because the elite regarded European beauty as the appropriate measure of beauty, tropical beauty needed to be tamed and domesticated so it would not taint the purifying efforts of the elite to belong and show belonging to European circles. Brazilian imagery abounds with stories about large European landowners who fell under the carnal spell of Brazilian mestizo women, betraying their dull, albeit proper, 'white' wives. The morally justified path for elite Brazilian women seeking social recognition was to desire the constructed sophistication of European styles and to hide the sensual roughness associated with tropical beauty (Freyre 1987).

In the last decades of the 20th century and into the 21st century, Brazilian society underwent major changes. The younger generation of wealthy Brazilians has incorporated other beauty ideals, ceasing to seek inspiration only from the Northern European archetypes. Brazilian economic development and the rapid growth of the middle and upper-middle classes in the 1990s and 2000s, in a climate of renewed pride and nationalism, have set up the space for the emergence of alternative beauty discourses, which challenge the archetypical white, blonde European styles (Strozenberg 2006, Queiroz 2000).

To understand the emerging beauty discourses in Brazilian society, as well as their relationship to luxury brands, we conducted a semiotic investigation of the various symbolic discourses embraced by luxury brands in the Brazilian context. The semiotic analysis associated with a socio-historical contextualization of these discourses allows us to explain the recent transformation of beauty ideals in the Brazilian luxury market and reveal the broader cultural discourses that animate the positioning of various luxury brands.

Aim and method of inquiry

The aim of this work is to reveal the deep meanings that structure luxury female fashion apparel in Brazil using a macro-social lens and the semiotic square as a tool (Floch 2001). To inform our interpretation of the intersection between luxury brands' discourse and body politics in Brazil, this research mobilized brand discourses through a systematic analysis of a large corpus of top-of-mind global and Brazilian luxury brands.

Sources of data

Taking a holistic view, we were interested in the dominant logics and emerging luxury trends in Brazil. Data were collected in two stages. First, we relied on the period of November and December 2012 (an intense period for advertising due to Christmas), and then on March 2013 editions of Brazilian *Elle* and *Vogue* to gain insights into the brands that recur in these local editions. We first explored the luxury brands' print ads so we could identify the major stories within the brand discourses. The second wave of data collection consisted of 'netnographic' research (Kozinets 2009), as we collected data from companies' websites. We used the Brazilian *Vogue* and *Elle* websites and Brazilian fashion and luxury blogs, searching systematically for luxury brands' advertising campaigns displayed in the country from 2010 to 2013. Brazil ranked seventh in the world in terms of Internet usage in 2012 (Internet World Stats 2012), which justified exploring online luxury brand discourse in our study. Indeed, these virtual data were rich and useful for gaining an in-depth understanding of the connection between a brand's luxury messages in Brazil and its body ideology. As we will demonstrate, the semiotic square is helpful when dealing with data that are heterogeneous

(Floch 2001) and aesthetical (Dano *et al.* 2003, Hetzel and Heilbrunn 2003).

Analyses employed

The authors drew up a series of criteria for their analysis; they were made up of signifiers (verbal and non-verbal signs) contained in the communications (colours, forms, postures, movements, sounds, design, type-face, furniture, slogan, verbal information, amongst others). Each author described these different features systematically and analytically. The brands were analysed separately and together to bring out recurring themes and narratives. There was a high level of consensus among the three authors in terms of coding and interpretation. The results represent the authors' consensual understanding of the data.

Drawing from a deep reading of cultural texts on luxury and body and status dialectics and their socio-historical sedimentation in the Brazilian context, together with observations and analyses of ads, we constructed a semiotic square (Floch 2001, Holt and Thompson 2004, Ourahmoune and Ozçaglar-Toulouse 2012). With this method, we were able to reach the deepest level of brand discourse, which can establish a structural correspondence between the brands' expectations and the system underlying the brands. The analysis reveals similarities and differences in brand discourses and the signifiers contained in the visuals. We contrast two types of discourses that reflect the dialectics of *tropical* vs. *polar* beauty ideals in Brazil to construct our semiotic square (see Figure 3.1).

1. *Brands that convey tropical values*. Tropical refers to a climate that is warm and moist all year round, often accompanied by the sense of lush rainforests that suggest bright colours, sensual settings, profusion, and superabundance. It also suggests hedonism, sensuality, stickiness, and cheerful social interactions.
2. *Brands that convey polar values*. Polar is by definition situated in the opposite extreme (distant) and transmits the idea of icy, snowy and inaccessible white landscapes. Polar also connects to purity, transparency and absence of imperfection as the opposite definition of a tropical paradise.

Findings and discussion: Luxury brand territories and their Brazilian embodiment

In this section, we detail the six positions that emerged from the analysis of our corpus (see Figure 3.1). We reveal that luxury communications in Brazil rely on the interplay between tropical narratives and polar white technologies of the body recoding the internal reference to local roots

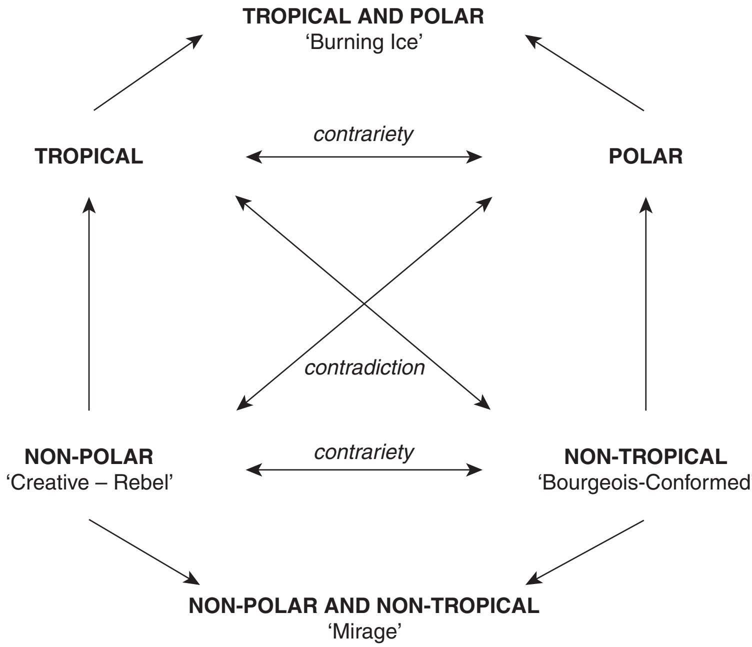

Figure 3.1 The semiotic square: The diverse beauty ideals in the Brazilian context

and the colonial past. Moreover, other discursive positions are emphasized by brands to account for the diverse representations of beauty ideals in Brazil. We detail each emerging position, illustrating it with local and global examples. Implications are drawn for each one.

1. Tropical

The tropical position is very present in luxury communications in Brazil. Local contexts and places are emphasized, with brands displaying Copacabana, Ipanema, and other known Brazilian sites as a construction of native imagery that transmits a sense of belonging and common shared values. Within this set of references, the characters are shown in osmosis with their environment involving relaxed, casual postures, tanned skin, wavy long hair, and athletic bodies that fit outdoor activities. The aesthetics represented here relate to a constructed naturalness, with clothing prints that extensively represent tropical deep green forests and bright colours along with light make-up and glossy sun-kissed bodies. In this case, fashion works as a mediator of a strong interrelation between the body and its surroundings and has an obvious identity claim with a global resonance through bikini brands and beachwear that celebrate Rio's lifestyle. Blue Man, for instance, is still a family-owned business whose mission to associate Brazilian identity with sensual tropicality remains aligned with its founder's statement: 'I'm not a designer, and I would not like to be one. I'm much more worried about maintaining the ideology of my brand: being Brazilian and Ipanemense' (Blue Man 2012). The latest campaign displays an Ipanema beach with persons who evoke the vitality, sensuality, and worldwide imagery of Rio's cult of the body.

However, this discourse on nature exceeds the typical beach sites and is a systematic source of inspiration for luxury apparel brands in Brazil. Sophisticated naturalness is observed in the display of elegant clothes and jewellery in an urban setting where tropical beauty is still a major marker of *'brasilidade'* (Brazilianness). Tropical here gives a sense of lush, superabundance and sensuality mediated by characters staged as 'innate' seductive women, their animality transmitted through symbols such as recurrent panther prints and the feline gaze, at ease with their generous curves, abundant hair, bodies ornamented with jewels, dark eyes and eyebrow make-up, and sophisticated high heels. The brand Dumond Brazil[1] speaks well of this spirit, as the brand plays with ideas of accessible and yet mysterious, sophisticated yet natural, curvy yet athletic, ultra-feminine yet spontaneous individuals who embody the sense of tropical beauty. The protagonists in the ads also play with the viewer, becoming active actors of the seduction game, while still remaining spontaneous. The playfulness transmits a sense of 'social viscosity' (Maffesoli 1993) and stickiness, which are characteristic of this type of brand discourse. Bodies showing the pleasure of sharing and belonging become more active objects of the gaze. Group pictures show bodies in skin-to-skin closeness representative of warm cultural social behaviours.

This very place-climate-context-related brand positioning is not exclusively occupied by local luxury brands. Instead, global luxury players, especially those of Italian origin such as Dolce and Gabbana, Just Cavalli or Versace, appear to share commonalities with the tropical values. In Dolce and Gabbana's 2013 Spring/Summer global campaign,[2] and in the issues of Brazilian *Elle* and *Vogue* examined, a series of ads represents a joyful extended Sicilian family at the beach, with recurring fashion codes related to folkloric Sicilian festivals. This intergenerational scene is full of bright colours and light, with relaxed and close bodies who are very concerned with their physical appearance. The very ornamented women wearing daring colours, cuts, and fabrics, and impressive jewels contrast with large smiles, naturally tanned bodies, and simply tied hair. The same story is found in Just Cavalli's 2013 Spring/Summer campaign shot in Ibiza with younger people expressing friendship, a much valued aspect of Brazilian culture.[3] This type of imagery sheds light on possible positioning for global luxury brands that can bring narratives of a warm collective sense of closeness, sensuality, and joy.

Implications

This discourse expresses the new status of the tropical beauty ideals. The elites and upper-middle classes have embraced the 'natural and sensual' characteristics of the tropical beauty, but provided it with a layer of sophistication that transforms this beauty discourse into a socially acceptable and desirable one. The new tropical beauty discourse is focused on a constructed naturalism (Besse 2005). Women engage with fashion and sophisticated grooming rituals to transform their bodies in such a way that the final product looks natural, sensual and tropical without being rough. What is perceived as a natural style may demand a lot of preparation (Sant'Anna 1995). This style mythically draws on the sensuality of the tropical woman but, similar to all luxury styles, demands various internal codes and complicated practice to perform it well. Thus, members of the middle and upper classes 'conceal the labor invested in the production of their bodies. A 'natural' look is thus produced, naturalized, and fetishized' (Machado-Borges 2008, p.45). As demonstrated here, Brazilian brands such as Blue Man and Rosa Cha tend to take advantage of their local knowledge and local resources to seduce the Brazilian public by presenting themselves as brands aligned with the Brazilian self-perception of beauty. To avoid being associated with the lower classes, these brands engage diverse techniques to show that their tropicality is not untamed. Instead, it is purposefully produced. Global brands may find this corner attractive, especially if they promote accessible luxury and come with the resources and know-how to produce tropicality, which is the case of Mediterranean luxury brands such as Dolce and Gabbana and the growing premium apparel market that is willing to avoid a direct reference to established luxury codes and present a less 'intimidating' discourse.

2. Polar

This position represents the ice queen and inaccessible beauty ideals anchored in Northern European phenotypes and technologically mediated aesthetics (with very cosmeticized and photoshopped bodies). The ads display mainly white bodies, blonde and blue-eyed characters who play innocent and seductive roles, which are commonly present in global luxury visuals. In these communications, the sense of local and native beauty is opposed to account for contemporary and trendy looks that in fact represent a fantasy of unreal bodies. These representations of femininity are virtual, representing the idea of Otherness in traditional Brazilian aesthetic codes and behaviours. The figures are slender, the hair is disciplined and dyed very blonde, the skin appears very white due to the soft light, and there are pastel shades of pink, blue and orange, reinforcing a message of romanticism and inaccessibility, as in the ads for Brazilian brands Tufi Duek and Maria Bonita Extra. Tufi Duek chooses very blonde models surrounded by metallic and vivid white colours that contrast dramatically with the tropical imagery of summertime in Brazil. Other representations in recent campaigns (Figure 3.2) feature a model (fair skin, dark make-up, chic yet a strict allure-hairstyle, leather and precious fabric) surrounded with birds in an obvious Hitchcockian reference which is absent from the tropical *Brasilidade*.

Figure 3.2 Tufi Duek, May 2013

In luxury campaigns in Brazil, the imagery of purity (white angel) and childish innocence (fresh, light pink chicks) coexists with the fantasy of sexualized blonde characters. For instance, the use of contrasts between blonde/white skin and dark clothes and sensual fabrics like leather creates a sense of dissonance that communicates an idea of pure angels 'going wild' as expressed in the campaign by Ellus and Corrello, two successful Brazilian luxury brands. In those representations, icy women are objectified, which is reminiscent of the porn-chic imagery that regularly haunts the luxury sector (Ferrière le Vayer 2007). These transgressive visuals violate the friendliness and joy valued in Latin American cultures. Common to these types of icy representations is the absence of spontaneity. The stories are scripted, and the characters professionally play a role with a distant gaze, the absence of a smile, controlled bodies and efficient postures. Tommy Hilfiger's 2013 Spring/Summer global campaign, the 'Hilfigers,'[4] narrates a family cruise reminiscent of the Dolce and Gabbana and Just Cavalli beach stories this season, yet without any sense of stickiness and spontaneity characteristic of the tropical position.

Implications

The polar ideal does not find immediate resonance with the Brazilian climate and values, but nevertheless is directly linked to the colonial class system and the idealization of foreign beauty. However, as demonstrated above, the Ice Queen imagery remains alive in Brazilian imagery and has experienced growth in recent decades, with transnational exposure to global media, 'incursions of the Barbie aesthetic, celebrity models, satellite television and medical makeovers made it clear just how far some imported notions of beauty, desirability and health have encroached on Brazilian ideals once considered inviolate' (Rohter 2007, p.1). Occupying this space in the Brazilian market makes sense for brands that want to appear 'diluted' within Western ideals at large, renouncing their tropical side. More specifically, this position echoes an elitist discourse related more to personal achievement (self-made man ideology) than heritage/nobility. Therefore, American premium brands (e.g. Calvin Klein, Tommy Hilfiger, Ralph Lauren) with their efficient and pragmatic values and more relaxed outlook compared with the long-established European brands, inspire local brands appealing to their young Brazilian clientele. Brands such as Lacoste convey easy casual chic and sporty elegance. Lacoste ranks first in Brazil as the most searched luxury brand online (Digital Luxury Group 2013).

3. Bourgeois/conformed

The bourgeois or conformed position actually embraces classic definitions of luxury that originated in European cultures. This position brings the idea of a heritage behind luxury discourse that needs to be learned so its meanings can be appreciated (Lipovetsky and Roux 2003). This position is based on dialectics of cultural capital and class, which maintains the social gaps (Bourdieu 1979, Kapferer and Bastien 2009). Luxury in this case works as a sign system that allows individuals to navigate the social taxonomies within a specific culture (Baudrillard 1969). A typical example of this position is Louis Vuitton (LV). The LV brand has become the number one luxury brand worldwide and is among the world's most searched brands on the Internet. LV is one of the rare luxury brands that have invested in a Brazilian website.

Very visible in the Brazilian *Vogue* and *ELLE* editions, the LV summer/spring 2013 campaign is interesting as it brings a sense of heritage in the retro train station scene where the homogeneity and replication of models suggest a uniform sense of being part of Vuitton's culture. The campaign is a normative inscription of bourgeois codes that are shown as timeless and placeless.[5] The second ad campaign introduces vibrant white and yellow colours, a graphic inspiration, with the chess print reminiscent of 1960s fashion.[6] The multi-ethnic references in the pictures that contrast with the uniformity of the train station communicate the idea of a shift from the exclusive European imagery of the past to the great diversity of current global societies. Moreover, the systematic replication of paired bodies within the ad, their similar posture and body language (straight, slender, vertical, controlled, inexpressive faces) convey homogeneity (despite ethnic diversity), and express the bourgeois gender representation in which women have to behave and be discrete. Louis Vuitton stages diversity to convert the characters in the ad to the brand's bourgeois ethics and aesthetics. Moreover, bringing the chess imaginary as an iconic print/model by Vuitton, similar to the logo, as the 'place' where the characters are encapsulated, adds to the idea of a closed world with specific cultural codes that need to be mastered to become a part of it. At the first level of expression, the brand seems to appeal to consumers of all ethnic backgrounds, but on a deeper level, complex symbolic associations are made to connect with the heritage, knowledge, and cultural capital at large to maintain the classic boundaries of social distinction. Far from the warm, emotional, and tropical narratives, the body discourses, and the logic of luxury are more connected to rational processes.

Another example of the bourgeois/conformed position is Salvatore Ferragamo's 2012/2013 Fall/Winter campaign, which is symmetrically opposed to the tropical narrative of women's embodiment of nature through fashion.[7] The nature-inspired apparel is conveyed. However, Kate Moss wears a refined and sober evening gown that makes her 'disappear' within the ancient tapestry at the Russian embassy in Berlin. The model poses as a Czarina among the city environment, glazed walls, and ancient tapestries to embody historical cultural heritage and social distinction.

In addition, although tropical models interact playfully with the viewer, in Dior's 2013 Spring/Summer campaign (a brand that has been present in Brazil for decades), we see how much women's bodies are placed in a 'gazed at' position; they are literally in a frame that subtly echoes Magritte's paintings.

Few Brazilian brands occupy the bourgeois/conformed position. An exception, Alphorria (Figure 3.3), which is a well-represented brand in Brazil, with 540 points of sale across Brazil and several in North America and Europe, proposes a positioning that clashes with most of the brand's industry competitors. By choosing to banish colour (most of the brand's ads in the magazines examined feature black and white) and yet to represent the

Figure 3.3 Alphorria, 2013 (website)

refined blonde model within lush vegetation, the brand negates any tropical reference and reinforces ancient images of skin colour as capital. The brand has conformed to the colonial ideological discourse by showing ultra-precious imagery in the jungle. The contrast is reinforced by placing the model right in the centre of the picture in which the tropical nature is just an ornament. There is no interaction between the two elements, making it more artificial. In that sense, the brand performs a classist reference with the ads.

Implications

In this discourse, the escape from stickiness and hot sensuality is not provided by frigid blonde stereotypes but by the valorization of sobriety and tradition (Freyre 1987), which suits established European luxury brands that build their legitimacy mainly through a heritage that they display as a universal luxury code (Kapferer and Bastien 2009). Brands carefully craft stories full of complex and refined cultural references that protect their territory and impede outsiders without the required cultural capital from fitting in. This discourse completely devoid of natural spontaneity does not speak directly to Brazilian beauty ideals but aligns itself with the historical efforts of the Brazilian elite to negate their abundant tropical sensuality and follow social norms. In our analysis, very few national brands have tried to position themselves here, possibly because it draws on imagery that resonates with a very small traditional elite. However, the scenario is changing. In recent years, due to the growing number of Brazilians travelling abroad and massive investment in Brazil by global luxury brands in media and fashion shows, the Brazilian public has been gradually trained to appreciate the traditional styles of luxury (D'Angelo 2006).

4. Creative/rebel

This position accounts for a non-polar discourse by luxury brands in Brazil. It rejects the fascination with the colonial past and the supremacy of icy European beauty references as a reflection of a rigid class system. Instead, the brands that occupy this semiotic territory deconstruct and recreate a renewed luxury discourse imbued with local roots. The ads for the brand Victor Dzenk's 2013 Spring/Summer campaign (Figure 3.4) feature

Figure 3.4 Victor Dzenk, April 2013

an explicit inspiration in a type of beauty that due to colonial history was excluded from luxury representations. Black and mixed-race women were not associated with high status; therefore, their representation remains marginal. The 'black-flower woman' presents very dark skin with a sophisticated look and pastel colours that reinforce the skin colour, while the slender figure and the lengthly, delicate, transparent silky dress adds characteristics considered precious in the luxury sector. The very confident posture is conveyed by the positioning of the camera, which makes the model stare at the viewer from above, giving her power and nobility. This sophisticated assemblage matched with the tropical imagery reinforces a renewed expression of exclusivity. The brand also transmits a luxury hyper-tropical inspiration to the white models, with their feline looks, indigenous-inspired make-up, fashion prints and frizzy hair.

Another successful Brazilian brand in this space is Alexandre Herchcovitch. In the designer's work, the tropical theme is reinterpreted as a central source of inspiration, which results in an innovative and personal proposition. His design celebrates native beauty with a minimalist cut and bright colours. The ads illustrate the festive and vibrant movement of Brazilian culture with tropical prints, conveying cosmopolitanism with juxtapositions of graphic and sunny looks and reworking the tropical flora as an endless source of inspiration for his collections.[8]

As for global brands occupying this space, an example is provided by Roberto Cavalli's creative re-interpretation of the dialectics tropical vs. polar in the Brazilian market. Roberto Cavalli is famous for flashy animal prints and provocative, sexy designs valued by Latino celebrities such as Jennifer Lopez and Shakira. The 2013 Spring/Summer advertising campaign[9] is a mix of silky tropical prints with a baroque tone. The characters depict a glamorous scene yet with dynamism, a sense of freedom, and provocation regarding gender codes, borrowing elements from the masculine wardrobe.

Implications

This discourse emphasizes creativity over contemplation, innovation over tradition, and rebelliousness over sensual acquiescence. The creative/rebel seems to be the most promising corner for Brazilian fashion, as it allows Brazilian resources to be leveraged while avoiding identifying with traditional tropical or polar beauty ideals. Many designers began in this position (Fraga, Lourenco, Isolda, and Adrian Degreas, among other national labels). This position might also be attractive to very innovative global brands such as Jean-Paul Gaultier, Agatha Ruiz de la Prada, and Saint-Laurent Paris by Hedi Slimane.

Now that we have illustrated the four corners of our semiotic square, we emphasize two other positions that emerged from the data as a combination of two signifiers: the burning ice (tropical + polar) and the mirage (creative/rebel + bourgeois/conformed).

5. 'Burning Ice': Tropical + Polar

This position is a communication territory for brands that juxtapose contradictory discourses displaying a mix of tropical and polar narratives in their advertising. This combination allows the brands to complexify their discourse by playing with warm and cold, and native and colonial, to attract the viewer in a rich network of meanings that works for a contemporary Brazilian society, which oscillates between a very diverse background and a complex socio-history that shaped consumers' tastes. To illustrate this position, we draw on diverse Brazilian brands such as Osklen. In Osklen's visuals, the body is literally transpierced with tropical nature, forming a unique element. A current ad shows explicit continuity between the female body and the landscape. However, the brand also performs polar discourses, emphasizing cold pastel colours, blonde characters, and a minimalist contemporary design that clashes with the habitual imagery of the warm tropics. The brand plays a subtle contradictory narrative that celebrates Rio's amazing landscape, and an intimate relationship between the character and the beach, seeking harmony and energy from the outdoor art of living. The very minimalist and tech-based contemporary design, together with models that are mostly white and Westernized in their quest for nature and self-expression, far from the warm and joyful imagery, makes it a perfect example of subtle Tropical + Polar brand positioning.[10] In that respect, the designer Metsavaht stated: 'I love to bring opposites together to find the harmony' (Brown 2012, p.8). A short movie shows the very intricate relationship between Osklen's style melted in a global managerial discourse on sustainability, and the very Ipanema culture of the brand (Osklen website 2013). Interestingly, Osklen is one of the most successful local luxury brands in Brazil (Forbes 2012), with an ambition to become global. Although Rio de Janeiro remains the source of inspiration for the brand, the extension of its discourse to a larger audience is manifest with a reference to a global, sustainable, modern way of life. Recently, California has also been a source of inspiration for the brand. Being a leader in the Brazilian market encourages other brands, albeit with different discourses, to play ambiguity between tropical and polar discourses, between self and otherness seen as a sign of modernity, and of being part of a global movement rather than a social class and racial discourse.

Animale is another example staging the archetype of the icy blue-eyed blonde woman with straight hair that creates the fantasy of rare, inaccessible, and dreamlike beauty.[11] This is matched with a sensuality reinforced by dark make-up, animal prints, sexy high heels, and a systematic inclusion of the individual in wild nature, where she feels at ease, recovering her animal side. Other local luxury brands such as Morena Rosa and Forum follow the same path, mixing tropical and polar elements in their campaigns.

Regarding global brands, very few seem to be connected to this positioning. However, an important player, Gucci, uses the Scandinavian blonde look, using models with very tanned sun-kissed skin, suggestive postures, daring monochrome sunny colour, animal prints, fur, and sensual stickiness between characters to convey warm and distant feelings, close and exotic imagery, and a sophisticated and impulsive atmosphere.[12]

Implications

The emergent burning ice position seems to be an appealing position to many Brazilian brands. These brands want to keep their appeal to Brazilian women by tapping into their self-identification with the tropical elements, while incorporating polar elements that help the brands avoid the risk of being perceived as banal, local, and lower class, and benefit from the socio-historical elitism associated with the European polar. Although this position seems to resonate with most Brazilian women, it is also the most cluttered. However, branding might propose renewed concepts regarding luxury that would combine contradictory elements in their identity, both playing affordable products, or *demi-luxe* (Lipovetsky and Roux 2003), and contemporary discourses about nature renews the stereotypical tropical discourse. Global brands may also find this corner attractive, as this position is predominantly occupied by Brazilian brands.

6. The Mirage: Non-Polar + Non-Tropical

By mirage, we intend to classify brands that situate their discourse outside the conformed vs. creative dialogue. Although this is a very theoretical position, which does not include many brands in Brazil, brands with a strong and personal universe can be found occupying this space.

In the 2011 Chanel Spring/Summer ad campaign,[13] the characters seated in a lush garden are interesting for several reasons. First, though the tropical is central in the picture, there is no sense of a warm, sultry and sticky atmosphere within the picture, and the models do not show much skin or intention to seduce with the body, as in regular tropical narratives. The models' postures are distant, not interactive. Moreover, the brunette model has an interesting haircut, which is traditional yet a bit wavy, giving a sense of movement and vitality, as opposed to the straight and controlled polar aesthetics. Finally, the posture of the characters, both comfy and elegant, with the young woman's arm hiding part of her face, emphasizing her pensive mood, suggests she is a subject rather than an object of the gaze, as in feminine tropical and luxury representations. This sense of agency and irreverence is also conveyed by the way she gazes at the camera, being physically present and yet 'absent' in her mind, reinforcing neither a conformed nor creative/rebel position.

Chanel is emblematic of a brand that showcases heritage and rebellious stories. In the 2013 Summer Cruise campaign, the brand revisited

Marie Antoinette at Chateau de Versailles, a highly controversial French historical icon.[14] Yet by doing so, and by playing heritage as a strong narrative, the brand does not instantiate an established discourse; instead, the brand connects Chanel symbols with a decadent 'punk Lolita' who rejuvenates the brand. Armani also combines this very classic and timeless Italian elegance imbued with sensuous imagery. Another Italian brand, Miu Miu, performs a subtle discourse between classic codes and intimate *avant-garde*. The brand targets women who like to experiment with fashion and show their chameleon-like personalities, which is classy, yet has a sense of freedom. The 2013 advertising campaign[15] features female characters in the privacy of an apartment. The ads show red as a recurrent background colour, to signify passion, with very close skin-to-skin bodies, and the presence of fur, leather, and silky fabrics, which transmit the idea of sensuality. Nevertheless, the scene remains sober as the characters do not show much skin, or play with their curves, but capture the viewer's attention with their intense gazes that contrast with the usually inexpressive models in luxury campaigns, adding to the implicit sexual tension.

Other labels, such as the refined Bottega Veneta, that have recently arrived in Brazil, have this sense of very personal narrative that clashes with other available representations in the Brazilian luxury realm.

Implications

The 'mirage' is a position that exists and is occupied by global brands, such as Chanel, Armani, Miu Miu and Bottega Veneta but, as the name suggests, the mirage is not real in the Brazilian cultural context. Historically, this position speaks neither to the natural tropicality, nor to the cosmeticized European ice blonde. Thus, the mirage is a space to be explored by Brazilian brands in the future. Global brands enter that space by the sheer force of their international aura. Brazilians understand that Chanel is a top global luxury brand, and they will buy the brand for that reason. Arguably, brands that succeed in that space must not only advertise their products, but should also invest significantly in teaching Brazilian consumers, training their taste, and introducing a new discourse in the market. Although this training may represent more marketing efforts, the results may pay off in the long term. The foreignness of the mirage position helps explain why Chanel and Armani remain the two most searched-for luxury brands in Brazil (Digital Luxury Group 2013). This foreignness is attractive in the sense of an intriguing 'otherness' that helps Brazilian consumers assert a special taste and differentiate themselves from other elites in the country.

Conclusions

Our semiotic analysis, combined with a socio-historical contextualization of beauty discourses in Brazil, reveals a vibrant scenario in which multiple

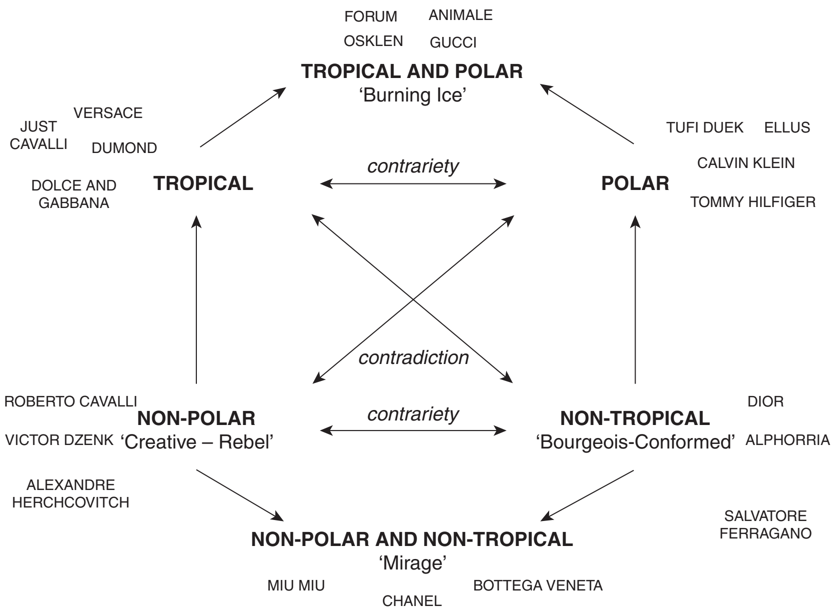

Figure 3.5 The semiotic square: Illustration of luxury brands' narratives in the Brazilian context

beauty discourses co-exist, presenting opportunities for diverse players (Figure 3.5). We have demonstrated in this chapter the need to dig deeply into the ideological underpinning of an emerging market to understand local and global brand positioning and assess brands' positions. Although the luxury sector has crossed the historical class divide between the tropical and white discourses of beauty, our research revealed that the discourse occupying positions related to 'tropicality' (tropical, burning ice, and polar) tends to resonate with premium and accessible luxury brands, and follow a transnational movement toward a more democratic luxury that is less focused on status than on a resonance and connection with consumers' way of life.

Brazilian brands are very context dependent. The sensual southern Mediterranean brands and the casual chic North American brands have narratives that might clearly attract Brazilian consumers who do not need a specific cultural prerequisite to adhere to those narratives. Brazilian and global brands can play in these spaces when their goal is to target the rapidly growing market for accessible luxury. However, the lower positions in the square (creative/rebel, bourgeois/conformed, mirage) remain the primary locus for subtle elitist discourses. The bourgeois/conformed and creative/rebel build their discourse on sophisticated and artistic interpretations of the world, yet stem from different cultural traditions (established vs. subversive). Both need consumers with high cultural capital to feel connected with them. This is even more the case for the mirage position, which results in combining those two inspirations. However, this position escapes the binary divide between tropical brand communications aiming for the top luxury market, and constitutes a valuable proposition for Brazilians who search for a unique experience while buying luxury items. The mapping of luxury brand discourses into this scenario helps brands strategize their moves, aligning their positioning goals with their strengths and resources. The analysis revealed how far from simply emulating US or European luxury players, and how dynamic Brazilian luxury fashion is, occupying a diverse range of discourses. It is appealing to think of Brazil, both as a nation having a wealthy segment that consumes global luxury brands and its own powerful domestic drivers for innovation. This impetus for home-grown originality is leading Brazil to become a significant world player in the fashion arena, where it can participate in re-defining ideals of beauty, and the ever-changing meanings of distinction.

Notes

1. A Dumond advertisement (Spring/Summer 2013) can be viewed at http://www.dumond.com.br/pv2013/campanha/imagens/Dumond-12_0032.jpg
2. Dolce and Gabbana's 2013 Spring/Summer global campaign can be viewed at http://www.dolcegabbana.com/binaries/content/gallery/Brand+Site+SS13/advertising/woman/zoom/dolce-gabbana-adv-campaign-ss-2013-women-02.jpg
3. Just Cavalli's 2013 Spring/Summer campaign can be viewed at http://www.luxuo.com/fashion/just-cavalli-spring-summer-2013.html
4. Tommy Hilfiger's 2013 Spring/Summer global campaign can be viewed at http://global.tommy.com/Media/Newsroom/AD_campaign_13/FAM_GL_01_SS13_700x.jpg
5. The Louis Vuitton retro train advertisement can be viewed at http://images.vogue.it/imgs/galleries/shows/oddities/014049/louis-vuitton-ai-12–13–3–571370_0x440.jpg
6. The Louis Vuitton chess print advertisement can be viewed at http://images.vogue.it/imgs/galleries/shows/oddities/017006/louis-vuitton-adv-pe2013–1–1565349_0x440.jpg
7. Salvatore Ferragamo's 2012/2013 Fall/Winter campaign can be viewed at http://www.imageamplified.com/2012/06/campaign-kate-moss-sean-opry-karmen-pedaru-for-salvatore-ferragamo-fall-2012-by-mikael-jansson-wwwimageamplified com-i-1.html
8. Alexandre Herchcovitch's 2013 Fall/Winter campaign can be viewed at http://herchcovitch.uol.com.br/wp-content/uploads/2013/03/Screen-Shot-2013–03–25-at-9.59.15-AM-610x800.png
9. Roberto Cavalli's Spring/Summer 2013 advertising campaign van be viewed at http://www.robertocavalli.com/index_rc.plp#/woman/advertising/0/0/88838
10. Osklen's Spring/Summer 2013 campaign can be viewed at http://images.vogue.it/imgs/galleries/shows/oddities/017052/2–1323943_0x440.jpg

11. Animale's Spring/Summer 2103 campaign can be viewed at http://www.animale.com.br/campanhas/campanha-2012-night-safari/#.UYjn9cqOueR
12. The Gucci advertisement (Spring/Summer 2013) can be viewed at http://www.gucci.com/images/ecommerce/styles_new/201303/web_1column/wg_ss13_campaign_main_10_web_1column.jpg
13. The Chanel advertisement (Spring/Summer 2013) can be viewed at http://lilianpaccestore.blob.core.windows.net/gallery/imagens/fotos/campanhas-verao-2011/chanel-verao-2011–1.jpg
14. Chanel's Summer Cruise campaign advertisement can be viewed at http://www.graziadaily.co.uk/pub/21publish/f/fashion/cara3.jpeg
15. Miu Miu 2013 advertising campaign can be viewed at http://www.miumiu.com/static_assets/campaign/photos/8.jpg

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Part II

Russia

4
How History, Culture, and Demography Drive Luxury Consumption in Russia

Irina Kulikova and Frédéric Godart

Together with the other BRICS countries – Brazil, India, China, and South Africa – Russia demonstrates a high potential for luxury consumption. With a total population of approximately 143 million people, a growth in gross domestic product (GDP) of 4.3 per cent in 2011, and 3.4 per cent in 2012 (The World Bank 2013), the Russian market has attracted the attention of the majority of Western luxury brands, who have established their presence in the major cities of the country by opening their own boutiques or selling their goods through major distributors.

In addition, in 2012, Russia was among the top 10 countries with the highest number of Ultra High Net Worth (UHNW) individuals – that is to say, individuals with a net worth exceeding US$ 50 million (about 2,000–2,500 individuals) – and millionaires (more than 100,000), and based on Credit Suisse forecasts, this number is set to double by 2017. Wealth inequality in Russia is extremely high, with around 30 per cent of the country's personal assets concentrated in the hands of no more than 100 billionaires: 'Excluding small Caribbean nations with resident billionaires, wealth inequality in Russia is the highest in the world' (Credit Suisse 2012, p.53). This extreme concentration of wealth creates a very specific market for luxury goods with a limited target audience possessing most of the wealth and being interested in buying the most expensive luxury items – without much regard for their price. Overall, the size of the luxury market in Russia is estimated at € 5.5 billion, with a market growth of 7 per cent in 2012 (Bain & Company 2012).

This article is partially based on a small number of in-depth interviews with experts on the topic, who wished to remain anonymous: the chief editor of a professional magazine focused on fashion business in Russia; the commercial director of one of the top distributors of luxury brands in Russia; and the buyer of a department store in Moscow (focused on fashion and luxury goods).

One of the most salient features of Russia is its geography. Russia is, by landmass, the largest country in the world, but its urban population follows a distribution that distinguishes it from industrialized countries such as Germany – with a flurry of small- to medium-sized cities that are still centres of luxury consumption – or emerging powers like China, where second-tier cities constitute major sites for luxury consumption. Geographically speaking, the Russian luxury market is very concentrated in the two key cities of Moscow and St. Petersburg. Together they represent 80–85 per cent of the market; Moscow consists of 60–70 per cent and St. Petersburg 10–15 per cent of the marketplace. Yekaterinburg is usually seen as the third major city, but in general it has much less potential than Moscow and St. Petersburg (Figures 4.1). The general growth of the economy and the positive dynamics in natural resources prices support a general accumulation of wealth in Russia and boost a positive overall outlook for the future of the Russian population. Thus, most of the market experts anticipate further growth of luxury goods spending, not only outside Russia on the part of Russia's wealthiest individuals, but also within the local market.

The market itself is characterized by the existence of a quasi-oligopoly of major retailers and distributors with players such as Mercury, Bosco, and Jamilco; high import taxes; limited understanding of 'how to do business in Russia' by major international players; and ease of spending by Russia's affluent population. These factors have led to a situation where prices in Russia are two to three times higher than in other countries in Europe or in the US, a situation that is not too far from that of China, but more extreme. With more international players coming to the stage and establishing their own distribution in the Russian market, the experts we interviewed forecast a slight decrease in prices and better levels of service. Overall, the Russian luxury market is becoming more mature, with more transparent rules of the game and less intermediaries between a brand and its customers.

An historical overview of luxury in Russia

Russian consumers have a long history of appreciation and consumption of luxury. The Russian aristocratic class used to buy and wear the best furs, and the most expensive jewels. As in other countries, the quality of fabrics and the complexity of the clothing (e.g. the number of garments) distinguished the rich and noble classes from peasants and workers. During Peter the Great's reign (1682–1725), the concept of fashion emerged in Russia. It was accompanied by a positive change in attitudes towards foreigners and imported luxury and fashion goods. Peter required all his boyars (aristocrats) to shave their beards and wear European clothes. Thus, the best Parisian tailors appeared in Russia, offering rich Russian clients their services in sewing customized dresses and suits. At the same time, France, with its taste for fashion and luxury became a role model for the Russian nobility. Paris was

Figure 4.1 Pokrovsky Passage (luxury mall), Yekaterinburg

perceived as the main fashion capital and the Russian high society ordered their clothing and accessories directly from there. In the 1900s, St. Petersburg was considered to be one of the most elegant capitals in the world, with most of the local population demonstrating an advanced understanding of major fashion trends and luxury value and heritage.

In the 18th century, French tailors were frequent visitors to Russia and they even established their own stores in St. Petersburg and in the area of Kuznetskiy. Following the October revolution in 1917, Russia was closed to the influence of global luxury brands and foreign fashion capitals, mostly for ideological reasons – luxury, with its conspicuous and elitist nature was considered antithetic to communism (Aspers and Godart 2013, Gurova 2009, Gronow 2003). Until the early 1990s, Russians had a limited access to the European luxury industry. Overall, a social ban on self-expression through appearance, the emancipation of women, who were taking jobs typically done by men due to the lack of male population after World War II, the wearing of comfortable unisex clothes, the absence of local luxury brands, and a limited supply of international brands led to Russian society having lost its knowledge and taste for luxury.

After the collapse of the Soviet Union in the 1990s, a new generation of wealthy Russians appeared. They had a limited understanding and knowledge of luxury, but could spend a lot of money on luxury goods to demonstrate their status, following a 'conspicuous consumption' pattern (Veblen 1899). Brand logo and price became the key drivers of luxury consumption. By buying very expensive items and showing them off, people tried to distinguish themselves from the general population and demonstrate their belonging to a 'superior class'. However, the currently well-established luxury markets of Moscow and St. Petersburg have passed the stage when people were looking for luxury expressly to demonstrate their status and wealth. Moscow and St. Petersburg societies are less flashy today and are much closer to the European model of luxury consumption: valuing heritage and traditions, thinking of transferring luxury items to their children, less focused on 'bling', interested in the history of brands and young designers. At the same time, other cities in Russia are still at the earlier stage of consumption development, luxury stores are just appearing in Krasnodar, Sochi, and other smaller cities.

The Russian luxury consumer

Several characteristics differentiate the Russian luxury goods consumer, compared with Western Europe. First, the typical age of the Russian luxury consumer is between 30–50 years old. He or she might either have rich parents who gained their fortunes from Russian natural resources, or be young professionals working for Russian or international companies who pay low income tax, earn higher salaries, and spend less on apartment rental.

In many cases people have their own property in Russia – a heritage of the Soviet era, which provide this last group with more disposable income to spend on luxury goods. With an average salary of € 25,000 to € 40,000, these young professionals in their 20s and 30s can afford to buy prestigious brands. They purchase luxury brands occasionally, and since this group of people is extremely mobile, very often they buy luxury goods abroad, where the prices are much lower.

Second, Russian people are less focused on the future and prefer to spend money today, rather than to save and invest. After the collapse of the Soviet Union, new Russian millionaires spent their money on luxury goods without thinking too much about the future. The great history of revolutions and changes in Russia gave people the mentality of living for today, rather than delaying gratification for an unknown tomorrow. This also partially explains the impulsive nature of their shopping. Russians do not tend to hesitate before making even the most expensive purchases; they put less thinking into it and follow their desires.

Third, a large number of people buy luxury goods in order to socialize and feel part of the powerful elite group. They might drive a luxury car, but concurrently live in a small apartment in the suburbs of Moscow.

Fourth, most of the Russian consumers have recently developed their taste for luxury. The older generations are still influenced by the Soviet era, when people only knew a small number of Western luxury brands, such as Chanel and Dior, and buying a Chanel perfume was a dream for many women. Thus, in general, an older generation of consumers still prefers to buy well-known international brands. At the same time, the younger generation born in the 1980s and 1990s, has a completely different vision of luxury. Many of them have studied or worked abroad, and have developed a broad knowledge of luxury brands. They can easily mix well-known designers with mainstream brands such as Topshop or H&M, they are less influenced by logos, but still value the heritage and traditions of the brand.

Finally, Russian women value glamour. One of the most common explanations for this phenomenon is a demographic imbalance that is very specific to Russia. There are about 11 million more women than men in Russia, and women have a life expectancy that is 10–15 years longer. To attract and retain a man in this tough competitive context, women have to be noticed. Consequently, Russian women spend a generous amount of money on their clothes and appearance (Nemtsova 2012).

Several groups of luxury consumers can be identified in Russia (see Table 4.1).

The luxury retail business

Luxury retail in Russia has mainly been developed by the efforts of a few key distributors: Mercury, Bosco di Ciliegi ('Bosco'), Jamilco, and Crocus, which

Table 4.1 Typology of luxury customers in Russia

Group of customers	Characteristics	Luxury goods they buy
Ultra high wealthy individuals ('oligarchs')	• Gained their fortunes mainly in the 1990s, have their money and property abroad, spend quite a lot of time outside Russia, and in most cases, buy luxury goods outside Russia • Have a family, other dependents who also spend their money for luxury consumption • Require high level of customization of luxury goods and an individual approach to servicing • Normally difficult to reach through any means of communication except word of mouth and personal relationships	• Could be anything from a private jet, exclusive property, yacht, objects of art, jewellery, designer clothes, and expensive liquors
Highly successful entrepreneurs and top managers with average revenues between €80,000 to €100,000 per month	• ~100,000 people in Moscow, less in St. Petersburg, and other major cities • Value their time, focus on own career, and success • In most cases, have a good awareness of luxury brands, and value quality and traditions behind them	• Buy property, jewellery, art often for investment purposes • Spend money on luxury cars, travelling, designer clothes and accessories, expensive alcohol
Entrepreneurs and middle management	• Pay a lot of attention to status attributes, try to be perceived richer than they are • Their spending is not always compatible with their revenues	• Buy luxury cars, clothes and accessories (especially watches as status symbols)
Political elite	• Influential civil servants • Legally, most of their property and assets belong to their family members • Certain legal bans prevent political elite from investing abroad (potentially including property) • Rarely go to luxury boutiques, prefer to have luxury goods delivered to them (normally their assistant calls and invites boutique consultants to bring a selection of luxury goods) or to visit closed show rooms, avoid spending in public	• Buy different luxury goods, including property, cars, jewellery, clothes and accessories, etc.

Artists, actors, musicians, sportsmen and other representatives of Russian bohemian class	• Perceive luxury consumption as a lifestyle, stay in the most expensive hotels, spend money to show off • Regularly visit fashion shows, VIP events • Become luxury brands ambassadors	• Spend a lot of money on their image, buy expensive cars, jewellery, clothes, and accessories
Family members (wives, children) of rich people and younger individuals living with the support of the latter	• Normally do not spend their own money, but have a high influence on family purse strings and push for many expensive purchases • Often receive luxury goods as gifts • Quite perceptive to different kinds of PR events, have plenty of time to socialize, visit boutiques, beauty salons, exhibitions, etc.	• Invest a lot in their 'look' thus buy expensive cars, luxury branded garments, accessories, and jewellery • Spend a lot of money in beauty salons, for travelling and partying, frequent visitors of the French Riviera, London, Paris, NYC, and other world class destinations
Occasional customers	• Mainly young professionals or students, predominantly women, who have no family obligations, and can spend their money to join in the luxury world • Buy several luxury items per year, all purchases are normally well-planned in advance, try to control their spending • Follow major fashion trends, regularly read fashion magazines and blogs; probably one of the most well educated consumers groups in terms of fashion and luxury • Gain a lot of positive emotions from shopping in luxury boutiques, and from the act of exhibiting their purchases afterwards to their colleagues, friends, etc.	• Cosmetics, perfumes of well-known brands like Dior, Chanel, Prada, etc. • Some types of luxury accessories like sunglasses, wallets, bags and shoes less often

opened the first luxury boutiques in the Russian market, and also invested a lot of effort and capital in developing commercial properties dedicated to luxury in major cities such as Moscow and St. Petersburg (Vainshtein 2006). Retail space comprises mono-brand boutiques, including major flagship stores, multi-brand boutiques, commercial centres, and department stores inside and outside city centres.

While mono-brand boutiques are well represented, multi-brand boutiques are a relatively underrepresented configuration in Russia, especially for clothes and accessories, less for other product categories such as watches. Usually, these stores contain less prominent brands that do not generate enough sales to justify a mono-brand boutique. At the same time, this concept is potentially much more flexible in terms of assortment that can be adapted according to customer preferences, and might bring better margins through higher sales per square meter. In Moscow there are several well-known multi-brand boutiques, such as Podium, Le Premier, and Aizel. Within the last 20 years there have been ups and downs with this format, as it requires a lot of effort in terms of fostering an appropriate purchasing strategy, attracting customers by using several solid anchor brands, while carefully promoting less well known designers. Today, many consumers in Moscow and St. Petersburg are looking for fresh names in fashion and design, and are ready to buy less well known brands. This new generation of consumers that is less focused on established names is presently the major customer base for the multi-brand boutiques. Following this trend, it seems that a new wave of multi-brand boutiques is developing on the market with their owners focused on promoting certain lifestyles and building customer awareness of new names in fashion. These boutiques are clearly more oriented towards new designers and avoid very expensive or exclusive brands, with the exception of those selling deluxe watches.

Department stores are an underrepresented retail format in terms of luxury consumption in Russia. One informant, a chief editor of a magazine for fashion professionals, stated: ‘This format is completely underdeveloped in Russia, there are probably two department stores similar to Galeries Lafayette or Printemps in Paris – ЦУМ (TSUM) and Цветной (Tsvetnoi) in Moscow.’

In Moscow and St. Petersburg, luxury brands distribution is mainly concentrated in several trading areas: Tretyakovsky Proezd (a street of boutiques developed by Mercury), Stoleshnikov Pereulok, Petrovka Street, Kuznetsky Most Street in Moscow, and Nevsky Prospect in St. Petersburg. According to a commercial director of one of the top three distributors, luxury retailers pay around €7,000 to €8,000 per m^2 per year in the central areas of Moscow, and up to €15,000 per year for smaller sized jewellery and watch boutiques.

In general, street retail is much less developed in Russian cities than in other European cities such as Paris, Milan, or London, etc. Remarkably, Moscow has even fewer street boutiques than St. Petersburg and other major Russian cities. The main reason for this is historical: private ownership of property has not evolved much since the fall of communism, thus most of the centrally located buildings in Moscow still belong to various government organizations. As a result, many boutiques opened their doors in commercial centres, for example Петровский Пассаж (Petrovskiy Passage) and Берлинский дом (Berlinskiy Dom). Apart from traditional mono-brand, multi-brand boutiques, and commercial centres in the central areas of Russian cities, luxury distribution has developed a phenomenon of bringing luxury brand boutiques out of city centres, and combining them under the roof of a large luxury commercial shopping centre. The first project of this type was developed by Aras Agalarov, a businessman and owner of Crocus. In 2002, he opened the first luxury brand 'hypermarket', Crocus City Mall. Other similar projects followed within the next couple of years, for example, Barvikha Luxury Village, Vremena Goda, etc. Barvikha Luxury village was opened by Mercury in 2005, and operates the total space of 80,000 square meters, eight kilometres outside of Moscow at Rublevsko-Uspenskoe Shosse. The complex includes a broad selection of luxury boutiques, the Barvikha Hotel & Spa, Espace Vitalité Chenot, auto salons, banks, restaurants, and a concert hall. In general, commercial centres with luxury brands outside of the city centre have gained a secure degree of popularity among Russian consumers, especially those living within easy reach of residential areas like Barvikha, and Rublevka. Location is clearly a key factor in the commercial success of these centres.

The use of the Internet for luxury goods sales is not very well developed in Russia, for which there are several potential explanations. First, consumption of luxury goods in general is associated with the opportunity to touch and to feel luxury, thus, people prefer to go to a boutique, where they also like to get a personalized consultation. According to a commercial director of one of the top-three luxury goods distributors in Russia: 'Many consumers of luxury brands can easily spend ~30K US$ in their preferred boutique with their preferred personal consultant. It's hard to expect the same type of behaviour online.' Secondly, logistics remain one of the key issues for online retail in Russia. It is very difficult to find a good logistics partner that will deliver everything on time, and will require minimal follow-up from the seller's side. Many Internet stores working in the mass market segment (such as LaModa.ru, Ozon.ru) developed their own logistics services in Moscow, although this clearly could not solve the same problem in other areas of Russia. However, owning a logistics company makes sense for two main reasons: (1) given the volume and value of sales, to ensure high quality, timely, and reliable delivery; and (2) certain legal limitations, especially regarding jewellery, require delivery in a special armoured vehicle. For some types of luxury goods, the Internet has serious limitations. According to a commercial director of one of the top luxury goods distributors in Russia, the Internet has potential only for luxury accessories, mainly for business or personal gifts.

Market entry strategies

There are several alternative ways to enter the Russian market: through direct retail, master franchise agreements, and the use of multi-brand agents/distributors. In the 1990s most luxury brands preferred to enter the market through the employment of a master franchise agreement, thus several large distributors led the import of luxury goods to Russia, and focused their sales in Moscow and St. Petersburg. In the last few years, the key distributors in Russia (Mercury, Bosco, and Jamilco) have lost several international brands; those who made the decision to start operating directly (e.g. Chanel, Armani, Breitling). Another big player in the Moscow luxury retail market – Crocus – has fully focused its efforts on the development of real estate for luxury. We focus on each strategy below, detailing the key advantages and disadvantages.

Direct retail

Louis Vuitton (LV) was the first luxury brand to start direct operations in Russia in 2002. The first boutique was opened in Moscow, which reflected LV's strategy of building direct operations in all countries with a LV market presence. Chanel, Christian Dior, Prada, and other luxury brands entered the Russian market through the aforementioned key distributors, although within several years they also established their own operations. According to the commercial director of one of the top three distributors: 'The direct retail model is gaining more popularity due to the fact that the industry is getting more transparent, and major brands have a better understanding of the market and consumers after working for several years in the Russian market.'

A key advantage of direct retail is the luxury brand's control over key marketing decisions such as distribution, product portfolio, prices, level of services, etc. However, there are some important disadvantages. High sales volumes are required to justify the presence of a local office and local distribution, thus only big names can afford this operations model. There is also the issue of the lack of transparency and corruption in Russia, lack of qualified personnel, and the lack of available space to rent. Finally, a common downside is the lack of understanding of the local market and consumers.

Master franchise

Most of the well-known luxury brands, including Hermès, Christian Dior and Gucci started their business in Russia through the master franchise model. The key distinction of this model in relation to direct retail is that a luxury brand works with a local partner, usually on an exclusive basis. The local partner provides logistics, marketing, and human resources support, amongst other services, and operates the luxury brand's stores. A master franchise agreement might be bounded by time, for example, ending in ten years, or have clauses that define a buyout within several years. During the master franchise's life cycle, both the brand and the master franchisee work on annual sales targets, marketing plans, and product assortment. Depending on the agreement's conditions, a master franchisee might have more or fewer responsibilities in representing and controlling the brand operations on the territory of Russia. Three key distributors (Mercury, Bosco, Jamilco) provide master franchisee services to international brands with the objective of building their retail business in Russia, without creating their own operations. For example, Hermès started operations in Russia with a master franchise agreement with Jamilco in 2000, which was then terminated in 2011.

Key advantages of the master franchise model are the ability for the luxury brand to gain a better understanding of the local market, and to gain business experience in Russia. The services provided by the franchisee, such as logistics, marketing, and human resource management can greatly facilitate the creation of market presence. It is also regarded as an ideal opportunity to share capital expenditure. However, this needs to be offset against less control over operations. Further, the franchisee's mark-up leads to higher prices for the consumer.

Multi-brand agent/distributor

Many smaller luxury brands that fail to meet profitable sales targets via mono-brand stores, or want to test the market and gain a better understanding of their potential in Russia, start their operations through multi-brand agents/distributors. In this case, the interaction between a brand and a distributor is limited to buyer-seller relationships. The multi-brand agent buys a certain assortment of products from the brand and sells it through its own multi-brand stores, or resells to independent boutiques. Normally, no market analytics or other support is provided to the luxury brand. Two examples of the brands that started their sales in Russia through the multi-brand agents are Belstaff and Vivienne Westwood.

The key advantage of this approach is the speed of market entry, which is effective for short-term sales growth. However, there is limited control over pricing decisions and distribution in general. Further, there is no exclusivity; multiple brands are present in the portfolio.

Mixed strategies by channel and geography

Many brands, such as Burberry and Ferragamo, apply a mixed strategy, working with a master franchise in Moscow and/or St. Petersburg, and multi-brand agents/distributors in other regions of Russia. The rationale for this model is that the limited geography of operations for the main luxury distributors. Companies such as Mercury, Jamilco, and Bosco, were traditionally focused on developing in Moscow and other big cities, while other markets within Russia were a prerogative of smaller, local players. Luxury brands were therefore seeking a better representation in smaller cities and thus started to work with local distributors. In many cases they found local players through their master franchisee. For instance, Jamilco operates stores in four cities in Russia, although the company has sub-franchisee agreements in many other cities.

The brand landscape

Unlike Asian consumers, Russians do not generally require any customization of the brand (e.g. changing design, introducing some national themes, etc.). By being isolated from the main fashion and luxury trends that developed in the Western world in the past century, Russian consumers were very receptive to new Italian and French brands entering the Russian market in the late 1990s and early 2000s. For many years, many Russians preferred to leave aside their traditions and consume new things. According to the chief editor of a magazine for fashion professionals: 'Italian brands which entered Russian market in the 1990s totally conquered people's minds, everybody wanted to wear certain brands to demonstrate their status and wealth.' Traditionally, Russians have perceived that everything produced outside Russia, especially in Italy and France, is made with better quality and value. In particular, France and, more specifically, Paris, ranks highest in Russians' perception of luxuriousness; this is even more the case amongst women (Dobrynina 2012). Thus, it is relatively easy to sell these goods at a higher price and Russian consumers continue to desire to acquire them.

It is worth mentioning that, in spite of the fact that the preferences of Russian consumers predominantly developed through international brands (e.g. Italian, French, Swiss for watches), there are still some local differences in preferences compared to non-Russians. According to the chief editor of a trade magazine for fashion professionals,

> In their preferences, Russian people are very close to Italians, mainly because Italian brands first entered the market with French brands lagging behind. At the same time, while creating their wardrobes, most of the buyers need to take into account certain characteristics of the environment, such as climate – we have almost six months of winter. Russians have a traditional appreciation of furs. During the winter, you can see most Russian women wearing mink coats, while in other European countries it might be considered unethical behaviour since people try to protect animals and reduce the consumption of furs. There is a desire to be noticed. Russian people still have a preference for clothing and accessories that catch your eye and make a person stand out of the crowd.

As mentioned above, the Russian historical heritage, notably the Soviet Union and the communist regime that limited self-expression and luxury consumption, led to a modern Russia with a very limited number of local luxury brands. In general, Russian luxury brands are almost non-existent due to lack of awareness of fashion and design, the absence of local artisans, the long-standing preferences of Russians towards well-established foreign luxury brands, and perceptions that Russian products are of inferior quality. However, in the fashion domain, there are several Russian couturiers who have managed to establish themselves inside and outside Russia: V. Zaitsev (since the 1970–1980s), V. Yudashkin (since the 1990s), and I. Chapurin (since the 2000s). They create *haute couture* garments, demonstrating their work at fashion weeks, and own several boutiques serving mainly affluent customers. Some young couturiers launched their brands in the premium segment, but the luxury fashion segment in Russia remains dominated by French and Italian designers. New names have started to appear in the jewellery sector, and some high-quality spirits, such as Stolichnaya Elit, have made an appearance. Yet, many potentially luxury segments remain void of Russian players. Examples abound, and include: automobiles; yachts; watches; perfumes and cosmetics; furniture and interior design; upscale hotels and other players in the hospitality industry. All are lacking serious local contenders.

Conclusions

Luxury in Russia is driven by history, culture, and geography, in different ways compared to other countries. Despite a long history of luxury appreciation, the past communist regime had limited the development of home-grown luxury brands, opening the way for foreign brands, notably Italian and French. Culture, as shaped by economic factors such as wealth distribution, still favours conspicuous consumption, despite a move towards more fringe brands and consumption practices, especially in the two biggest cities, Moscow and St. Petersburg. Within these two cities, the concentration of wealth and most sources of power still relatively constrain the spread of luxury consumption in Russia. This is quite unlike what is happening in China or India, for example.

Despite this phenomenon, the future is not destined to follow the past. And some lingering questions remain to be answered. Due to the prestige of international brands, and a strong customer-base, is foreign luxury going to remain an easy sell in Russia? It might have been for a while, notably after the collapse of the Soviet Union, but what comes after post-communist Russia? Where are the Russian entrepreneurs going to go *deluxe* next?

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5
Distribution Options and Consumer Profiles in the Russian Luxury Market

Daria Yadernaya

The luxury market in Russia has evolved to become a key strategic market. Following a decline in the market value in 2009 as a consequence of the financial crisis, the market has since rebounded.[1] According to our industry data, the value of the luxury market in Russia increased by 21 per cent in 2011, which is comparable to growth rates in other key emerging market destinations, such as China and India. Luxury companies are responding to this strong and sustainable growth in consumer demand with retail expansion. For example, a new department store, DLT, was opened by the luxury operator Mercury in 2012 and two new Chanel stores were opened in St. Petersburg in 2013.

As the market continues to expand and develop, luxury companies will need to be prepared for the next stage of growth in a rapidly changing environment. This chapter will discuss how luxury brands within the clothing, footwear, and accessories market (CFA) need to align strategies to new and changing market conditions. We will focus on two key aspects. First, we will discuss how an effective distribution strategy is essential to meet the highly dispersed demand in a huge geographical market territory. Luxury brands will be challenged to penetrate the luxury market beyond Moscow and St. Petersburg (and even Yekaterinburg). Second, we will profile the luxury consumer that will impact future targeting strategies. The luxury market is set to grow at 14–16 per cent annually until at least 2020 and this will give rise to new clusters of luxury customers.

Distribution channels: How to sell in Russia

After the dissolution of the Soviet Union, the market was operated predominantly by Russian luxury distributors who represented luxury brands' interests in the Russian market. There are currently four[2] main distributors: Bosco di Ciliegi,[3] Mercury,[4] Macchiavelli Luxury Group,[5] and Jamilco.[6] These groups promote their brands locally and are responsible for the sales on buying terms, but with a condition of exclusivity on their part. International luxury brands were particularly keen to forge distribution agreements with local partners in order to offset the risks the market posed in the 1990s and early 2000s. However, the increasing stability of the political and economic environment has led to international brands seeking greater control and independence. During the period of 2012 and 2013, a growing list of luxury brands including Gucci, Prada, Hermès, and Tiffany & Co decided to switch their distribution model from wholesale/franchise to directly operated stores. This development marks a game changer in which an increasing number of international luxury brands set out to manage their distribution operations without intermediaries.

The luxury market in Russia is significant in terms of value, but condensed in terms of consumers. Forbes reported that Moscow is in fact 'the billionaire capital of the world' (Geromel 2013). Two thirds of millionaires and billionaires live in Moscow, with 20 per cent living in St. Petersburg or Yekaterinburg. This would suggest that only these cities have enough potential to absorb a luxury mono-brand supply. Although most brands boast profitability in mono-brand stores only in Moscow, there are still calculated risks involved with brands pursuing a mono-brand strategy. Memories may be short, but a number of luxury brands including Stella McCartney were forced to withdraw following the financial crisis in 2009. Mono-brands are still a costly venture in Russia because the most attractive street retail locations and a few truly luxury shopping malls demand extremely high rents.

However, the positive brand image effect of mono-brand stores should not be underestimated. Exclusive collections are often found in the Moscow mono-brand stores that are not found in other distribution channels. There are also longer-term benefits for mono-brand stores located in the regions. Louis Vuitton's mono-brand store in Yekaterinburg may only be a shop window, but it is also a window to future aspirations. There is also greater flexibility to adapt the product offering to local market conditions. For example, Louis Vuitton's mono-brand store in St. Petersburg features only accessories that ensure greater profitability.

Department stores and multi-brand stores represent a very important distribution channel in Russia. Despite the fact that women aged 26 to 35 years only partially recall the Soviet experience of shopping in department stores, their own behaviours tend to follow their parents' habits. Moreover, multi-brand stores play an important part in regional sales as they are often the only channel that sells designer apparel, footwear, and accessories. Many luxury brands entered the Russian market via department stores such as TSUM, and Tsvetnoy Central Market in Moscow, and then expanded via regional multi-brand boutiques. This strategy requires limited promotional investment and financial risks are minimized. Moreover, department stores invest heavily in the promotion of their brands so that after a couple of seasons, brands become widely known amongst the fashion media and consequently, the target audience. Interestingly, department stores have been on the rise lately as they are restructuring to fit in with the Western model, which helps attract globetrotters to this format of shopping. For example, Tsvetnoy Central Market combines luxury and premium brands with affordable and fast fashion brands such as Topshop. New, big-concept stores are also being launched, such as Nevsky 192 and Day & Night Lite in St. Petersburg, and boutiques by the Liberty Fashion Group in Yekaterinburg.

E-commerce in Russia represents a high-growth potential distribution channel for luxury brands. Although e-commerce accounts for only 2 per cent of total retail sales in Russia, McKinsey reports that online sales are to increase to US$ 25 billion in 2014 from US$ 8 billion in 2010 (Gorst 2013). This trend is reflected within the fashion domain. The first half of the 2012–2013 financial year showed that Russia has become Asos's[7] fifth largest market by revenue (Tikhonova 2013).

Russians are gaining greater confidence to order items from foreign e-stores. If the purchase is under €200, customs checks are waived. For purchases below €1,000, customers pay €15 to the express carrier for customs clearance services – and zero tax. The only limit is that one person cannot purchase items that exceed €1,000 per month; a problem which is easily solved by ordering under an assumed name. Moreover, when buying on international websites, Russians get an automatic VAT deduction, which makes the prices even more attractive.

The most popular high-end shopping portal sites are net-a-porter.com, luisaviaroma.com, matches.com, my-wardrobe.com, and shopbop.com. Interestingly, Luisa Via Roma has a Russian version of their website, Net-a-Porter, which sends emails in Russian, while Matches and My-Wardrobe give easy reference to prices in roubles. Our research found that approximately 60 per cent of all online luxury buyers in Russia have bought from at least two of these online stores in 2012. Leading Russian luxury fashion e-tailers include Boutique.ru, the first and biggest online luxury and premium store in Russia, as well as Topbrands.ru, and Aizel247.ru with a format based on the net-a-porter.com model.

Our research also found that Russian consumers buy luxury online for a variety of reasons: (1) to search for new designers; (2) to search for unusual styles; (3) to search for non-standard sizes, as brick-and-mortar stores still feature only standard sizes; and (4) to get better deals, i.e. lower prices. Luxury consumers, particularly in Moscow and St. Petersburg expressed that they still prefer to pay cash when the goods are delivered. Moreover, many luxury consumers are inclined to go and try clothes in one of the brick-and-mortar stores – and then look for better deals online. Trying on clothes in advance also gives the shopper greater security as returning goods in Russia is not as hassle-free as in Western European countries.

However, a key advantage of luxury e-commerce is the ability for luxury brands to extend their reach into new territories, such as Kaliningrad, Kazan, Perm, Irkutsk, Sochi, and Krasnodar. As Russia is such a large geographical country, until recently, for some luxury customers the only option to purchase luxury brands was either to shop abroad, in Moscow, or a closer regional city with a developed luxury market, such as Yekaterinburg or St. Petersburg. The emergence of multi-brand stores has only partially met consumer demand and this is predominantly in the larger cities. Further, the selection of items made available is very limited. Most buyers in regions tend to be conservative in their choices and contemporary designer brands are barely represented. Likewise, this also applies for less commercial models within the designer wear range and for less standard sizes. The problem for the Russian regional luxury customer is that colours, models, and sizes are still quite limited, as buyers tend to stick with middling solutions – not too risky, not too dull. As a result, neither basic models nor risky eye-catchers get to the racks. Sizes are only S and M with the rare exception of finding an occasional XS or L. All of this makes Russian customers in the regions avid searchers for products online.

The luxury consumer in Russia

The luxury consumer in Russia reflects a changing dynamic – the emergence of the middle class. According to a report by HSBC, Russia is expected to be one of the fastest rising countries in terms of the proportion of people who are considered to be middle class (Romei 2012). We have segmented the Russian luxury consumer according to the following four psychographic profiles.

Conventional

These are customers shaped by the dissolution of the Soviet Union or even before, and represent the second generation of luxury customers. Their (or their parents') wealth originates from natural resources or other deep-rooted stable businesses. They are prepared to pay the high listed price for a luxury item but expect outstanding service, a personalized sales approach, and ultimately a unique shopping experience. They prefer to shop at the same store and buy the same brands, rather than to experiment and try something new. Their shopping experience is closely related to the sales assistant who services them, and an established relationship with staff is one of the reasons why they visit a particular store. As regular customers, they enjoy various privileges such as ordering from a look-book precisely the model and size they desire, acquiring tailored pieces, and special deliveries. They essentially receive a customized approach in almost anything they require. Some Russian stores centred on these types of clients will not display their highly desired models in store. Should a 'mainstream' customer enter a store, he/she will only see what is on display, but should a VIP enter the store, the sales staff immediately bring all the best models in corresponding sizes from the warehouse – as they have been basically pre-ordered by the buyers specifically for the client – even without him or her being aware of it.

New luxury

New luxury consumers have only recently entered the luxury domain. They typically work in the creative sector, or are owners of their own small and medium enterprises (SMEs). They also might be middle and top managers working for multinationals. They travel a lot and believe in the world being a global village. This group represents the new *intelligentsia* – they live marketing 3.0, are increasingly aware of corporate social and ethical issues, and follow a symbiosis of art and fashion. They are on a quest for new values and new challenges. They mostly buy luxury, not to demonstrate their status, but because they would not accept less – in style or quality. They are fashion-conscious and are searching for something unique and individual. Desired brands include less conventional brands such as Isabel Marant, Acne, Carven, Rick Owens, and Helmut Lang. They buy contemporary designers and old heritage brands to create their own mixture of the old and the new. As they earn their own money and their budget is limited, they strive to get better deals – and especially in view of not spending more than necessary. They also believe time is money so they like to shop online (international e-tailers), but also the digital medium helps them find items that are unusual and unique. They are less inclined to shop at mono-brand stores because the choice on offer is too limited, they prefer a concept space not only to shop but also to spend time in, e.g. Tsvetnoy Central Market.

Hedonist

These are customers who appreciate brands for their taste and style. They are ultra-fashion conscious and their appearance is based on the principles of fast fashion: the trendier, the better. However, an overriding factor in delivering pleasure is the actual shopping experience. As their financial resources are limited, their luxury purchases are infrequent. This is why they search for substitutes, i.e. fast fashion. They derive hedonistic pleasure from going to stores regularly and frequently, and getting deals on fashionable pieces, albeit at Zara or H&M. However, they are also likely to shop online – to prolong the shopping experience. They are firm believers in perishability of items and have a tendency to plunge into in-store hoarding and purchase items impulsively. They are to some extent those who are so well described in Elisabeth Cline's (2012) book, *Overdressed*, but are more focused on trends. When they have saved enough money, they go on a luxury shopping spree. Although price-sensitive, they rarely wait for sales to buy a desired luxury object, rather they go and spend all their money once they have it. This spontaneous behaviour can be attributed to the fact that many of this group work on a freelance basis and have an unstable flow of income.

Aspiring

This customer group is a fairly recent phenomenon in Russia, while globally they have already become a very profitable target for luxury brands. They are typical middle class or upper-middle class but think they deserve more. They buy luxury to show status and gain a more prestigious image amongst their peers. Their preference for luxury brands is to embody status combined with heritage, such as Gucci, Prada, Chanel, and Louis Vuitton. Contemporary designers are not typically on their shopping list. They can only make three to five luxury purchases a season, so they are very selective. Buying luxury is an investment and so they do their due diligence well. They never buy something they are not sure will fit or clearly portray their status – and be immaculately produced. They may try items on in store before searching online for better price offers. They are very rational in choosing luxury and apply the same purchasing principles as they would to any other major expenditure item, be it a new dishwasher or a family vacation.

Implications and conclusions

As the luxury market in Russia enters a new phase of growth, luxury brands need to consider a longer-term perspective if they are to achieve market success. The luxury market is still concentrated in Moscow, St. Petersburg, and Yekaterinburg, but regional cities should not be overlooked. A market entry strategy needs to assess to what extent a local intermediary can add value. In many cases, international luxury brands lack the necessary knowhow and expertise and are only able to operate directly after five or ten years of local market experience. However, brands need to also consider a distribution mix that allows control and flexibility that enables the right products to be exposed to the right people in the right place. The changing profile of the luxury consumer has only made targeting a greater challenge. More than half of luxury sales are made by conventional luxury customers who desire brands with a strong heritage, but demand a personal service. Luxury brand owners will need to consider how to reach and target other groups of luxury consumers in order to grow their market share. For example, New Luxury and Hedonist customers would be a suitable target for luxury diffusion brands, and Aspiring customers are more likely to buy online after visiting a store.

Notes

1. Unless otherwise stated, all data has been provided by Esper Group.
2. Crocus Group decided to withdraw from luxury retailing in 2011.

3. Portfolio includes 34 mono-brands such as Etro and Hugo Boss. It also operates the historical department store GUM on Red Square in Moscow.
4. The group is the largest luxury brand distributor and also operates luxury department store TSUM, located in a six-story historical building at Petrovka Street.
5. Flagship channel is Boutique.ru and manages a number of multi- and mono-brand stores across St Petersburg.
6. Distributor of luxury and premium brands in Russia, including Burberry and Salvatore Ferragamo.
7. ASOS.com is a global online fashion and beauty retailer.

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6
The Idiosyncrasies of Luxury Consumption in Russia

Paul Sanders and Paulina Tsimakhovich

Over the past two decades, the Russian luxury market has seen phenomenal development; a growth that is still continuing despite the on-going global, financial, and economic crisis. Local leading distributors of luxury goods such as Mercury, JamilCo, and Bosco di Ciliegi, continue to benefit from high profits generated by their Russian sales. Moreover, many luxury companies such as Chanel, Dior, Zilli, and Montblanc operate successfully in Moscow and other cities of the Russian Federation, where prices are known to be considerably higher than in Western Europe. Despite this situation, more and more Russians prefer to buy foreign luxury goods in Russia, which explains the growing number of premium shopping centres and luxury malls built in the past few years. Moscow's Stoleshnikov Lane was identified by Jones LaSalle (2011) as the third most expensive luxury shopping street in the world, after London's New Bond Street and Avenue Montaigne in Paris.

For many companies involved in the luxury market, Russia is a market of great opportunities and encourages them to develop marketing strategies that are adapted to this new market. At the core of strategies involving the consumption of luxury goods is the Russian consumer. Many marketing researchers (Bastien and Kapferer 2012, Chevalier and Mazzalovo 2008, Roberts 2008, Sanders 2008) agree that the cultural element plays a significant role in the development of customer relations, and that this impacts directly on consumer behaviour.

However, very little is known about the Russian consumer's mind-set. The first analyses written about the Russian consumer, when the market became interesting for foreign investors, date back to the 1990s. They are no longer relevant, especially in the light of the retreat of many business from Russia in the wake of the 1998 financial crisis and of the evolving political and economic situations that have been unfolding since 2000. In the last decade the Russian luxury market has developed several specific features, which make Russian luxury consumers very different, not only from Western European luxury consumers, but also from the behaviour displayed in other emerging markets. These differences require study.

The objective of this chapter is to explore some of the specifics underpinning the Russian luxury market and to profile more closely in what way Russia can be a potentially profitable opportunity for international luxury brands. To do so we will first look at the generic discussion of the characteristics of luxury marketing in the BRIC (Brazil, Russia, India, and China) countries as it appears in the literature. Four factors are considered to be of particular salience. In a second comparative step, these factors will be matched to the case of Russia. The chapter will also provide pointers towards a number of relevant questions: who the new Russian luxury consumers are; what makes them different from other BRIC consumers; how one may approach the tricky issue of consumer demand; how the luxury market has been shaped in the last two decades; who the main local distributor groups are and why they dominate the market; and how market expansion is correlated to the development of infrastructure.

Issues of luxury market expansion in BRIC countries

Four criteria underpin the commencement or extension of international distribution as well as the development of market penetration strategies, and this despite the on-going global crisis: (1) economic potential; (2) sociological change; (3) differences in sociocultural background; and (4) the issues of consumer ethnocentrism and country of origin effect. These four factors need to be studied before market entry.

Economic potential

The first factor relates to the economic potential in a given country, as well as to the capacity and willingness of the population to buy luxury goods. The core benchmark for assessing this potential is the number of Very High Net Worth Individuals (VHNWI) and High Net Worth Individuals (HNWI), who typically have US$ 1 million or more in assets. According to Bastien and Kapferer (2012), the BRIC economies boast a growing number of these categories, corresponding to between 7 and 22 million individuals. More importantly, these wealthy and extremely wealthy people not only have unlimited resources to buy luxury goods, but also a mind-set that considers these as necessary attributes to their lifestyle. In many cases, luxury has become an everyday reality in its own right, whether it is luxury accommodation, furniture, cars, clothing, and so on.

Sociological change

The principle sociological factor playing an important role in luxury market expansion is the emergence of a new middle class, which is typical in transitional economies. Individuals, and families, with middle incomes, but now also with increasingly higher disposable incomes, combined with luxury aspirations, define this 'new middle' class. This additional social class, which is quite distinct from any Western counterpart, represents the new target market beyond the wealthy elites. Kapferer and Bastien (2012) label them 'excursionists', occasional buyers, or those who tend to purchase more or less affordable luxury goods in their moments of 'richness'.

Sociocultural background

Very little disagreement exists on the importance of the third factor, the socio-cultural dimension. When developing their strategies, companies analyse target consumers from the point of view of their socio-cultural background. In this respect, the BRIC countries are thought to have a lot in common. They all have an important share of the population who demonstrate a high propensity to buy luxury goods (Bastien and Kapferer 2012). This is linked to their age, social status, marital status, background, and to which social milieu or social identification they belong (Aiello *et al.* 2012). Furthermore, luxury is perceived in extremely favourable terms in the BRIC countries. In fact, price sensitivity is very low and the hedonistic value of a luxury prevails over its price. This can be accounted for by the very power of hedonism, where the purchase is experienced as a moment of pleasure, and the necessity to use luxury in the creation of one's own imaginary world. For these reasons the pricing of luxury goods in BRIC countries is a great deal more flexible than those in established markets.

A word of caution, however, is necessary in some regards: not every BRIC country will respond in the same manner to identical luxury products; and not all brands will experience a successful launch, as brand and country of origin awareness will differ. For this reason, marketing strategies have to be adapted to the target market, making sure that the product corresponds to the culture of the target country and that the match is as perfect as possible, as noted by Alain Schimel, the president of Zilli, a men's luxury clothing brand (IAE Lyon 2012).

Consumer ethnocentrism and country of origin effect

The final factor is the degree of consumer ethnocentrism (CE) and country of origin effect (CoO). The construct ethnocentrism is the key element assessed in the consumer ethnocentric tendencies scale (CETSCALE) examining to what extent consumers prefer to purchase foreign goods rather than goods produced domestically. Recent studies, that were based on questionnaire results and aimed at examining both the degree of ethnocentrism and country of origin effect show that BRIC countries tend to have a relatively low level of ethnocentrism, for both luxury and non-luxury goods, and that the country of origin is an important criterion of choice for consumers in luxury goods purchases (Aiello *et al.* 2012). Luxury brands are generally viewed as 'the best the West has to offer' (Bastien and Kapferer 2012, p.128) and 'consumers in developing economies generally evaluate domestic goods more negatively than foreign goods' (Bastien and Kapferer 2012, p.305).

These four factors are crucial to developing marketing and trade strategies. We will now analyse how they relate to the case of Russia. What are the essentials elements of the Russian luxury market and what are the new challenges companies face today when doing business in Russia?

The four factors applied to the Russian luxury market

The penetration of the Russian market by luxury brands commenced immediately after the collapse of the Soviet Union. Twenty years on, the Russian luxury market has reached a necessary degree of maturity and now accommodates the majority of global luxury brands. Russia is considered a prime target market because it has shown to be resilient to economic turbulence. Although it is difficult to predict luxury market growth in Russia, Bain & Company (2011) estimate that luxury goods sales will remain high for the next few years, with an annual growth of between 5 and 10 per cent. The Levada Center, an independent Russian polling organization, conducts a monthly survey to assess the dynamics of consumer sentiment. The Consumer Sentiment Index is a measurement indicator that allows the assessment of consumers' degree of readiness or optimism to buy goods. The index is based on household surveys consisting of a few questions related to savings, spending, confidence in the future and the state. According to the Levada Center's survey results of June 2013, the post-crisis index of consumer sentiment remains positive, although not as positive as before the crisis in March 2008 (Levada Center 2013). In fact, consumer sentiment in Russia is almost as high as in the European Union. GFK Rus (ГФК Русь), states that Moscow has the highest index of consumer sentiment compared to that of other cities and rural areas in Russia (GFK Rus 2013). Furthermore, Muscovites are almost as optimistic about their purchasing power as before the crisis (Parfenenkova 2011).

Like other BRIC countries, Russia attracts luxury goods companies through its very high number of HNWIs. According to a source citing research by Deloitte & Touche, 'Russia ranks seventh in relation to millionaires worth more than US$ 30 million, while Russia is fifth in the list of rich millionaire families, with an average family wealth of US$ 2.1 million' (Kononova 2011). In the 2011 version of the Forbes global rich list, Moscow displaced New York as the city with the highest concentration of billionaires in the world (79 vs. 58) (PWC Strategy Group 2012). Furthermore, affluent Russians love luxury, and their spending on luxury is amongst the highest in the world (Euromonitor International 2013a).

This rosy picture is somewhat upset by the lack of transparency of rich Russians – *the* major obstacle for Western observers in gaining a more than approximate understanding of the dimensions and underpinnings of this wealth, and a correct gauge of potential demand. To put it succinctly, nobody knows how much wealth there actually is in Russia. With all reliable information on assets, shares, real estate, and business turnover under 'lock and file', media reporting suffers from considerable variation, and has to be taken with more than a pinch of salt. The issue of hidden wealth can be illustrated by the case of the Russian president, Vladimir Putin. According to the figures of the central election commission of the Russian Federation, Putin's annual earnings for 2011 were only US$ 179,612. However, the Bureau of Investigative Journalism (2012) believes that he could have assets worth as much as US$ 60–70 billion. The actual figure is probably somewhere within the vast space separating these two figures. The point here is that Russian politicians and businessmen typically hide personal wealth.

The main sociological parameter that needs to be watched to gauge Russian luxury market demand is the emerging middle class. Today, the middle class in Russia is estimated to comprise over 20 per cent of the population. Western authors observed this phenomenon as early as the beginning of the 2000s. Good salary payments, although lower than in the West, result in rising living standards, in particular among young professionals aged between 20 and 45 (Roberts 2008). According to the Moscow-based Independent Institute for Social Policy (IISP), this new middle class not only encompasses individuals working in the private sector (entrepreneurs, professionals), but also public sector workers such as technocrats, managers, and officials of the 'power' ministries (BOFIT 2013).

An important characteristic of the purchasing power of this new social class is high disposable incomes. As living expenses are relatively low in Russia even today, the disposable income of the Russian middle class, if calculated in proportion to income and household expenses (such as utility bills, rent, various services, and repairs), is higher than its middle-class equivalent in Western Europe and in the US (Roberts 2008). Therefore, although some might argue that incomes of the Russian middle class do not match the incomes of the middle class in Western countries (Forbes 2012), it is an important target for the luxury industry. In addition to the growing spending power of the Russian middle class there are also several cultural characteristics which should be taken into consideration by marketers. For example, several authors mention a lack of a culture of saving in Russia (Roberts 2008, Sanders 2008). During the Soviet period people seldom kept large sums of money in banks because all the transactions were strictly controlled by the government. Also, inflation in the early 1990s resulted in widespread destitution and made people distrustful of saving accounts and banks. The relationship to money, even today, remains very short-term, despite the economic stability of the country. Money is there to allow individuals to engage in consumption and not to be kept under the mattress. Examples of middle-class Russians driving expensive cars and splashing out on luxury furnishings for an ordinary flat in the suburbs of Moscow are not uncommon. The earlier principle of having incomes from several hidden sources certainly also holds true for the middle class.

The increasing purchasing power of the middle class is one important element in explaining the greater demand for luxury goods and services (Aginski 2008). However, there is also a socio-cultural and psychological dimension to this. The idea of being able to afford luxury has been an important social marker (Bastien and Kapferer 2012) in Russia since the Soviet era. Russian society has many codes. Displaying one's wealth through possession of valuable items is one of these codes. Specifically in the case of the middle class, which is very hierarchical, access to luxury is one way of displaying one's social status and position. Secondly, the boom of consumerism in Russia today is also described as a reaction to the appalling shortages and favouritism that characterized economic life in the former Soviet Union. In particular, the downward spiral that the Russian economy took during the years of Gorbachev's Perestroika, and in the first decade of post-Soviet Transition, has remained acute in the memories of many Russians. The improving material conditions then inform a need or desire to 'catch up' and bring their consumption in line with other, more developed markets (Roberts 2008).

Among the traditional cultural traits that were revived in the two decades since the collapse of the Soviet Union is gift-giving. Gifts are very popular as Russians like to celebrate and this provides a close match with luxury consumption. Birthdays, jubilees, weddings, and christenings are perfect occasions for families and friends to purchase expensive gifts, such as pieces of jewellery, watches, cars, travel, and so on. New Year's Eve is the most important day of the year and is marked through the consumption of delicious food and drink, accompanied by gift-giving. One hangover from the Soviet era is the tradition of corporate occasions, such as a superior's birthday, retirement, promotion, etc., and these events are often punctuated by the presentation of a splendid gift.

The final factor discussed in the chapter is the degree of ethnocentrism and the country of origin effect. According to Ettenson *et al*. (2006) Russian consumers generally demonstrate a lower degree of ethnocentrism than consumers in developed countries. This is certainly true for foreign luxury brands, as there are no equivalent Russian brands in the categories mentioned above. The few home-grown Russian brands that have emerged in the past few years do not compete directly with foreign luxury brands, and therefore do not create direct competitive pressures between Russian and foreign luxury brands. They position themselves as exclusively Russian brands, grafted on the new nationalistic discourse in Russia. In this case, geographical origin becomes a tool in constructing a national identity for the brand, a niche that does not carry the global appeal of international luxury brands. The most illustrative examples of this development are Marussia Motors, a Russian high-performance car brand, and Gresso, a producer of luxury electronics with million-dollar feature phones, flash drives, and smartphone cases in titanium and gold (Luxury Society 2012).

A recent study of the effects of country of origin on consumers' decision to purchase luxury goods reveals interesting results with respect to Russia (Aiello *et al.* 2012). The study shows that for Russian consumers country of origin, together with design, are the most important criteria in the purchasing process. Russian consumers attach a much higher importance to these two criteria than their counterparts in China and India, who are more price sensitive or more focused on other factors, such as advertising. Russian consumers are more susceptible to brands who structure their communication strategies around the country of origin dimension. When choosing specific luxury products, Russian consumers will most commonly use the stereotypes they have of the product's country of origin. Russian consumers may not always know all the brands, but they certainly know where the best products of a specific category come from. For example, cosmetics, perfumes and fashion have always been associated with France and Italy, whilst watches have to be Swiss made. It is not a surprise that the best-selling brands in these three categories originate from these countries and that they actively promote geographical location ('Paris', 'Milan', or 'Switzerland') in their product and communication strategies. In a recent study conducted by The Digital Luxury Group (2012), a Swiss-based consultancy and research firm for the luxury industry in partnership with Yandex, the largest Internet search engine in Russia, several key sectors were identified as being of particular interest to Russian consumers: cars (73.6 per cent), fashion (8.1 per cent), beauty (7.8 per cent), hospitality (3.7 per cent), jewellery (3.4 per cent), and watches (3.4 per cent). Out of the 50 most-searched brands on Yandex, 37 originate from a European country – France, Italy, UK, Germany, Switzerland, Portugal, Austria, and Sweden; and, to a lesser extent also, mainly for cars, from the US and Japan.

To extend the argument, it is worth mentioning that the CoO effect also works the other way around, and is valid for Russian luxury brands marketing luxury products for which there is a long tradition in Russia, such as Fabergé Fine Jewellery, Imperial Vodka and Beluga (vodka) (Luxury Society 2012).

On the other hand, Russian consumers pay little attention to the actual location of a parent company's headquarters, or country of manufacture. Many entrepreneurs have adopted London, Paris, and New York as the epicentres for their brands (Luxury Society 2012). New Russian fashion and jewellery houses, Russian designer ready-to-wear and concept stores may or may not be originating from, or operating out of Russia – an example for the first category is Alena Akhmadullina and Valentin Yudashkin, for the second, the Gaydamak sisters – but they always market themselves as Russian. The connection with the 'homeland' is often expressed through the country of origin of the founder, the design is reminiscent of Russian traditions, materials which have long been associated with Russia's wealth, such as furs, gem stones, and precious metals: the Russian taste for glittering and sparkly objects. Again, the idea of geographical provenance plays a key role in constructing a narrative around the brand.

The politics and geography of the Russian luxury market

Two additional factors, related to politics and economic geography, have to be taken into consideration when commencing operations in Russia.

It is one the ironies of the present situation, a feature which most Russians instinctively know to be true, that the deep permeation of the Russian business environment by politics and favoritism, is intentionally overlooked by a large number of Western business practitioners. This is in itself a relatively recent phenomenon. It is based on the realization that business in Russia can be profitable – something that it often was not in the 1990s – and that development of activities is furthered by an avoidance of anything even vaguely reminiscent of critique of the local economic or political regime. This follows a pre-established pattern, set by Western businesses engagement in China. At least externally, multinational business seems to have 'bought into' the discourse according to which Russia has become a 'normal country', accompanied by claims that the ease of doing business in Russia is often superior to what one may find in developed markets. While such claims are not untrue, and while operating in Russia holds many, sometimes pleasant surprises, they can lead to wider assumptions that are patently false. The danger of the rhetorical decoupling of business and politics emerges, for example, in the continued absence of a regime genuinely respecting the effective rule of law in Russia. While foreign retail companies are less concerned by corporate raiding and hostile takeovers than others, particularly Russian entrepreneurs, it would be fallacious to argue that the political environment has no bearing at all.

Luxury companies are relatively immune to the meanderings of international and domestic Russian politics, because of the inimitability of the products and services they offer. However, they are not entirely free from the political element either. One relevant feature is that Russia is not the level playing field one might imagine from an emerging market, but has its limitations regarding market access, as well as considerable amounts of operational risk, the sources of which are not always immediately apparent. Contrary to other markets, particularly in Central and Eastern Europe, in Russia the best market support functions, such as distribution, import-export, real estate, logistics, and advertising, were occupied by local protagonists over a decade ago. The obligation for foreigners to rely on local expertise is therefore overwhelming. As is the case in other areas of foreign retail investment, luxury marketing needs to be embedded in the Russian context, acquire local content, and often also provide evidence of good local corporate citizenship.

Some of these constraints can be a blessing in disguise, as they push new arrivals to seek early differentiation, through sponsorship and other multi-stakeholder initiatives that increase acceptance and knowledge of the brand. One example is Montblanc, which runs boutiques in Nizhniy Novgorod. Part of the company's strategy is to support cultural events such as the White Nights Festival in St Petersburg; in 2011 Russia also became a participant in its prestigious award for new talent, the *MontBlanc de la Culture Award*. Another example is Guerlain, the official sponsor of the Bolshoi Theatre since 2011, and the creator of a limited edition perfume which is only sold in Russia, called *Le Bolshoi*.

Another area of marketing where the above-mentioned reliance on locals is palpable is in the distribution of luxury goods. The use of a local distributor is still the most common form of market penetration and development. This mode of operation dates back to the 1990s, when Russia was generally perceived to be a high-risk market. To minimize the risk, companies established partnerships with local distributor groups. Chevalier and Mazzalovo (2008, p.299) note that 'local distributors purchase the products with their own money, build local inventories and sell in their own country'. As a result, the Russian luxury market was very rapidly shared among several distributor groups: Mercury, JamilCo, Bosco di Ciliegi, and Crocus (Crocus voluntarily ended its activity as luxury distributor in 2011 and now specializes in real estate). The historical development implies that these groups are serious competitors even for large companies such as Chanel, Louis Vuitton, and Dior, who are trying to tap the market independently. The distributor groups own all the multi-brand malls and luxury villages, as well as most of the outlets in luxury streets such as Stoleshnikov Pereulok and Treti'akovski Proezd. The service offering they provide conforms to international standards. They not only offer a varied luxury shopping experience, but also a range of accessory services, such as hotels, restaurants, delivery, consulting, and so on. Apart from barring direct access, the other negative side of distribution through a local partner is that their activities, and their political connections are potentially less than transparent. It is customary for foreign companies not to name their local partners in Russia. All information on financial operations, turnover, and details of profits are not public knowledge. This runs counter to the idea of a fully-fledged, competitive market. While, theoretically, it is possible that the larger players will gain more independence and become fully owned subsidiaries, smaller companies will have to continue to operate via local partners, unless they manage to establish themselves in niches which have not yet been filled and which are also inimitable.

A further element requiring reflection with regard to distribution is Russia's geographical size. This can be misleading, for the radius for the luxury market activity is rather limited. Only Moscow and St. Petersburg offer a comprehensive choice of globally known brands and have high-quality shopping infrastructure and premium luxury services on a par with Paris, Tokyo, or New York. The opening of an independent boutique in these two cities is a costly and financially risky operation, mainly because of exorbitantly expensive rents and taxes in central locations, but also because of market saturation. In smaller cities and regions that have been acculturated to Western retail services much later, the spending power is often considerable, but what is lacking is the support and infrastructure services compared to Moscow and St. Petersburg (Babin *et al*. 2000). Furthermore, most Russian HNWIs live in Moscow and St. Petersburg. It is not without reason then that the largest distributor group, Mercury operates mainly in Moscow and in St. Petersburg. In fact, 75 to 80 per cent of its activity is centred around department stores such as TSUM, Dom Lenigradskij Torgovli, and Barviha Luxury Village, with only a few boutiques in provincial cities such as Krasnodar and Yekaterinburg, as well as at the Sochi Luxury Village project which is scheduled to open in time for the 2014 Winter Olympics. Obviously, demand for luxury goods is a trickier issue in smaller cities and outlying regions, in particular as brand awareness is lower compared to Moscow and St. Petersburg. This represents a genuine constraint to further market development. Most luxury companies are likely, at least for some time, to maintain their activity in the two capitals and perhaps, according to Nielsen & Company (2013), in a few larger cities in the Ural and Volga regions. As a result, the movement into provincial cities is still very limited, and only a few luxury goods companies have managed so far to go beyond the pale of Moscow and St. Petersburg. However, one counter-example is Zilli, a men's luxury clothing brand. Zilli realizes most of its turnover in Moscow and St. Petersburg, but has also penetrated six other cities in the Western part of Russia (Yekaterinburg, Krasnodar, Nizhni Novgorod, Pyatigorsk, Rostov-on-Donu, and Sochi) as well as in the former Soviet republics of Armenia, Azerbaijan, Kazakhstan, Ukraine, and Uzbekistan. Another example is Cartier, whose jewellery, watches, and writing instruments are sold in 28 Russian cities.

Conclusion

Based on four major environmental factors crucial to the understanding of luxury markets in the BRIC countries, this chapter draws attention to the essentials of the Russian market and argues that these should be taken into consideration by companies in their international market expansion strategies. The Russian market, undoubtedly, has a huge potential, in particular in terms of the wealth and number of potential buyers, which include VHNWIs, HNWIs, but also members of the emerging middle class. Luxury goods hold considerable appeal as a social marker or as an 'entrance ticket' to particular groups, and the core target market is considerably larger than in Western countries. The recent sociological transformations in Russian society have led to a situation where the middle class has not only the resources, but crucially, also the aspiration to make expensive luxury purchases. This movement is reinforced by positive ethnocentrism and country of origin values, both of which are critical in the perception of international luxury brands.

On the downside, the difficulty in gauging expected demand or making accurate market growth forecasts applies not only to VHNWIs and HNWIs, but also to the emerging Russian middle-class consumers. Proxies may need to be used as a measurement method for demand, such as Consumer Sentiment indices. Alternatively, more creative methods may see the light of day, methods that have no equivalent in markets where consumer data is more readily available.

Many companies setting up operations in Russia are surprised by the lack of transparency with regard to business practices, multiple sources of income, hidden wealth, and even identities. The opacity of the Russian business environment also extends into other relevant areas such as distribution, support networks, and in general, to local partnerships. The paradox of the current state of the art in research on luxury marketing in Russia, and on emerging countries generally, is that socio-political or socio-economic context barely figures on the research agenda. In reality, business, economics, and politics in these countries are intimately related.

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Part III

India

7

The Luxury Landscape in India: Consequences for the Wine Sector

Kartik Dave, Glyn Atwal, and Douglas Bryson

The phenomenon of luxury has consistently been an integral part of human aspirational displays and behaviours. Passion for luxury consumption has been recorded in ancient literature, found in archaeological discoveries, and firmly continues in today's societies globally. In a postmodern era, the demand for luxury brands is no longer principally confined to the developed world, but is visibly apparent in emerging markets. Asia's soaring importance as the market for luxury has been well documented, and India has been considered as a high-growth market with long-term potential. The Indian luxury market is indeed thriving; in 2011 it was worth US$ 5.8 billion and is projected to reach US$ 14.7 billion in 2015 (CII and A.T. Kearney 2011).

This volume and growth has also been keenly recognized by many international wine and champagne producers. In the financial year 2008/2009, the Indian wine market consisted of approximately 1.2 million cases, of which 210,000 cases were imported wine (Western Australia Trade Office 2012). Baron Philippe de Rothschild Mouton Cadet 2010, Château de Saint Cosme Little James Basket Press 2010, or a Louis Jadot Meursault Goutte d'Or Premier Cru 2004, are just a selection of French wines available at The Taj Mahal Palace in Mumbai. Indeed, industry data show that 350,000 bottles of champagne were imported in 2012, representing a growth of 20 per cent versus 2011 (CIVC 2013). There are over 30 champagne brands available in India, and Cattier is the latest to announce plans to enter the Indian market (Rathore 2013a).

However, the vast diversity of the 'Indian' consumer, the complexities of the market environment, and the intricacies of Indian culture have intrigued international luxury brands. We identified the following attributes of the Indian luxury landscape that will help international luxury brands, with particular reference to fines wines and champagnes, to align strategies to leverage market opportunities and overcome current and future challenges.

History and tradition

According to Wong and Ahuvia (1998), luxury has been evidently associated with the ruling and aristocratic classes of society. India is no exception to this legacy. Jain (2013) observes the strong influence of the Maharajas, 'Not only seeds of historical luxury consumption germinated into a full-fledged contemporary luxury buying pattern, but also India's culture has influenced its current luxury brands.' Dave and Dhamija (2013) document the tradition of Indian luxury in a time when the Maharajas were connoisseurs of luxury, who satiated themselves with beautiful and handcrafted products. There are numerous examples of how international luxury brands catered to the desires of India's royal dynasty.[1] Cartier acknowledges its early connections with Indian Maharajas with the Patiala necklace made for Maharaja Bhupinder Singh of Patiala. Tukoji Rao II of Indore bought two pear-shaped Golconda diamonds from the French jeweller Chaumet. Ganga Singh of Bikaner ordered a belt buckle from Boucheron, set with diamonds, rubies, and emeralds. Even champagne featured in the lavish lifestyles of the royal dynasty. A fascinating anecdote is that the nickname 'Bubbles' was given to the Maharaja of Jaipur when he was born because of the 'gallons of champagne' that were consumed at his birth in 1931 (The Telegraph 2011).

The heritage and culture of luxury of this bygone era still exert a strong influence on contemporary luxury in India. Many Maharajas and Nizams have leveraged their properties for luxury tourism, such as Falaknuma Palace in Hyderabad (Taj Hotels Resorts & Palaces), and Shiv Niwar Palace in Udaipur (HRH Group of Hotels). Indian designers have been successful in incorporating India's rich textile heritage and stitching craftsmanship traditions. For example, Abu Jani-Sandeep Khosla is well known for exemplary *chikankari* garments, and Ritu Kumar uses ancient Indian handicrafts such as *zardozi, bandhani,* and *chikan* in her designs. The craft of jewellery making was also encouraged by the royals; an example is *meenakari*, or enamelling, which came to India with the arrival of the Mughals. *Meenakari* is still regarded as a skilled technique and plays an important role in many luxury jewellery designs.

Luxury in India is not a modern phenomenon, but has its roots embedded in a rich history and enduring traditions.

Mass affluence

The small elite segment of society enjoys a long tradition of luxury consumption and is accustomed to a luxury lifestyle, which has involved shopping abroad and buying Western luxury brands for generations. This privileged class consists of the descendants of the royal families, nawabs, and small rulers, and industrial families such as Birlas, Tatas, Godrej, Bajaj, and Mahindras (Chadha and Husband 2007). According to Juhi Ramakrishnan, 'While the super-rich segment has always existed, it had not come forward to choose the kind of products it wanted. Now with premium brands coming into the country, it has a choice of what to buy' (Chatterjee 2007).

However, the elite no longer monopolizes the consumer luxury market in India. The rise of India's middle class has created a new and different generation of luxury consumers. These consumers are not from traditionally affluent backgrounds, but are career-oriented, aspirational, and forward-looking. Their luxury consumption is not only conspicuous, but is also grounded in gratification and self-reward. The market potential of the aspirational middle class is significant. According to data from Boston Consulting Group, as reported by Silverstein *et al.* (2012), India's upper class (with household income in excess of US$ 20,000) will increase from 9 million in 2010 to 32 million households by 2020 (this corresponds to 12 per cent of all households), while the middle class (with household income between US$ 6,700 and US$ 20,000) will increase from 63 million in 2010 to 117 million households in 2020 (45 per cent of all households).

The democratization of luxury has also created enormous potential growth opportunities outside the metropolitan cities of New Delhi, Mumbai, and Bengaluru. For example, New Delhi and Mumbai accounted for nearly 70 per cent of sales of Mercedes-Benz, which has since declined to 50 per cent as a result of rising affluence levels in other regions (India Knowledge Wharton 2013). The map of wine and champagne consumption has also expanded to include smaller cities such as Chandigarh and Ludhiana. Affluent farmers are able to host champagne wedding receptions in luxury hotels such as the recently opened Taj in Chandigarh. According to Atwal (2013):

> These are consumers who may not appear to be as cosmopolitan or sophisticated as their metropolitan peers in New Delhi or Mumbai, but share the desire to express their social identities through conspicuous consumption. They can be categorized as luxury novices, who are willing to trade up and buy luxury brands for the very first time. They have reached the first rung on the luxury ladder.

Luxury consumer segmentation

Sinha (2010) segmented India according to three distinct mind-sets: the *partition generation*, the *transition generation*, and the *no-strings generation*. In India, traditional values significantly influence the purchasing habits of middle-aged and older consumers in comparison to younger consumers, who are found to be attuned with global consumption trends (Ramachandran 2000). It is these attitudes, beliefs, and values of a younger generation that are transforming Indian society. It is no longer undesirable to share the dream to become successful, rich, and knowledgeable. An interesting feature of this phenomenon is the growing popularity of fashion and lifestyle magazines such as *Vogue*, *Elle*, *GQ*, and even *Sommelier*. This may represent a turning point from the ingrained principles of Gandhi, but it is also a rejection of socialist doctrine that was evident in post-independence India.

Luxury brands need to therefore understand and strategize accordingly, with the awareness that Indian luxury consumers are not a homogenous group, but consist of different segments having different levels of understanding and experiences of luxury consumption. According to Kotak Wealth Management (2011), High Net Worth Individuals (HNWIs) can be classified as *inheritors*, *self-made*, and *professionals*, as their sources of wealth are different, ranging from parental legacies to entrepreneurial or professional successes.

Puddick and Menon (2012) present an alternative stratification in which luxury consumers can be divided by whether they desire more to 'fit in' with others, or to set themselves apart. The luxury consumer typically falls into one of the following four broad types of consumer, which can readily be applied to the consumption of fine wines and champagnes.

- *People who can't be shown up*: for whom a purchase is linked to status anxiety and a need to 'fit in'. These are typically consumers who drink wine (entry price) to demonstrate that they belong to modern society. It is the product category that signals their aspirational status.
- *People who show*: characterized by conspicuous consumption and a desire to show off. Extravagant weddings that take place in five star hotels where fine wines and champagne are served are typical of people wanting to demonstrate their social and economic status. The price of the wines and champagnes denotes quality, exclusivity, and hence prestige.
- *People who show they know*: demonstrating their refined taste to others that share this knowledge. They belong to wine clubs that are expanding in India and are more knowledgeable than the average wine drinker. They are aware, for example, of the differences between wines from Bordeaux and Burgundy. They seek knowledge and new experiences. Many have been on vacation in France (250,000 Indian tourists visited France in 2012) and would like to continue the wine experience back home.
- *People who know*: more reserved, their luxury consumption is only for personal enjoyment. These are wine connoisseurs and collectors who have usually experienced fine wines and champagnes whilst living abroad – Europe or North America. They are a very small minority.

Luxury brands owners need to be aware that the luxury consumer is evolving continuously and the boundaries between the different segments are fluid. This is well explained by Bijapurkar (2007), 'Welcome to new consumer India, where people experience continuity with change, and the new, the old and the remixed happily coalesces in to one complex whole.'

Luxury service

Global luxury brands pride themselves not only on their quality, craftsmanship and heritage, but also the superior customer service they offer. This is also driven by customer expectations. India is no exception. For example, for a wedding occasion, Moët Hennessy can instruct their in-house chef to create a menu harmonized with any of the wines or champagnes that a customer has purchased from them. Customization is indeed an important aspect of delivering outstanding customer service, specifically within the apparel category such as the availability of a made-to-measure service – clothing that is sewn to fit each customer individually. According to Saba Ali, India's representative for Altagamma, 'Culturally, Indians are used to personalized tailoring. Also, since India is a diverse country with different shapes and sizes, it is imperative for the brands to find solutions to cater to a heterogeneous set of customers' (Rathore 2013b). Armani, Gucci, Ermenegildo Zegna, Corneliani, Canali, and Burberry have already implemented this service offering in India. Another aspect of managing the customer relationship is the shopping-at-home concept. Salvatore Ferragamo, Ermenegildo Zegna, and Hugo Boss endeavour to bring the in-store experience into the homes of the customer. It is reported that 30–40 per cent of Salvatore Ferragamo's sales can be attributed to their personal shopping service (Duttagupta and Dewan 2010).

Luxury experience

Similar kinds of trends are also observed in luxury services where experience is a central focus. As discussed earlier, the Indian wedding is important within Indian culture, but it is also an important purchase occasion – including the purchase of wines and champagnes. It is also when Indians often indulge in conspicuous consumption. Luxury services organizations leverage on such patterns during the wedding season. For instance, 'royal' and 'theme' based marriages are very popular amongst affluent Indians, and they take place in royal palaces, heritage hotels, and luxurious resorts. The desire for luxury experiences in India is not only about the person's own direct sensory experience, but how he or she enjoys the prestige and status granted by others.

Another example of how luxury has an experiential meaning is during the many religious festivals in India. Maha Kumbh is a spiritual event with a history dating back more than 2,000 years. This traditional event is organized every 12th year, at four different cities in India, and is carefully timed to match a favourable planetary alignment. Even during such a 'spiritual' event, in 2013, the desire for luxury experiences was quite perceptible. Luxury huts and Swiss cottages, such as The Lakshmi Kutir Cottages (Cox and Kings), were rented to HNIs with a range of services available, including interactions with spiritual speakers, herbal treatments, massages, and cuisine with a diverse assortment of continental, Italian, and Satvik products.

Cricket, cinema, and celebrity

'Cricket, Cinema, and Celebrity' are important elements of the three C's framework for popular culture to connect and engage with consumers from all economic and social backgrounds. It may seem a contradiction, but luxury brands that are associated with these facets of popular culture can interact with the aspirational sentiments of a broader target audience. Indian Premier League and other cricketing events attract luxury brands to showcase and connect with fans. Cricket celebrities, and in particular Bollywood celebrities, are popular brand ambassadors within the luxury domain. Rai Bachchan (Longines), ShahRukh Khan (TAG Heuer), Hritik Roshan (Rado), Sachin Tendulakar (Audemars Piguet), and Abhishek Bachhan (Omega) are examples of celebrity endorsements for luxury watch brands. As Atwal and Williams (2008, p.2) note, 'Bollywood captures not only the imagination in the form of song, music and dance, but fairy tale settings, romantic melodrama and heroic storylines immersing the viewer in 'simulated reality'.' Indeed, Bollywood offers a plethora of opportunities where actors and actresses are not just icons, but are seen by many as demigods. According to a qualitative study undertaken by JWT India (2013), there are three different types of Bollywood fans: the *entertainment seeker*, the *fantasy seeker*, and the *inspiration seeker*. Product placement has become an important strategy for many international luxury brands in order to target the fantasy and inspiration seekers. For example, Bagwati, a soubriquet of the classic orange Kelly bag in Zoya Akhtar's movie *Zindagi Na Milegi Dobara*, is as much a star in the film as the five leading actors. Sonam Kapoor's *Aisha* was undoubtedly about Dior style and luxury, but also showcased the aspirations of India's middle and upper-middle classes, which included a champagne-drinking lifestyle.[2] Even in regional films, luxury brands are highly visible. For example, in the Tamil (regional language of the state of Tamil Nadu) film *Vaazhthukulam*, R Madhavan receives a diamond-studded Timond watch from his girlfriend, and he proposes to her with the help of Forevermark diamonds.

Digital luxury

The digital landscape has changed the dynamics of luxury brand marketing. Luxury brands are now able to communicate, connect, and engage with their audiences wherever they might physically be located. India may have been lagging behind other emerging markets, but there is evidence to suggest that India is set to embrace the world of digital luxury. According to a Boston Consulting Group study, the number of Internet users is expected to nearly triple, from 125 million in 2011, to 330 million by 2016. Interestingly, it was also reported that 45 per cent of urban consumers with access to the Internet use only mobile devices to connect (Subramanian *et al.* 2013). The surge of Internet penetration, particularly amongst the 18–35 year-old population segment, will impact the digital influence on purchasing decisions of luxury brands, whether this is searching for information, taking advantage of an enhanced service offering, or to actually making an online purchase. As Jain (2013) observes, 'More than half of India's population is under 35 years old and it is this affluent, well-travelled, young section of the society which consumes luxury.' However, to date, the overwhelming majority of international luxury brands have not adopted local digital strategies. There are a few notable exceptions, where brands are leveraging social media, such as Sofitel and L'Occitane. Another example is Condé Nast, India's GQ application designed to update Indian men with luxury lifestyle information, which has enjoyed sponsorship from brands such as Mercedes-Benz and Chivas. Similarly, an iPhone App called 'Uncork France' was developed by Sopexa India exclusively for the Indian market, to educate wine drinkers about French wine regions, grapes, and pairing wine with cuisine.

According to the Internet and Mobile Association of India (IAIMA), the Indian online retail market is expected to grow from US$ 250 million in 2008, to US$ 6.7 billion by 2015 (Wharton School 2012). The digital medium will also help to speed up the democratization of luxury retail, as it is projected to reach tier 2 and 3 cities more quickly than retail chains. It is significant to note that 34 per cent of Internet users are from tier 2–4 cities (Subramanian *et al.* 2013). Online platforms such as elitify.com and fashionandyou.com have made luxury brands accessible to potential customers residing in these cities.

Luxury retailing

India's brand-based retail Foreign Direct Investment (FDI) policy makes it somewhat unique in the world. In 2006, the Indian government permitted 51 per cent FDI in single-brand retail, subject to several conditions. The loosening of FDI restrictions led the way to new retail avenues for luxury brands. For example, DFL Emporio in New Delhi was one of the first truly luxury zoned malls to open in India. Luxury retail is now evolving into so-called 'hybrid' malls, with a blend of luxury and non-luxury stores. Later, in September 2012, the government of India announced its revised policy on FDI in single and multi-brand retail. It allowed 100 per cent foreign investment in single-brand retail and 51 per cent foreign investment in multi-brand retail, subject to approval from respective state governments. According to Singh and Dave (2013):

> FDI in retail in India is a big political tug-of-war . . . with the entire political diaspora having a divided and diverse opinion on it. There are political parties that support unconditional inflow of FDI in retail, there are parties

> that are dead against even a single paisa coming in through this route, and there are parties who are open to a conditional infusion of FDI in this sector.

Pavers, Damiani, Le Creuset, Fossil, H&M, IKEA, Decathlon, Fossil Inc, Brooks Brothers, and Promod have reportedly plans to enter the Indian market following the policy revision (Business Standard 2013). It remains to be seen whether luxury brands will follow this lead, as stringent norms, whether this is in the form of a minimum US$ 100 million investment or 50 per cent of investment in back end operations (logistics, distribution, warehousing, or anything not related to the front end, i.e. the store), continue to hinder retail expansion plans.

Wine distribution is, however, a very different situation. It is said that operating in India is like operating in 28 different countries, as each state has its own set of regulations. For example, there are 10 Indian states that allow the sale of imported wines through retail stores. Important omissions are the states of Tamil Nadu and Andhra Pradesh, which do not allow the sale of imported wines, and Gujarat, which prohibits sales of any wine through retail outlets. On top of this is the complexity of import duties and local taxes, which vary from state to state. In general, wines imported to India are subject to duties of at least 150 per cent and costs are further inflated by other taxes. High alcohol import taxes mean that a 'low-priced wine' in Europe or North America can be regarded as 'luxury', given its high final price. Luxury hotels are still the most important distribution channel, as 75 per cent of imported wines are sold in luxury hotels (Western Australia Trade Office 2012), and champagne brunches hosted in luxury hotels have seen resounding successes. More recently, new distribution channels have emerged. For example, wine can be sold in hotels, bars, restaurants, speciality stores, and until recently, in supermarkets in Delhi and Mumbai. For example, Olive Bar & Kitchen, and Iredus, located in New Delhi, are fashionable restaurants that serve imported wines (Figure 7.1). Likewise, Dom Pérignon Lounge in New Delhi is a branded luxury destination. Recent changes in Foreign Direct Investment will also enable supermarket chains such as Wal-Mart, Tesco, and Carrefour to enter the Indian market. This may also be a future retail channel for mainstream imported wines.

Conclusion

The rapid development of the Indian luxury landscape has created new opportunities but also challenges. This is clearly evident within the wine sector. As a result, international luxury brands need to align their strategies with these dynamics in order to ensure if they are to capture a greater share of the growing luxury market. This challenges international luxury brands to localize marketing activities to ensure relevance within an Indian context. There

Figure 7.1 Iredus wine bar and restaurant, New Delhi

is certainly scope for improvement. Luxury brands that seize the initiative will be able to achieve a sustainable competitive advantage.

Notes

1. An excellent reference is Jaffer, A. (2006), *Made for Maharajas: A Design Diary of Princely India*, New York: The Vendome Press.
2. Trailer can be viewed on YouTube at http://www.youtube.com/watch?v=Ugdn5sG4gVU

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8

From Local Taste to Luxury Experience: Insights into Culinary Distinction

Nilanjana Sinha, Himadri Roy Chaudhuri, and Sitanath Mazumdar

Luxury has always held an element of fascination for consumers across the globe. Luxury exists in all facets of life: in cosmetics, watches, jewellery, fragrances, automobiles, fashion, and hospitality, and is established through the processes of linking of one's self-image, their creative self-identity, and their personal tastes as consumers. Yet what conveys the image and makes it luxurious is not the product; rather, it is the brand, and the experience of it, that evokes the sensation of luxury. Consumers acknowledge brands such as TAG Heuer, Prada or BMW beyond their craftsmanship or technical superiority, and connect with them through their emotional engagement with the image, implying that the age-old definition of luxury based on functionality or craftsmanship has been taken over by a newer definition that highlights the brand's dominance over its clients (Kapferer and Bastien 2009a). The meaning of luxury has shifted over the years from commodities (rare pearls, crystal, perfumes, and spices) in the 17th century, to craftsmanship, superior quality and customer service (Berthon *et al.* 2009) in the 19th century, and now to that of branding, where luxury is judged on the basis of its pleasure components (Atwal and Williams 2009).

Luxury lies in the brand

Within the luxury proposition, the concept of brand is imperative. De Beers appropriates 'diamonds' from being merely rare precious stones only for the elite, to pioneering the concept of 'psychologically necessary luxury'. Through its 'A Diamond Is Forever' campaign, it attaches new meanings by tapping into the eternal and emotionally valued aspect inherent in the product, thereby transferring luxury from the raw material into the brand. For Rolex consumers, it is a sense of achievement, while Tiffany is a symbol of love and beauty. Various degrees of emotional value are therefore found either in the form of a sense of security, association, independence, or national pride that dictates the concept of luxury. Moreover, there exists numerous luxurious companies whose product portfolios also include non-luxury products (e.g. Mercedes-Benz) and vice versa. Merely evaluating the luxuriousness of a product based on its functionally dictated price does not suffice in categorizing a brand as luxury; one needs to consider the brand image for differentiation (Kapferer and Bastien 2009b). Associating the brand with human characteristics (Aaker 1997) and personality makes consumers align themselves with those brand attributes and the associations that express their style, taste, and knowledge. It may be self-esteem, such as with L'Oréal's tagline 'Because we're worth it', or underlining social signalling through brand prominence, as in the monogram of Louis Vuitton's bags.

Also conferring luxury into a brand is its exclusiveness. The only difference is that in the past such luxury was the monopoly of hereditary aristocrats thus creating a social distancing; while today as more and more of the population are entering into the affordability segment, merely owning does not suffice, there exists the need for conspicuousness and/or differentiation in conformity with social status. Such exclusivity targets the connoisseurs who possess *culture intellectuelle* (Lombard 1989), and for whom luxury has to take a unique form since they aspire to give subtle signals of cultural capital within the brand. Maintaining brand exclusivity is accomplished through limited production, and controlling distribution along with price, since it is this aura of scarcity that adds to the appeal of luxuriousness. The iconic French brand Dior has only two stores in India – one in Mumbai and the other in New Delhi, yet it possesses high awareness amongst its customer group. Brands attain uniqueness not, with respect to competitors, but in terms of expression of taste and identity (Fionda and Moore 2009). Brand stories create such a close and strong bond between the product and the consumer's psyche, that one gets seduced by its identity (Kapferer and Bastien 2009a).

Apart from quality, price, and exclusivity, iconic coveted products are also typified by authenticity to epitomize the brand signature or brand DNA. The hallmark of luxury brands such as Burberry, Cartier, Rolls-Royce, or Gucci is their rich pedigree and long history, which form an integral part of the brand's personality, and thus becomes inseparable from its mystique, thereby stimulating authenticity. It is the richness in the heritage that creates authenticity around a myth, deepening its meaning and timeliness (Kapferer and Bastien 2009b).

Branding experiences

Branding in the luxury market has become as much about experiences as about the products (Moore 2003). Chanel or Armani do not merely sell the fragrance of perfumes. It is the accompanying beauty of the bottle that allows one to buy into the 'the dream' of living a slice of the lifestyle of celebrities (DeFanti *et al.* 2012). This new multisensory and experiential form of luxury has strong personal and hedonistic components that create and communicate an identity for its users (Granot and Brashear 2008). Harley Davidson creates a full brand-ownership immersive experience by organizing rides and live concert events for its bike lovers. For Audi's customers, the appeal is not merely in the car or its country of origin; even the engaging experience in their showrooms gives them the feel of the brand's sportiness, progressiveness, and style (Raghavan 2012).

In today's contemporary society, where the fascination is more for signs than their representations, consumers absorb images reproduced by the simulated environment (Atwal and Williams 2009). Beyond the domain of acquisition, consumers today have moved on, striving for experience, thus redefining and reshaping an intrinsic and consumer-centric desire to seek meaningful sensory pleasure (Berthon *et al.* 2009, Christodoulides *et al.* 2009). Marketers are incorporating elements into areas outside the immediate experience and staging a series of memorable, interactive, creative, and connective events with which the consumer engages and associates in a personal way (Atwal and Williams 2009). Kerala's houseboat cruises bring tourists close to nature; the Royal Rajasthan on Wheels, with its perfect blend of a quaint traditional ambience along with modern amenities gives an experience akin to that of the erstwhile Indian royalties; the Taj Group of Hotels recreates and reminds consumers of the Mughal palaces and aristocracy in the 16th and 17th centuries. These are examples of marketers creating and maintaining an aspirational brand image by invoking experiential feelings.

Marketers have acknowledged that today's consumers take quality, status, and image as a prerequisite in any luxury brand; what they seek is impressive, sensual, and stimulating experiences that they can relate to their lifestyles (Schmitt 1999). In the Indian context, the experience of luxury brands has also evolved as an important consumer need (Atwal and Khan 2008, 2009). The signifier, with his or her experience, expertise, and aesthetic refinement (Berthon *et al.* 2009) now rules over the experience and knowledge of the signified (Miller and Real 1998). The power of luxury experience lies in developing a memorable and impactful emotional connection with its consumers to elicit cultural signification.

The experiential luxury of theme restaurants

Local food is a regular component available in every conventional household and at road-side eateries, however, the emergence of theme restaurants is conferring a new form to culinary culture by transforming everyday, monotonic consumption into a specialty luxury experience. Themed restaurants can be defined as 'an eating establishment which clothes itself in a complex of distinctive signs that are largely extraneous to the activity of eating itself' (Beardsworth and Bryman 1999, p.228).

In approaching this domain, we set out to investigate how theme restaurants are creating and integrating luxury into their brand credentials in India. Our study concentrates on ethnic themes, which apart from providing a meaningful dining experience, also connect one to heritage (Negra 2002) and culture (Barbas 2003). These cultural ambassadors provide consumers with accessibility to exoticism (Wood and Munoz 2006). Using a mix of interpretive approaches, we probed into various Bengali theme restaurants in the city of Kolkata to gain insight into the components that formulate the luxury space. Our findings are discussed in the following pages.

Authenticity

The customary denominations used to give an unrivalled communal experience of bestowing quality in its world-class cuisines are: charging a premium price; conferring authenticity; excellent service; and a warm, receptive, and welcoming ambience. The prime scope as well as challenge for marketers lies in articulating authenticity and cultural identity expressed through the recipe, preparation, display, serving process, and codes of etiquette. Adding to this were restaurant menu cards that explicitly state claims of authenticity in their menu names, traditional cuisines, and conventional cooking style. Not only were menu names inscribed in the local vernacular language, but so were the mode of preparation, and the spices used in each dish were expounded to legitimize and invigorate the cultural quotient. The semiotic phenomena of rhymes, poetries, and pictures associated with the menu titles establish and cultivate the cultural association between the object and its human agents. Underlining the symbolic connotation with 'naturalism' (Berry 1994) were the restaurant brand names evoking places (*Oh! Calcutta*[1]), landmarks (*6 Ballygunge Place*[2]), use of the local lexis (*Tero Parbon*[3]), or even metaphors (*Fish Fish*[4] or *Koshe Kosha*[5]). Use of traditional ingredients such as *panch phoron* (Bengali traditional five spices comprising a blend of fenugreek, nigella, cumin, black mustard, and fennel seeds), *kalojeera* (mustard oil, onion seeds), *ajwain* (celery), and poppy adds authenticity to their respective folklore's zest. However, authenticity is not limited to maintenance of a culinary tradition, rather it attempts to preserve a much broader cultural phenomenon in terms of representation (Kennedy 1972).

Our exploratory study was conducted across a demographic profile of consumers of various ages and lifestyles, but was restricted to middle incomes. Our analysis of customers' perceptions of authenticity with respect to theme restaurants identified the following four prime factors: (1) the *cultural space architecture*, including restaurant theme, employee dress and attitude, customer segment visiting, titles of menu items, layout of the food, decoration of the restaurant, appearance of building, menu card, and tableware design;

(2) the *taste of the cuisine*; (3) the *quality standards*, including the quality of the ambience, advertisements, and speed of service; and (4) the *elements of the atmosphere*, such as wall paintings, background music, lighting, and decoration. While taste formed the prime component of authenticity across all segments studied, variations were observed in emphasis on the cultural space architecture and quality standards.

Nostalgia

Mirroring both fashion as well as ethnicity, the restaurant atmosphere comprising acoustic design, paintings of rural/urban scenes and popular sculptured pieces of terracotta, handicraft of woven mats, pictures of traditional lifestyles, ceiling and floor art, interior and exterior signage, utensils, and architectural details, all serve as visual extensions of the theme. The patterns of significance, cultural associations, and visions behind these art forms ignite the memories associated with the production and use of the traditional material objects (Rouse 1960). These exhibitions of craftsmanship, images, technologies of the era, customs, and social patterns (McClung Fleming 1974) evoke a sensation of nostalgia. Further reinforcing the cultural construction of a nostalgic setup is the use of background music (e.g. Rabindra Sangeet[6]) and traditional clothing. Marketers proliferate the cultural vibrancy with themes *(Uttam Kumar Food Festival,*[7] *Thakur Barir Ranna Ghar,*[8] *Pithe Festival*[9]) that link the dining context with important occasions. They ostensibly reintroduce these symbolic ingredients into the consumers' context, to reconstruct the cultural history of a bygone society (Rouse 1960).

Exclusivity

The paraphernalia surrounding consumption not only enhance the enjoyment of food, but also the message of exclusivity. The luxury food glossary comprises cuisines that are rarely cooked, labour intensive, and involve complex preparation methods (Hayden 1996). While some marketers use the concept of '*Bhuri-Bhoj*'[10] by considering quantity as a potent symbol of luxurious consumption (Garine 1976) and distinction (Goody 1982), the opposite view exists as well. Here the focus on the higher quality of new ingredients, spices, foods, preparations, and sophistication in terms of texture and flavour acts as a cultural lever to introduce exclusivity (Veen 2003). The use of earthen utensils, a component that has almost become extinct in today's everyday usage, stimulates an historical bond. Marketers purportedly promote elements with such rarity to ignite the feeling of nostalgia, and also to kindle consumers' desire for exceptional experiences, thereby appending luxuriousness to them.

A prime feature is that marketers are reproducing this culture in the form of fashionable luxury to a niche group of middle-class consumers who are establishing exclusivity through the use of intellectual and cultural distances, rather than wealth. These cultural elites patronize the theme restaurants as 'culture industry' (Roy Chaudhuri and Majumdar 2006), which can be an arena for attaining distinction. In this kind of consumption, the marginal form of culinary art is brought into the mainstream through an alternative route, and legitimized by this major consuming segment based on their taste component. Hence, marketers, apart from the physical nature of the offer, focus on reflecting abstract cultural spaces, within which various meanings are encouraged and reshaped by one's imagination. The composite experience connected with all the traces in this observed space brings absolute reality in its sensation, but to perceive these powerful associations, one needs to pass through the virtual milieu.

Heritage

The hassle of eating, which takes a different shape by bringing local cuisines into the mainstream is made special and luxurious by branding. The brand Oh! Calcutta exudes the meaning of luxury in its webpage statement: 'Let's celebrate the spirit of Calcutta. The culture, the beauty and of course, the food. Oh! Calcutta is an ode, a celebration to the romantic city of Calcutta.' This is the creation of luxury through evoking nostalgic emotions about a recognized heritage. The menu card of Ballygunge 6, reads: 'Savour the very best delicacies which are part of our culinary folklore and enjoy a meal fit for Rai Bahadur. Bengal – the taste capital of India.' This reminds consumers of the bygone landlord culture, enriches the profoundness of the traditional menu, and savours the exhilaration of rich classic cuisines.

New experiences

We found that certain food dishes hinted at cultural fabrications and digressions from authenticity, yet they exuberated luxuriousness through their creativity and innovations. For example, '*chanar payesh*', a traditional dessert of cottage cheese balls simmered in dense milk, but served in chocolate cups with ice cream in novel flavours such as '*nalen gur*' (date palm jiggery – a folkloric ingredient used in desserts) and '*daab*' (fresh coconut), suggest a metamorphosis in the authentic culture with the influx of Westernized stimulus. Specific restaurants exhibited physical fusion of different styles and forms, symbolizing the local reception of global culture. The formulated recipes mixed, blended and synthesized different elements to create a 'culturally faceless whole' (Jin 2010, p.57). These innovations neither confer unique local culture, nor are they completely Westernized in form; they mix cultures, or genres within a culture, thus generating a unique, novel form that leads to the creation of a 'third space' within which elements encounter and transform each other (Bhabha 1994). It is through this interaction of the local with the global richness that restaurants are constructing a hybridized cultural space. Bohemian free thinking has twisted the concept of authenticity and created a new form of taste. Many of the menu items bring a sense of nostalgia along with a touch of modernity. Restaurants are consequently creating newer forms of experience that are innovative and commonly inaccessible.

Also, to keep pace with the changing mind-sets of transnational consumers, marketers are primed to compromise on the cultural composition in their restaurants. The natural form of bony fish (e.g. Hilsa), which requires experience to handle and eat, is being preferred less and consequently is being replaced with boneless alternatives. The boneless variety, although not qualifying as authentic, does score high on luxuriousness. Compromise can be seen in practices such as the use of cutlery, or the inclusion of some generic popular cultural cuisines (e.g. the inclusion of the North Indian dessert *'Rabri'*, or global delicacies such as ice cream and pudding). Consumption thus takes a special form of meaning, and the meaning takes a semiotic route that features it as luxury.

Conclusions and Implications

Our research examined 11 factors, potentially predictive criteria in ascertaining restaurant preference. The analysis revealed 'conspicuous components' (comprising the physical layout, ambience, and taste) and 'elements of disposition' (comfort zone, perceived authenticity) as being the key determinants of choice. The results suggest two distinctive attitudes regarding luxury: (1) that it is a social facet centring on conspicuous components; and (2) that it is the cultural faculty endorsing cultural space architecture and dispositional components. While the former hinges on the exhibition of luxury consumption aiming to distance self from the broader spectrum, the latter seeks pleasure in associating one's inner self with cultural capital.

The implications are widespread within the hospitality sector in India, whether this is related to fine dining experiences in five star restaurants, or 'new luxury'[11] hospitality experiences such as Starbucks. Although luxury brands have defined luxury in terms of their core characteristics of exclusivity, differentiation, rarity, innovation, product craftsmanship and precision, premium pricing, and high quality (Okonkwo 2009), marketers today are eliciting a new niche luxury concept, whereby they are redefining conventional subaltern food items in the same cultural line, adding innovative new tastes and concepts to match its 'glocal' consumer forum. Targeting the Indian middle class who are governed by the 'face' concept and '*mien-tzu*' is an arduous challenge for the marketers of theme restaurants, as they lie at the confluence between culture and social success. They attempt to reveal the luxury in their brands through authenticity, nostalgia, exclusivity for the culturally rich segment, and also with commercial components of sensory pleasure, ambience, and décor for the socially inclined circle.

Notes

1. The brand name *Oh! Calcutta* draws attention to the nostalgia in the historical and cultural capital of India.
2. *6 Ballygunge Place* reminds consumers of the aristocracy of the area.
3. *Tero Parbon* is a Bengali terminology from the proverbial phrase *'Baroh Mash Tero Parbon'* symbolizing Bengal as the place of innumerable festivals throughout the year.
4. *Fish Fish* highlights on the local fondness for fish-based cuisines.
5. *Koshe Kosha* features a traditional slow-cooking process.
6. Rabindra Sangeet, also known as Tagore songs, are the songs written and composed by the Nobel Laureate Rabindra Nath Tagore. His classic works and music in the areas of worship, love, nature, diverseness, patriotism, and celebration are a blend of Indian classical as well as Bengali folk music.
7. Uttam Kumar was a legendary film star of Bengal, known as a romantic hero of the 1960s.
8. *Thakur Barir Ranna Ghar* centres on the decoration and distinctive recipes as cooked during the era of and in the family of Tagore.
9. The *Pithe* Festival features the different variants of rice dumplings made with date palm jaggery after the harvest in January. They reveal the nostalgia as well as folkloric culinary facets of Bengal.
10. *Bhuri-Bhoj* – literally implying 'enjoying feast in excess' – a hearty meal.
11. New Luxury can be defined as 'products and services that possess higher levels of quality, taste and aspiration than other goods in the category but are not so expensive as to be out of reach' (Silverstein and Fiske 2003, p.1).

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9

The Rise of the Indian Female Luxury Consumer

Glyn Atwal, Soumya Jain, and Douglas Bryson

The Hindu religion comprises millions of female gods. Each goddess has her own identity, portraying various emotions and aspects of a woman, which can often surprise the Western eye. Let us take the example of Goddess Durga, who is portrayed riding a lion which represents power, will, and determination. This expression of dominance is in contrast to the femininity of the Goddess Lakshmi, who is a symbol of fortune, wealth, and prosperity.

It is therefore bewildering that given the significance of female deities in ancient and modern Indian society, the United Nations Development Program's Human Development Report 2013 ranked India a low 132 out of 187 countries on the gender inequality index (UNDP 2013). There is evidence to suggest that gender inequality is a phenomenon across all socio-economic sections of society. Indeed, it was found that out of 1,112 directorships of 100 companies listed on the Bombay Stock Exchange, only 59 positions or 5.3 per cent were held by women (Cranfield School of Management 2010).

This gender inequality is also observed in households and family consumption patterns. India is arguably a male-dominated consumer society in which women control only 44 per cent of household spending (Silverstein and Sayre 2009). It is widely assumed that the Indian female consumer is not only overshadowed, but overpowered by her male counterpart. For example, in contrast to many other emerging markets, the apparel market is still dominated by menswear. In a survey, McKinsey (2007) found that half of the respondents in India reported that their husbands had a major influence on which apparel stores they visited compared to just 3 per cent for Brazil, and 8 per cent for China. It is a remarkable difference. Such statistics and insights suggest that in India it is the man, rather than the woman, who still 'wears the pants' in deciding certain key luxury expenditures. However, does this commonly held view indicate that international luxury and lifestyle brands should focus on the male segment and neglect the female segment? Does this really reflect evolving social values and consumption dynamics in India's urban consumer society? Have international luxury brands underestimated the direct and indirect influence of the Indian female luxury consumer? Does this represent a missed opportunity? All of these questions find answers in the reality of the consumer behaviour of couples, and the single Indian woman.

Recent trends indicate that the scope for market growth is significant, and for a reason. An important indicator of this phenomenon is the growth of the 'female economy'. The rise of a female professional class in urban India, as in Asian countries such as China and South Korea, is changing the actual marketscape. Although women's employment opportunities remain somewhat low compared to other emerging markets, a Boston Consulting Group (BCG) study reported that in 2010, 134 million working women in India collectively earned US$ 280 billion. By 2020, BCG predicts that there will be 158 million working women, and their earnings will have more than tripled to US$ 900 billion (Silverstein *et al.* 2012); this is an astonishing and significant evolution. It was reported that Indian women hold 19 per cent of jobs at senior management level, compared with 51 per cent for China, but then contrast this with Japan at just 7 per cent and the US at 20 per cent (Grant Thornton International Ltd. 2013). Further, a survey found that 42 per cent of highly educated women in India earn as much as, or more than their spouses, compared to just 25 per cent in the US (Hewlett and Rashid 2010). And this trend towards greater female employment is evident in future-oriented industries within technology-based sectors on the economy. Chandran (2012) has reported that the percentage of female staff in the workforce was up to 34 per cent for Tata Consultancy Services, Infosys, and Wipro. Greater access to education has been an important factor in increasing female economic participation. The number of female students studying for commerce, engineering, and technical related degrees has dramatically increased (Chandran 2012). Furthermore, the vast majority of women are optimistic. Silverstein *et al.* (2012) found that 86 per cent of Indian women believe they will achieve more economically and professionally, within ten years.

Women, with their increasing levels of education and financial power, are beginning to find a voice in their homes and in professional contexts. This has also translated into higher spending, which has helped women assert their freedom of choice. The Indian female consumer evolves through various life stages over time: from daughter to wife to mother to grandmother. As each woman behaves differently in each role, she also develops a distinctive lifestyle profile, which also affects her consumption codes, which in turn help to express her identity. Luxury brands can and do signify a journey of personal progress. The opportunity for international luxury brands to exploit this untapped potential is significant. For example, women's lines of products account for over 25 per cent of TAG Heuer's business, which compares with a 40–50 per cent share in other markets in the region (Sharma 2013). Yet the situation is changing.

Following the chapter opening on the Indian luxury market situation, we now focus on the rise of the Indian woman and her relationship with luxury. We entered the homes and lives of Indian women to gain a more profound and meaningful understanding of the luxury female consumer in urban India via multiple avenues of research. We conducted a series of one-on-one interviews, organized group discussions, observed shopping habits and rituals, and asked women to write personal diaries that would help to overcome any inhibitions to communicate (Figure 9.1). The results allowed us to put together the pieces and reveal the true picture of the Indian urban luxury woman consumer and in order to understand how international luxury brands can bridge the gender gap within the Indian luxury landscape.

Decoding the luxury female consumer

Freedom

Career Strivers are mainly unmarried Indian women within the age group of 21–30 years, and view their jobs as an opportunity to loosen the strings attaching them to their families. These women have embarked on careers in what can be viewed as high-growth and aspirational sectors, such as marketing, media, finance, and information technology. They enjoy a sense of independence and self-determination; as one respondent stated, 'to live my own life'.

Successful careers give a feeling of liberalization and freedom as evidenced, for example, by the increasing popularity of online dating sites. Likewise, the decision to delay marriage, which has increased the average age of marriage for middle-class women, is testimony to this choice of lifestyle. However, it is not only the chosen career path, but physical appearance that plays an important role in facilitating a transformation from 'protected child' to 'independent adult' or 'demure woman' to 'daring diva'. Sinha (2010, p.45) observes that an increasing number of working women are experimenting with new hair styles such as short hair or open flowing hair, 'perhaps the biggest symbol of today's women opening up as a person as well, to her own desires and to the opportunities of the world'.

The *Career Striver* is optimistic, self-confident, and has enormous belief in her ability to succeed on her own terms. Interestingly, the Internet and the proliferation of smart phones have been instrumental in empowering women's independence, giving her access to information, entertainment, and the ability to interact within her social circle. They have also grown up in a comfortable age where India, and their parents, have seen prosperity which was not possible in the past. This has given them access to a range of fashion and lifestyle international brands such as Benetton, Zara, and Levis. Luxury brands may be out of their reach, but they are able to experience luxury through financially accessible products such as Hermès accessories or Chanel cosmetics. Luxury brands are generally bought for

May 10th

Got up at 6 am. Went for jogging in my Adidas trackpants and UCB T-shirt with Reebok shoes. Got back at 8. The usual routine followed. Wore a Van Heusen white formal shirt I bought from Shopper's Stop and matched it with a Gray Raymond trouser. After putting Maybelline *kajal* and sunscreen, I rushed to the office. Picked up my Bata shoes to match it with the formals I wore.

Got free at 1 pm so planned to go to out with my friend.
Went to Ambience Mall, Gurgaon. And yet again my fascination made me enter Rado showroom. I loved the watch there which was of 32,000 rupees. Definitely it was out of budget.
So…some other time. Visited showrooms of Zara and Mango. Bought a top from Zara and a shrug from Pantaloon.

May 13th

I hate Mondays! Got up at 6. Went for jogging with the trackpants I bought from Pantaloons and a T-shirt from Max. Rushed to jog with my Reebok shoes. Came back, had bath with my new shower gel. It was better than the Nivea body wash. Wore a cream shirt with checks with my Raymond navy blue trousers. Kajal, sunscreen, deodorant. I was all set to go. Reached office at 10. Was going through the sites. Saw a Guess watch worth Rs 13,000. I so wanna own it now. Let's see if dad will allow ;)

Was going through Yahoo news. Saw the pictures of Sonam Kapoor. She is just so perfect in her dressing sense. Remembered the movie Aisha, where this spoilt pampered child was portrayed as a spendthrift. Spending money like water on clothing and accessories from brands like Gucci, Prada, Dior and what not! It's a dream of every gal! And so is mine.

Figure 9.1 Extract from a diary entry

themselves and they tend to favour brands that signify their career success. Indeed, accumulating goods that can visibly display wealth is also a symptom that, to some degree, young women are prioritizing the creation of a successful career ahead of wanting a happy family (Silverstein and Sayre 2009). In our research, one informant mentioned that drinking coffee at Starbucks in Mumbai was a statement that, not only did she belong to a professional class, but also 'to modern society'. Interestingly, according to the Indian Centre for Alcohol Studies (INCAS), the women's alcohol market is expected to grow 25 per cent over the next five years, considerably faster than the 10 per cent expected for the overall industry (Aravindan and Bose 2013). Brands that are seen to develop or enhance their identity were also regarded as being important; as one participant mentioned, 'If I see anything from Dior or Louis Vuitton, I feel just like a Bollywood star. It gives me a lift and I know that could be me.'

However, the interpretation and meaning of freedom for the *Established Professionals* – older, successful working women who may be entrepreneurs too – is less about flash value, but more about the experience of discovery, as one participant stated, '. . . to try new things in life'. For example, women can experience premium whisky brands thanks to the Spirit of Nero, an exclusive women's whisky club hosted at Le Meridian Hotel in New Delhi. Likewise, The Sommelier India Women's Wine Circle enables women to discover fine wines from around the world. *Established Professionals* tend not to spend only on themselves, but also on other family members and on family goods. This is not only done from a sense of duty or responsibility, but from an inherent desire to give to their loved ones. They ultimately want the best for their children and their family.

However, the desire for freedom expressed through consumption is set against the pressures of balancing careers with family obligations. In a Nielsen survey, it was reported that Indian women are the most stressed in the world, with 87 per cent stating that they felt stressed most of the time (The Nielsen Company 2011). An overriding source of this stress for working women is the pressure to balance a career with family and social expectations. A participant noted, 'I may be financially independent, have my own friends, but I will always be the daughter and this means family always comes first. It's not always easy especially when you work for 10 hours and you have a 90 minute commuting time, but that's life.'

Despite the availability of domestic help, *Established Professionals* need to deal with the additional roles and responsibilities of being a daughter, wife, mother, and daughter-in-law. 'She wants to find romantic love, build a happy family, and have close relationships with friends. At the same time, she wants to maintain a successful career, achieve physical and emotional wellness, and pursue travel and leisure activities' (Silverstein and Sayre 2009, p.247). Cultural and social norms are softening and women do feel increasingly empowered, but the obligations of the Indian family remain strong. This is where the ability of possessing luxury brands feels 'worth it' for many.

While it is widely acknowledged that women were mostly expected to simply 'listen', today they are coming forth with their unabashed opinions. This is illustrated in an advertising campaign for the Diamond Trading Company (DTC). The TV advertisement shows a newlywed bride wearing a diamond tiara. She whispers in the groom's ear: 'You may now kiss the bride.'[1] This self-confidence and self-belief has also translated into higher spending on luxury and lifestyle brands that help women assert their independence, whether for themselves or to influence household luxury purchases, such as holiday destinations. Examples of this influence included statements such as 'It was my idea that we visit Switzerland – it had always been my dream' or automobiles, 'I mentioned to my husband that a SUV would be better for the family.'

Femininity

A distinctive and common characteristic of the Indian luxury female consumer is femininity. Women repeatedly expressed their pride at exhibiting Indian femininity. This is proven by the fact that Indian women, despite increased acceptance of Western culture, prefer expressing their sensuality through Indian wear at formal events. For example, Bollywood actresses Aishwarya Rai Bachchan and Vidya Balan chose to wear Indian traditional dress at the 2013 Cannes Film Festival.

Femininity in modern Indian society can be expressed both in terms of physical appearance, and attitude or spirit. A BCG study reported that approximately half of Indian women consider themselves very attractive, ranking second highest amongst women from 21 countries (Silverstein *et al*. 2012). It is within this context that we found that Indian women valued beauty products to enhance rather than transform their beauty. As one respondent noted, 'I was reading some European magazines and many of the models looked so cheap – that is not just what we are like here in India.' This sentiment is supported by a separate study that investigated the contents of the handbags of Indian women in Mumbai, Bengaluru, and New Delhi (Atwal and Medh 2012). It was reported that college girls prefer to look 'naturally cool' rather than opting for a glamorous look, and view any form of visible make-up as 'attention seeking'. For instance, lipstick was considered *behanji*, a term used to mean 'low class'. In a similar vein, it was reported that young professionals follow an elaborate grooming routine, and despite the constant pressures of a working life, 'prefer a well-defined and presentable yet natural appearance' (Atwal and Medh 2012, p.28).

Interestingly, the ritual of marriage appears to mark a crossroads in many Indian women's style of dress. Married women tend to choose to wear predominantly Indian fashion silhouettes combined with Western accessories such as Louis Vuitton bags, Hermès scarves, or Jimmy Choo shoes. Prominent Indian designers such as Rohit Bal, Suneet Varma, and Ritu Kumar are very much favoured as their designs depict an Indian, feminine touch. However, this phenomenon has come under intense scrutiny and criticism as undermining the progress of the modern Indian woman. For example, reaction to the Bollywood actresses' red carpet appearance at the 2013 Cannes Film Festival was mixed, 'The last thing we, the emancipated, modern, opinionated women of this country (of which there are plenty) wanted to see on the global red carpet of Cannes was a demure Indian women' (Tewari 2013).

International luxury brands have, however, started to realize the need to create strong images and associations of femininity expressed within a traditional context. Hermès launched a limited collection of saris in 2011 that could be seen as an attempt to appeal to the Indian desire for femininity, and to address their strong affinity to Indian traditions. Participants in our research study discussed in detail how a sari accentuates their beauty and makes them feel unique. As one participant stated, ‘A sari is probably one of the most elegant, sensuous and beautiful expressions of femininity in India’.

Established Professionals, who know what they want and seek those brands and products specifically, look not only to the future, but to the past for inspiration to recreate images of femininity. Forest Essentials, for example, sells skincare products made according to Ayurvedic traditions. Jewellery designed by Ganjam, inspired by South Indian temple architecture and the time honoured traditions of *chikankari* or *zari*, and fashion designs by Abu Jani-Sandeep Khosla, or Meera & Muzaffar Ali, are subtle reminders of the elegance of a bygone era.

Although the expression of femininity is still very much about meeting societal expectations, a more personal or even subtle expression of femininity is evolving. According to Ernst & Young, the Indian lingerie and nightwear market was valued at about US$ 2 billion in 2011, and is expected to grow at a compound annual growth rate (CAGR) of about 15 per cent until 2015. During the same timeframe, the super-premium category is expected to grow at a CAGR of about 30 per cent (Armarnath 2012). Lingerie brands such as La Perla and Triumph have already entered the Indian market. Women confided in our study that buying lingerie was not just about enhancing shape performance, but also about ‘feeling special’. Women in India are very aware and conscientious of displaying, but also owning, femininity. They have created their own unique identity which mixes traditional symbols with modern, international ones.

Emotions

Luxury brands evoke a range of emotions that ‘relate to the multisensory, fantasy, and emotive aspects of one’s experience with products’ (Hirschman and Holbrook 1982, p.92). Indeed, in a survey of apparel-shopping attitudes, McKinsey reported that 82 per cent of female respondents in India look forward to shopping for clothes. This compares, surprisingly, to 27 per cent for Russia, and 26 per cent for China (McKinsey 2007).

According to our research findings, emotions are an important aspect of the luxury brand interaction. For example, the entertainment value of shopping. Women enjoy the shopping occasion, which is seen as an enjoyable day out. As one respondent mentioned, ‘We don’t actually get out that often. Shopping at a mall like Phoenix (Mumbai) is an opportunity to go out and have some fun.’ We observed, for example, how small groups of women were noticeably enjoying the shopping experience of browsing, and buying, cosmetics in the 3,200 square foot Sephora store in New Delhi.

This introduces the notion of social interaction. Women often shop as a group, which allows them to spend leisure time with friends or family members, and enjoy the shopping experience collectively. 'It's just nice to buy something like some new shoes and show what you have bought to your friends,' noted one of the respondents. Interestingly, younger participants mentioned that shopping with friends and family lowers the risk of an ill-informed purchase, 'I get advice on things such as quality of fabrics or the value of gold. Older family members have that knowledge that I just don't have.'

A further emotional interaction was identified to be present as the result of the luxury consumption experience. A significant share of luxury purchases are linked to special occasions such as religious festivals and weddings, as one participant recalled, 'It was about me, the most important day in my life and my happiness.' This was reiterated by another participant, 'Going to a wedding means buying many different outfits, whether it is a brand new sari, shoes or jewellery, and it is exciting to plan what you are going to buy and to eventually get ready for the big occasion.'

Further, the emotional experience extends beyond getting ready for the big day, but also is present when creating a new self-identity reinforced by a new wardrobe, which will suit a 'newlywed' woman. As mentioned above, Indian women undergo a transformation in their style and looks in the time surrounding their marriage, for which they start preparing beforehand. A newly married woman's wardrobe, thus, will contain elaborate saris, salwar-kameez, intricate traditional jewellery, and other paraphernalia to indicate her new status, as opposed to a young girl's mostly Western wear, chunky jewellery, and comfortable footwear. The new wardrobe is also created in accordance with what will appeal to the in-laws' family values, and social status.

Playground of desires

Our research supports the view that a universal feature of the urban luxury female consumer is the desire 'to transform from actual self to idealized self: to feel like a goddess at a wedding, be respected as the perfect host, or be admired as a trendsetter' (Atwal and Khan 2009, p.55). Luxury brands are therefore challenged to guide the female consumer practically and symbolically. 'It is the self they imagine in moments of reflection, the self they aspire to, the self they believe, often against all evidence, that they could become' (Edwards and Day 2007, p.193).

An interesting application of this phenomenon is JWT Planning India's proprietary tool, Brand Chakras™, based on the application of the *chakra*, a Sanskrit word meaning wheels, which 'can be thought of as wheels of the mind that dwell in the forest of desires. And desires, like wheels themselves, are great motivating forces. Each *chakra* is a stage by stage playground of desires' (JWT India 2013). The model is constructed on the following seven over-riding life themes: *Sahasara* (Spirituality), *Ajna*

(Transcedence), *Vishuddha* (Creative Expression), *Anahata* (Love), *Manipura* (Power), *Swaddisthana* (Pleasure), and *Muladhara* (Survival).

The Power-Love-Pleasure (PLP) framework

Further findings stemming from our research support the view that urban working women tend to share the following three *chakras*, or playgrounds of desires – Power, Love, and Pleasure. We propose that luxury brands need to align marketing brand strategies in order to resonate with these overriding sentiments of the Indian female luxury consumer.

Power

Urban professional women strive to succeed professionally, and are ambitious. Their profession is an important dimension of their self-identity, personality, and their social status. As Sinha 2010 (p.218) remarked: 'Across socioeconomic strata in India, women today have a strong desire for achievement, the desire to make something of their own lives'. The driver for achievement of power is others' recognition of acquired social status. This can obviously be attained via the right brand logo, but luxury brands can facilitate the push for power through other avenues. For example, the retail environment indirectly conveys power status via exclusivity. The luxury shopping mall, such as DLF Emporio in New Delhi, which has been designed with Italian marbles, palm trees, and larger than life chandeliers, is a retail space that elevates shoppers' status.

The essence of power can be interpreted through advancement, rather than simply through material status. For instance, celebrity endorsements using Bollywood actresses can foster power and advancement via association. An example was the event *'Une Nuit d'Elégance'* hosted by TAG Heuer where the Bollywood superstar Shah Rukh Khan honoured Indian Women Pioneers. Another example was the advertising campaign for Asmi Diamonds, with the slogan, 'For the Women of Spirit'. The commercial features the Bollywood actress and former Miss World, Priyanka Chopra, who asserts, 'I believe that everyday is a test where I have to prove myself. That destiny and hard work go hand in hand. It doesn't matter where you come from as long as you believe in yourself. I believe in me.'[2]

However, the drive for power can also incorporate knowledge. Although sales staff can act as educational brand ambassadors to ensure that there is an effective transfer of knowledge, brands can introduce other educational initiatives. For example, Gucci Artisan Corner was a custom-built workshop that was showcased at the Gucci stores in New Delhi and Mumbai. However, very few international premium or luxury brands are using local digital content to educate the Indian female consumer, although Indian women are seeking information. One exception is L'OCCITANE, which has developed a local website specifically for India. The site even gives advice on how to pronounce L'OCCITANE ('LOX-EE-TAHN').

Love

Harmonious relationships, whether with friends, partners, or family (including extended family members), is an important factor in ensuring an emotional equilibrium. It is also, in essence, meeting societal expectations that gives rise to a female identity 'defined by ideal qualities – internal and external – that are admired by other women' (The Futures Company 2013, p.28). Luxury brands can express this desire in a range of brand marketing initiatives. One example is the emotional bond between a father (Anil Kapoor)[3] and daughter (Sonam Kapoor)[4] that is highlighted in a Montblanc advertising campaign: 'the power to write your own destiny'.[5] The Montblanc pen is passed from one generation to the next, while asserting the daughter's independence to seek her own destiny.

Moreover, romance and the expression of affection are of particular relevance within an Indian context. Cartier, for example, launched a limited edition Santos 100 Taj Mahal watch that was reminiscent of India's era of a royal and romantic patronage. A more recent example is *The Message,* introduced by the diamond brand, Forevermark. An interactive feature of the website gives men and women the opportunity to leave a message for someone they love and geo-tagging it to a real-world location that is meaningful to the two of them. It is only when the loved one arrives at that special location that they can read the message.

However, luxury brands need to consider how to integrate this emotional connectivity with categories that are not considered as being particularly female-centric. For example, car showrooms are still a very male-dominated environment, although women have an increasingly important role in the decision-making process. Audi has, however, taken a lead and introduced a children's crèche and a café, amongst other family-friendly facilities at the Audi Mumbai West showroom.

Pleasure

The pursuit of pleasure can be achieved through a variety of luxury brand interactions. The aesthetic pleasure of the shopping experience is an obvious interaction. For example, the 5,000 square feet, two-level flagship store of Hermès, located in a heritage building on Mumbai's Ballard Estate high street, has since become a local tourist destination. Likewise, entertainment is an important attribute. The annual Fashion's Night Out, initiated by *Vogue* at the luxury mall DLF Emporio in New Delhi, which includes runway shows and celebrity events, are just some of the initiatives that entertain the visitor. However, there is still scope to incorporate an enjoyable experience outside the product or service offering. For example, the digital content of the overwhelming majority of international luxury brands still fails to include

Indian-specific content. Likewise, pleasure can also be achieved via the staging of memorable experiences. One example is The Miele Experience Center in New Delhi, which by invitation or by appointment only, offers lifestyle events such as the opportunity to cook with renowned chefs.

Take the step

The new urban Indian woman represents a significant market opportunity for luxury brands. The recent introduction of the Mercedes-Benz A-Class is just one example of luxury brands wishing to capture a greater share of the female market. International luxury brands need to recognize this potential, but also need to connect differently if they are to succeed in winning over the female consumer. The Indian edition of *Vogue* is a good example of how adapted content resonates with the Indian mind-set. In a similar vein, Tanishq, India's largest jewellery retailer, owned by Tata, launched the sub-brand Mia to target working women between 20 and 30 years old. The objective was to position Mia as jewellery brand that can be worn not solely for weddings or social occasions, but to express the identity and personality of the professional woman ('If work is life. Make it beautiful').

The success of Mia was not just about the design of the jewellery, but communicating its brand story. For example, women are invited to 'Share Your Courage Story' via the website (www.mia.tanishq.co.in): 'Everyday is a day to celebrate the beauty of womanhood. A day to celebrate your efforts, your talents, your accomplishments, your life, your success and your courage.' Another example of Mia seeking to engage with working women at a personal and emotional level was the initiative 'Mia on Wheels'. Working women could register via a Facebook app to get on board a specially designed bus. Women could 'sparkle all the way to work' and enjoy many of the offered services, from styling to spa to photo shoots. Although Mia is not strictly luxury (the jewellery price range is INR 6,000–50,000), there are significant lessons for international luxury brands. It raises the key question whether luxury brands are developing a connection that goes beyond the functional design and performance of the product or service offering. In order to maximize the potential for success, luxury brands need to take this one step beyond.

Notes

1. The TV commercial can be viewed at: http://www.youtube.com/watch?v=yp5auV7fIc0
2. The TV commercial can be viewed at http://www.youtube.com/watch?v-bEwEOd0zfDk
3. Anil Kapoor is one of the most recognized Indian actors.
4. Sonam Kapoor, daughter of Anil Kapoor, is an Indian actress and a former model.
5. The TV commercial can be viewed at http://www.youtube.com/watch?v=JdmCkYHF0go

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Part IV

China

10
Drivers of China's Desire for Luxury and Consequences for Luxury Brands

Frédéric Godart and Yue Zhao

Luxury plays a pivotal role in the traditional structure of Chinese society. In the Confucian tradition it is used to bind the different elements of the national community. For example, in a professional context, gift-giving is a way to honour one's superiors, peers, or subordinates on special occasions. In a family context, it is a way to show gratitude to parents, relatives, or elders. As Tsai explains, to this day, luxury remains intertwined in a web of gifts and counter-gifts that ensures the perennity of social relations and structures (Tsai 2008).

This take on luxury is significantly different from the tradition that emerged in Europe from Plato onward, where luxury was vilified and seen as morally wrong. Indeed, it was considered the root of war due to the struggle for the scarce resources necessary for its existence (Godart 2011). Unlike Confucius, Plato saw luxury as something that separates rather than binds. Platonic notions of luxury still constitute a major marker of the West's relationship with luxury goods despite the existence of the counterview advanced by Mandeville and Voltaire, who saw these goods as a source of wealth and employment creation. This negative take on luxury was consolidated by the Christian view of luxury and wealth, as expressed, for example, by Thomas Aquiline.

In China, luxury has retained its lustre – after a parenthesis in the 20th century – and is now back at the pinnacle of social habits. The recent anti-corruption campaign in the country, which affected some luxury brands due to a sharp decline in gift-giving, has not reduced its importance; it has simply modified its expression and set new norms (Osnos 2013). The importance of luxury is also enhanced by Chinese priorities on the global stage.

The various segments of the luxury industry belong to a broader cluster of what is referred to as the 'creative (or cultural) industries', whose output is infused with culture and meaning, and in which aesthetics as well as creativity take centre stage (Caves 2000), as in the case of music, film, and fashion. The Chinese authorities are making a determined effort to promote Chinese culture on the global stage, focusing, for example, on salient elements of

China's history and civilization, as well as its recent economic take-off (Poleg 2012a). However, this 'soft power' strategy (Nye 2004) is hindered by the so-called 'Kung Fu Panda' syndrome (Osnos 2012), referring to the fact that many influential productions that use Chinese cultural elements are not in fact Chinese.

It is in this context of a positive cultural and social attitude towards luxury and creativity that we propose to look at how luxury brands, whether foreign or Chinese, should approach the Chinese market in the 21st century. What are the main socio-economic factors underlying the growth of luxury in China? What forms of luxury should foreign and Chinese brands develop? Should they focus on hybrid identities? Should they be inward or outward-looking?

China at the forefront of luxury?

Various consulting firms, including Bain and the Boston Consulting Group, predict that China will become the number one luxury market in the world before the end of the current decade. Indeed, the notion of China as the world leader in luxury is what triggered the 'gold rush' witnessed over the last 15 years. Chevalier and Lu cite Bernard Arnault, Chairman and CEO of the French luxury business group LVMH, speaking in November 2005: 'We knew [China] would someday be the biggest market in the world. Whether it would be in 20, 30, 40 years, it was irreversible' (Chevalier and Lu 2010, p.xiii).

However, recent reports have set off alarm bells among practitioners, who are wondering whether the Chinese 'luxury party' is already over (Godart 2013a), first, because of a general economic slowdown, and second, because of new anti-corruption regulations impacting luxury consumption. The main concern is not that the Chinese luxury market will stagnate like its counterparts in the West, but rather slow down from a double-digit to single-digit growth rate. The threat is not that this Chinese El Dorado may disappear, but that it may be less attractive than in the past.

Returning to the idea that luxury, and creativity in general, represents a priority for China's current soft power strategy, the main question is not *when* China will become the biggest market in the world, but rather, once it happens, *what form* its influence over the world of luxury will take, and by extension, China's influence generally. In other words, the Chinese influence on luxury goes beyond market size; it is a means for China to influence the rest of the world in myriad ways.

Think about France and Italy, which, despite their now relatively modest position in the world of luxury consumption, exert a disproportionate influence over the industry overall, and through this have accumulated soft power on the world stage. Their influence upon luxury, fashion, and design is substantial thanks to the existence of very strong French and Italian brands that have deep roots, as well as powerful business groups such as

LVMH, PPR (now Kering), and Prada (Godart 2012). Strong brands with a long history are what entices customers in emerging markets in general, and China in particular:

> Chinese customers, like their Japanese counterparts, are interested in a brand's heritage, are attracted by fashionable items, and are looking for a special retail experience. The fact that these brands come from Europe or North America plays a small part in the overall appreciation of the brands.
>
> (Chevalier and Lu 2010, p.39)

This observation from Chevalier and Lu suggests that once the emerging economies have created their own brands with a strong history and identity – either developed over time or by reviving older brands – Western brands will have serious competition. Strong business groups constitute a major competitive advantage to the luxury industry in the West because they provide significant creative and financial resources to their brands (Barkey and Godart 2013).

However, while China does not yet have brands or groups that can compete with the major French and Italian players, it has its own card to play, notably in the way it shapes global consumption. This ability and willingness to shape global consumption is unique to China and none of the other main emerging economies even come close.

Chinese influences on luxury

China's influence on the global luxury industry is exerted through several channels, both direct – through brands based in or related to China – and indirect, through the specific tastes of Chinese customers. As Godart explains, Chinese customers are moving away from their role as 'takers' of Western production to 'makers' of luxury output (Godart 2013b). Indirect channels through which Chinese customers influence the global luxury industry include the significance of gift-giving in Chinese culture, the rise of a 'connected' generation, the growth of outbound tourism, the centrality of urban centres, the driving role of men in luxury consumption, and the family structure, notably, the importance of children.

In China, more than half of all luxury goods are purchased as business or personal gifts, and not for the buyer's own consumption (Barboza 2009). Given the importance of gift-giving in Chinese culture, this is a major tenet of luxury consumption. The habit of giving expensive gifts, especially for special occasions and during festivals, is an integral part of social scripts and business codes. As noted by Steidlmeier (1999), gift-giving follows rules of reciprocity and is constrained by the appropriate relations (*Guanxi*) to consider. In this sense, it is distinct from bribery and corruption, even though the lines are often blurred, especially for foreigners. Thus, luxury items which are easily recognized, such as watches, accessories, and leather goods – but without big logos – and which please a wide array of consumers, become best sellers. Given the rising importance of China in business and the spread of Chinese business practices, it is likely that luxury gift-giving will become more prominent elsewhere.

Another reason why Chinese customers are evolving from simple luxury-takers to taste-makers is due to the rise of a hyper-connected generation whose consumption habits are diffused via the Web. Generation 2.0 has grown up with the Internet revolution. The Chinese equivalents of micro-blogging platform Twitter, such as Sina Weibo, have vast diffusion power and media influence, giving rise to more sophisticated consumption patterns, and a better knowledge of luxury products than the previous generation. Moreover, many of them have received an education abroad, or have contacts with Western culture in their professional lives.

The dynamism of Chinese customers also derives from outbound tourism, i.e. Chinese citizens visiting other countries. Only two-thirds of luxury consumption by Chinese citizens is actually 'Made in China', including Hong Kong. The rest is made mostly in Europe, one of the main reasons being that luxury goods are actually less expensive in Europe, mostly because of high taxes on luxury goods in China (Chang 2013). In this sense, the purpose of retailing Western brands in China is not only to sell, but also to increase brand awareness among Chinese citizens, who will eventually become tourists. In turn, these tourists influence foreign brands via their tastes, as is apparent in Paris, where the main luxury outlets now routinely hire Chinese speakers and cater to Chinese shopping styles (Godart 2013b).

Another important element of the rising influence of China, in luxury and other industries, is the development of major urban centres. Three Chinese cities already belong to the 'Alpha+' and 'Alpha' cities: Hong Kong, Shanghai, and Beijing, and others such as Guangzhou, and Shenzhen, will soon join the elite. More importantly, there will be more than 200 cities with one million or more people in China by 2030. This means that the middle class, which is concentrated in urban locations (Wang 2010), is bound to keep growing in the next decades, fuelling luxury consumption (Godart 2013b), and diffusing their tastes globally. One manifestation of this is the inclusion by major Western brands of Chinese cultural symbols, such as astrological signs, in their designs (Chow and Burkitt 2013).

The importance of menswear is a hallmark of luxury consumption patterns in China. While in Europe and the US women are the main consumers of fashion and luxury products, this is not always the case in China. In 2011, Calvin Klein reported that, while in its home market womenswear sales represented 2.5 times that of menswear, in China the two categories were of roughly equal size (Woke 2011). There are several explanations for this unique feature of Chinese luxury consumption. First, the gift-giving culture is mainly directed at men, since men occupy more official positions. Second, whereas in Europe the ‘great masculine renunciation’ at the beginning of the 19th century meant that men used their spouses’ apparel and accessories to display their wealth and status (Flügel 1930), this is not the case in China. An intriguing example of this is the expansion of Bosideng (a major Chinese retailer with more than 11,000 retail outlets in the country in 2013) outside of its home market. In its first significant move abroad, it chose to launch, in London, an upscale menswear brand designed for Europeans, and not to offer womenswear (Chen 2013).

Children’s wear is also a booming market in China. The one-child policy has put children at the centre of the family, and the concept of family is at the core of Chinese society and Confucian heritage. Luxury for children is a growing market niche and an increasing number of brands are riding this trend.

Background of a success story

In Chinese history, the imperial examination system or *Keju* was an important part of the social structure. It was established and systemized as an official method to recruit scholar-bureaucrats to manage the country during the Sui Imperial dynasty (581–618 AD), which unified China. A central feature of the selection process was that it was based on merit. In theory, this allowed any talented male adult, regardless of wealth or social origin, the opportunity to become a high-ranking official. These scholar-bureaucrats became the new social and cultural elite, and a symbol of success for Chinese society as a whole.

This system was not only the root of the modern Chinese education system, but had a profound impact on the culture and mind-set of the people. First of all, it was both possible and encouraged to move up the social ladder. Success stories brought glory to the whole family, and the new elite wanted to show their status through conspicuous consumption. This type of success story has been recounted throughout history up to the present. Second, while the *Keju* system was extremely selective (only about 5 per cent of candidates passed the examination), the hope of changing one’s fate kept participation rates high. In this way, the system ensured that the most talented candidates served the ruling class. Furthermore, it created a cultural uniformity and consensus around a set of specific social values, and ultimately the collectivism and conformity of Chinese culture. Hence, luxury consumption in modern Chinese society is driven by the need to ‘belong’ to a certain social elite rather than for individual pleasure.

Chinese creativity

Chinese fashion is characterized by unbridled creativity and takes its inspiration from many sources and the rapidly changing economic, environmental, and social environment. For example, it was recently reported that in rapidly industrializing China, where the one-child policy prevails, expectant mothers were worried about the effect of radiation emitted by electrical appliances. Brands such as Tianxiang responded by developing metallic maternity clothing designed to stop radiation (Poleg 2012b). In a similar vein, in the face of rising infertility rates, some brands developed fake pregnancy accessories in order to help female customers 'save face, gain favourable treatment, and alleviate social pressures', in a country where being pregnant attracts many social benefits (Poleg 2012c). These two cases – which are related to the apparel industry, but can certainly be extrapolated to other segments of luxury – show how the innovativeness of Chinese producers thrives at the crossroads of socio-economic trends, such as rapid development, and cultural norms and values that are specific to China, such as the importance of saving face, founding a family, etc.

In high-end fashion, a young generation of Chinese designers, often educated in the most prestigious design schools in Paris, London, New York, and Milan, are exerting their talents in China. This is the case for Shang Xia's founder and head designer Jiang Qiong'er, who was trained in France (Movius 2010). The Chinese diaspora has also been noted for spawning talent abroad. For example, Chinese-born French *haute couture* designer Yiqing Yin, who graduated in 2009 from the Parisian *École Nationale Supérieure des Arts Décoratifs*, has received numerous prestigious awards and has been a guest couturier for *haute couture* shows in Paris (Kolesnikov-Jessop 2013).

In the wine-making sector, several châteaux have been purchased by Chinese investors, including Château Bellefont-Belcier, a prestigious winery in the Saint-Émilion area, and Château Gevrey-Chambertin in Burgundy (AFP 2012). Although in some instances this triggered adverse reactions and even a boycott among French winemakers, more recently it has moved into a new stage of the transmission of *savoir-faire*, notably with the contributions of a new generation of French-speaking Chinese students.

Luxury brands in China: A typology

This leads to the complex question of how luxury brands can thrive in the Chinese context – complex because it is inherently multidimensional. It embraces both foreign brands that wish to expand in China and Chinese brands that wish to expand abroad. This will to grow internationally often creates ripple effects in the brands' strategies and images in China. As described above, China is fertile ground for luxury, not only because it is a large and growing market, but also because of traditions and cultural norms that make luxury acceptable and even laudable. There is potential for home-grown brands in some segments. For example, the Hurun Report recently ranked two Chinese brands in the top 10 global luxury brands, both liquor (*baijiu*) companies – Wuliangye and Moutai (Hurun Report and GroupM China 2012).

In response to the question of how to benefit from this market, over recent decades, various strategies have been developed for luxury brands in China, all of them based around the central challenge of the extent to which the brand should be related to foreign (i.e. mostly Western) or Chinese representations and practices. Taking this as a starting point, brands can be aligned along two axes. The first is the level of hybridity of the brand. Low-hybridity brands draw their inspiration from either foreign or Chinese elements. High-hybridity brands mix, to various levels, the two cultures. In the jewellery industry, for example, Qeelin – which was recently purchased by PPR (Kering) – uses Chinese symbols and traditions in its collections and is thus a low-hybridity brand. Shang Xia, affiliated with Hermès, is another example. Other low-hybridity brands have retained their foreign identity, as in the case of Louis Vuitton and Chanel, which emphasized their 'Frenchness' when entering the Chinese market. Similarly the Swiss watch brands Omega and Rolex, which played the 'Swiss Made' card when trying to seduce Chinese customers – allowing customers to identify the Swiss brands with their long history and tradition of excellence. Many other brands have adopted a high-hybridity posture, and this goes beyond the simple 'East meets West' narrative; in fact, hybrids can take several forms and, again, this is where Chinese creativity can be observed. This is, for example, the case of Chinese talents who have developed their brands abroad, notably in Paris or London, such as Yiqing Yin.

The second axis is about the extent to which a brand is exposed to international business groups and to what extent it attempts to please customers outside its home market: in other words, their outreach. Along this axis, brands can be either inward- or outward-looking. First, many outward-looking Chinese brands are actually backed by foreign business groups that use experienced foreign executives to grow, as in the case of Shanghai Tang, which belongs to Richemont and is headed by a French CEO, and also Shang Xia, backed by Hermès, and Qeelin, owned by PPR (Kering). Second, Chinese groups routinely acquire Western brands. In fashion, for example, Lanvin was acquired by Ms. Wang. With Alber Elbaz as head designer, Lanvin thrived under Ms. Wang's leadership, making it the most creative fashion brand in the world according to the *Journal du Textile*'s renowned fashion creativity ranking. In watchmaking, Corum is another example. Inward-looking brands are, for example, Bosideng, at least until it opened its first London store.

This gives rise to a new typology that first considers the level of hybridity of a brand, and second, considers the degree of integration of the brand in business groups and international markets that gives it an outward or inward outlook. Outward/non-hybrid brands include luxury car brands such as Audi or Porsche, which have an international strategy but push their German

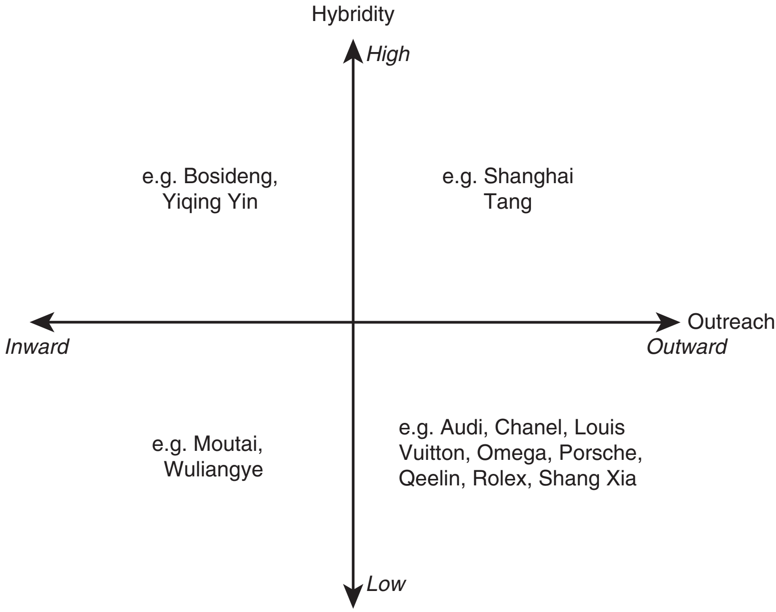

Figure 10.1 Suggested positioning of selected brands along the Hybridity/Outreach axes (indicative)

national identity. Perhaps surprisingly, outward/hybrids are still relatively rare, but Shanghai Tang could be one of them. Inward/hybrids include Yiqing Yin and Bosideng, in the past. Inward/non-hybrids encompass local brands, such as *baijiu* liquors. We present our typology in Figure 10.1. It should be noted that the positioning of the various brands represented in this figure is suggested and indicative. It constitutes a basis for further discussion, and is in *no way* a judgment made upon the brands represented. It is bound to evolve over time with the development of the brands' strategies. Further research could help position the brands with more accuracy. Such a task would entail measuring the two dimensions. For example, the outreach dimension could be assessed by using the percentage of sales made outside of the core market of a local brand, and the hybridity dimension could be assessed by customers' panels or semantic analysis of media coverage.

Conclusion

China's rising significance in the different segments of the luxury industry is related to the long-standing presence of luxury in its history and culture. Luxury is intertwined in gift-giving traditions and an elaborate understanding of social networking and appropriate connections (*Guanxi*).

China's position at the forefront of luxury is supported by the country's economic growth, increasing salaries, the development of major urban centres, and an increasingly educated customer base. Chinese customers have seen their influence grow not only through socio-economic phenomena, such as outbound tourism, but also through specific tastes that brands cater to by including Chinese elements into their designs and identities.

This convergence of historical, cultural, social, and economic factors puts China in a unique position on the luxury map. While it has already generated a lot of creativity from China-related brands, designers, and managers, Chinese innovation is set to explode in the coming decades – provided that Chinese innovators manage to face and overcome the 'Kung Fu Panda' syndrome.

The implications for luxury brands doing business in China are significant, and strategic decisions must be made along several dimensions. The first choice to make involves the determination of the kind of identity to adopt. Many Western and Chinese players have chosen to anchor their identity into a specific culture. Hermès in China remains very French; Shang Xia in Paris remains very Chinese. Others, like Bosideng, have created a hybrid identity and mixed cultural symbols. In between, brands like Shanghai Tang, while rooted in a given culture, have started including outside inspirations. The identity question is essential. While a hybrid identity may appeal to a wider audience, it may also lose its authenticity.

A second choice is about exposure to international capitals and outlook. Most major Western brands are very outward-looking: Louis Vuitton, Chanel, and Gucci in the fashion industry, Omega, Rolex, and Longines in watchmaking, and corresponding brands in other segments. Others are more inward-looking, Bosideng – despite its recent evolution, Shanghai Tang before its recent leadership change, and the *baijiu* liquor brands. Clearly, the arrival of Chinese investors may make inward-looking Western brands, such as Corum, Lanvin, and Sonia Rykiel, more likely to look outwards, possibly increasing the customer base; however, inward-looking may be seen to be less risky.

The question remains as to whether the future belongs to outward-looking hybrid brands, which attempt to conquer the world with global designs, to outward-looking non-hybrids that manage to impose their views on the luxury industry, or to inward-looking brands which are successful because they cater to specific niches.

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11
The Evolution of Luxury Consumption in China

Serena Rovai

This chapter investigates how the Chinese luxury landscape is evolving, and the implications for international luxury brand strategies. Three key drivers of change are identified. First, how the meaning and perception of luxury is embedded in the past, but is responding to the changing public sentiment. Next, how new regions in China represent an increasingly significant market opportunity for long-term luxury brand sustainability. Finally, the increasing significance of heritage and country of origin, which enable international luxury brands to connect with current, but also prospective Chinese luxury consumers.

Change is the status quo

Luxury and the definition of luxury encompass numerous definitions and concepts that are in line with different individual perspectives. The concept of luxury is also perceived differently in different cultures. In China, the culture and ways of thinking are strongly inspired by Confucian thought, which is mainly based on the concepts of rites and harmony. The consumption of luxury goods is therefore a way to distinguish and affirm the individual; it reflects the structure of social dynamics. The traditional interpretation of Chinese luxury relates to the very idea of inequality, between individuals and the spiritual forces existing between them. Luxury can take the form of a ritual hierarchical pattern reflecting status and social obligations. Indeed, in traditional Confucian culture, luxury does not appear as something superfluous or frivolous, but ingrained in the character and spirit of each individual.

There is substantial evidence supporting the idea that the concept of luxury is not entirely new to China. The Ming and Tang Imperial dynasties, with their exquisite silk fabrics and exclusive porcelains (Liu 2010), demonstrate clear presence of the concept of luxury in China, despite the fact that traces of this were deliberately 'erased' during the Cultural Revolution and the Maoist era. As a result, contemporary China may be dealing with a complex scenario where its Communist past is intertwined with the Chinese luxury customer's desire to catch up with a real lost luxury tradition.

Interestingly, Lin and Wang (2010) stressed that Chinese culture is a paradox of contradictory values; its people have a unique ability to be able to attain a balance between opposing values. Even though conservative consumption is very much a feature of Chinese consumer society, the opening up of China, and consequent economic reforms, have allowed repressed desires of consumption to be displayed (Lin and Wang 2010). Deng Xiaoping's motto, 'Get Rich is Glorious' could be seen as the starting point in these open spending patterns. However, recently, under the leadership of Xi Jinping and Li Keqiang, China seems to have been guided away from open consumption, showing renewed restraint towards conspicuous consumption of luxury goods. Government legislation has introduced a change in policy regarding gift-giving to government officials as part of its drive against corruption, and towards a desire for greater transparency (The China Story 2012). In 2012, a range of measures was introduced, such as prohibiting civil servants from spending public money on lavish banquets, or luxury cars, and from accepting expensive gifts (Reuters 2012). A return to frugality, and avoiding excessive consumption, appears to represent a deliberate change in the government's tone to counter social disparity-related tensions. This new scenario in the Chinese marketplace was certainly not foreseen, but has created new pressures for international luxury brands to appeal to an evolving consumer sentiment that incorporates ancient traditions with modernity.

Identifying the key Chinese luxury consumer growth segment

China's unrivalled economic growth in the past decade has transformed modern society. China is no longer just the factory of the world, but has become one of the world's largest consumer markets. The rapid increase in income, fuelled by the rapid growth of the middle class, has created a new consumer phenomenon. In particular, the strong demand for luxury goods and services has become evident in the coastal areas of mainland China. Consequently, for most luxury companies, Beijing, Shanghai, Guangzhou, and Shenzhen have been logical entry points into the Chinese market. However, despite reports of an economic slowdown, the expanding upper-middle class continues to offer luxury brands growth opportunities beyond the so-called tier one cities: just look west, but do it within China.

China is an extremely fragmented country due to the diversified economic evolution occurring in the different Chinese regions. In 2001, the government promoted the so-called 'Go West', or the 'Western Development Program', consisting of attracting investment towards the Chinese interior. In particular, it focused on the municipality of Chongqing – the largest municipality in China – and the provinces of Gansu, Qinghai, and Huizhou, as well as the autonomous regions of Guangxi, Inner Mongolia, and Ningxia, amongst others. Through these actively promoted investments, strong and rapid economic development has been able to bring new wealth to these regions, and a growing presence of a consuming class. Gross domestic product (GDP) per capita in these provincial regions may be lower than Shanghai and Beijing, but the GDP growth rate in cities such as Shaanxi, Hunan, and Chongqinq is remarkably higher.

The phenomenon of expanding urbanization in China is set to have a positive impact on luxury consumption. McKinsey (2013) estimated that, by 2022, the upper-middle class will account for 54 per cent of all urban households, and 56 per cent of urban private consumption. Moreover, the relevance of second and third tier cities represents significant challenges, and opportunities, for luxury brands. Luxury brands continue to expand to these cities as their wealthy populations are expanding, and unlike those in tier one cities, living expenses are less of a problem for growth in discretionary spending. For example, over the past two years, 33 out of the 70 cities in which Lancôme has been launched were in 'tier three' (Daneshkhu 2013). According to Roland Berger (2012), nearly 40 per cent of luxury customers live in third and fourth tier cities, and 70 per cent of luxury goods customers can be reached by operating in 58 key cities in China. This raises important issues for consideration.

Luxury brands need to identify, profile, and target the fastest-growing segments. Multiple segmentations developed both by researchers and consultants (He *et al.* 2010, McKinsey 2011, Bain and Company 2012), have identified young to middle-aged customers from third tier cities, who focus on their identity and social status reinforcement, as very promising targets. Likewise, luxury brands need to align strategies to a certain set of consumer attitudes, values, and beliefs that differ, compared with those in more developed regions. These differences include, for example, levels of brand awareness, gender differences towards luxury consumption, purchase motivations, and attitudes towards value for money.

The country-of-origin effect

A common denominator that stands out in particular in the Chinese market context is the notion of heritage. This can be attributed to China's unique relationship with precisely how luxury has evolved in contemporary society. Although the Chinese were familiar with the characteristics of luxury during its Imperial period, the void that was created in pre-reformed China has significant implications on how luxury is valued today. The paradoxical newness of the sector makes Chinese customer attitudes and behaviour remarkably different compared to those in the Western world.

These are customers who are following an increasingly sophisticated lifestyle, but still have limited brand awareness and knowledge. The perception of locally produced or manufactured garments is generally associated with inferior quality, and a reference or association to the country of origin allows the customer to immediately understand the value of the brand. Hill and McKaig (2012, p.462) refer to the country-of-origin effect as 'the extent to which the place of manufacturing influences product evaluations.' In relation to limited brand awareness, a customer associates the evaluation of the product to the country of origin representing certain characteristics, not necessarily related to the product, but more specifically to the country. The country of origin can represent a key marketing opportunity to educate consumers and to guide them in their purchasing motivations and behaviours.

Consequently, the country-of-origin effect can represent a strategic choice, in particular for new customers from third tier cities. This is predominantly relevant for the so-called aspiring consumer; a segment that is growing in importance in third, and even fourth tier cities. This group of luxury customers is made of predominately young consumers aged 18–34 years, who are relatively well educated, and looking for luxury products that can enhance their quality of life (Snaiderbaur 2009). These customers are certainly reassured by the reliability and creditability of the country of origin, making highly involved purchase decisions more immediately facilitated, and decreasing the risk associated with the purchase of a luxury item. Furthermore, international luxury brands with a consolidated historical heritage are able to present a more prestigious image to the Chinese customer. Similarly, this also explains why many Chinese tourists, in particular from third tier cities, prefer to purchase a luxury product in the country of origin itself.

The rapid expansion of luxury consumption has led to a significant change and diversification in consumer behaviour. In more economically advanced regions, the Chinese customer continues to follow a more knowledgeable and refined approach towards the purchase of luxury brands. As luxury is changing from unknown territory to a 'lifestyle', the Chinese customer relationship with luxury brands is also changing. In the initial phase of luxury development in China, potential customers were driven primarily by the appeal of the logo. This phenomenon is still very much evident in the newer Chinese luxury territories, i.e. the third tier cities, where the motivation of the purchase is primarily to demonstrate status for the aspiring segment. However, it is clear that as the luxury consumers in tier one cities gains greater maturity and experience, heritage is becoming an increasingly important attribute of the brand story. The 'Made in . . .' approach can therefore represent a key success factor and an effective entry mode strategy; for the immediate future, this is a valid argument, not just in new and emerging territories, but also to a large extent in Chinese megacities.

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12
Connecting with the Chinese Consumer

Kunal Sinha

Consumption of luxury in China is not a recent phenomenon. The emperors of China lived luxurious lifestyles that were rivalled only by the Bourbons of France, the Romanovs of Russia, the Habsburgs of Austria, and the Mughals of India. As Hays (2008) noted, 'Imperial clothes were made with silk, gold, silver, pearls, jade, rubies, sapphires, coral, lapis lazuli, turquoise, agate, various kinds of fragrant woods, kingfisher feathers and thread made from peacock feathers.'

That which is different in contemporary China is the new market for luxury. The World Luxury Association (2012) announced that China had become the world's largest consumer of luxury goods, with a global share of 28 per cent (excluding premium private jets, yachts and vehicles). Although the reported size of China's luxury market varies, market reports and studies confirm the continual and rapid rise of the Chinese luxury market. CLSA (2011) forecasts demand for luxury goods and travel from Greater Chinese to account for 44 per cent of global sales by 2020.

While China's ascendancy was only a matter of time, the mainland consumer's consumption behaviour is shaped by value systems that can be attributed to the country's rich history and the impact of economic and market reforms. When Deng Xiaoping introduced reform and opening-up policies in 1978, the pursuit of wealth became a realistic aspiration. Since 1978, China saw an average growth of 10 per cent per year and a 158 per cent increase in gross domestic product (GDP) per capita from 2001 to 2011, which was almost twice that of the next best performing major Asian growth economy, India.

During this time, career achievement and business success became the ways in which people could distinguish themselves from others. Once again, like in the imperial times, Chinese society became characterized by vertical growth and saw the re-emergence of a hierarchy. Yet how could the confident, upwardly mobile consumers display their success in contemporary China? Firstly, through the pursuit of better living standards and, secondly, through the acquisition of luxury goods. Their new cultural, social and economic needs could now be fulfilled by international luxury brands. This has translated into a significant market opportunity for luxury brands that remains robust despite the current global economic slowdown.

Redefining the Chinese luxury consumer

There are different estimates about the size and potential of the Chinese luxury consumer. Julius Baer (2012) reports that China has 1.46 million High Net Wealth Individuals (HNWIs), whose stock of wealth could reach US$ 9.3 trillion by 2015. A McKinsey study estimates that there are 13 million upper-middle-class households with income between US$ 15,000 and 30,000 (Atsmon *et al.* 2011). Moving further down the pyramid, Mintel (2012) estimates that there are approximately 30 million urban, white-collar households who earn between US$ 9,000 and 30,000, which makes up 14 per cent of the total number of urban households in China.

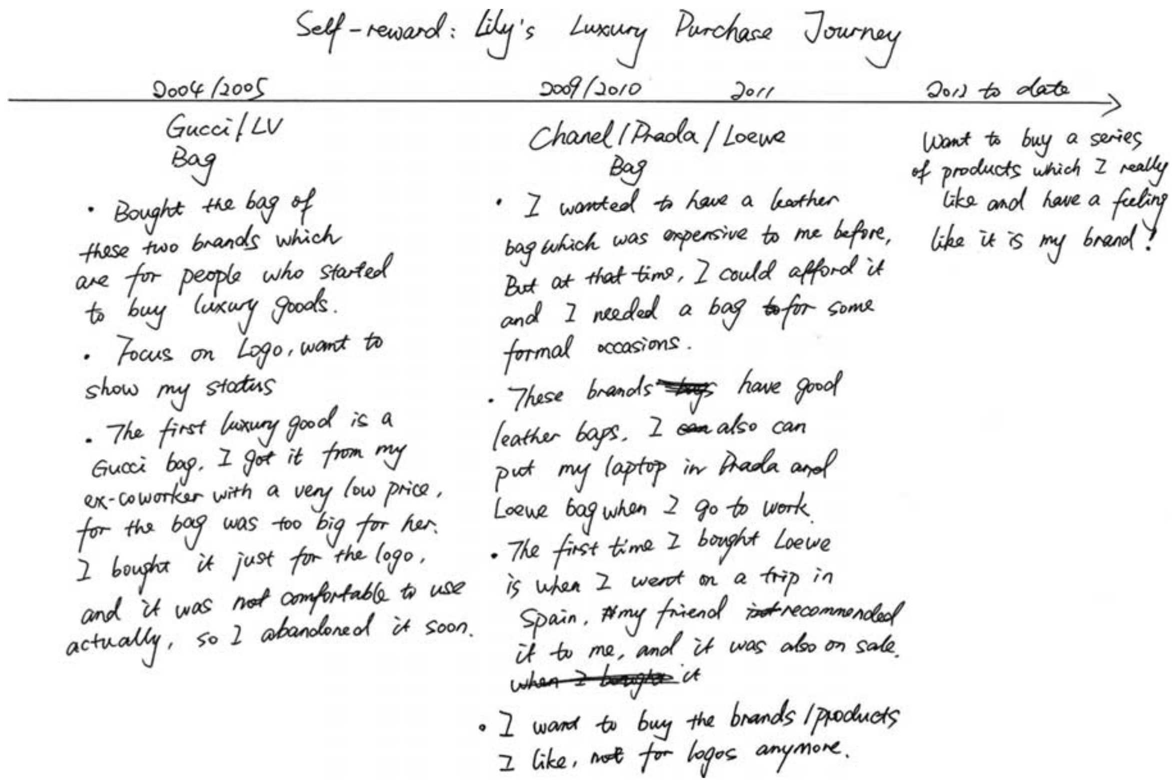
Luxury purchase journey

For luxury marketers, all these groups are important, because consumers are on a luxury journey, beginning with buying a mass luxury brand (e.g. Coach), moving on to aspirational luxury brands (e.g. Louis Vuitton), and then to more prestigious brands (e.g. Hermès, Chanel, and Bottega Veneta). Brands can be seen to represent milestones in their progress. The following example (Figure 12.1) illustrates a luxury 'purchase journey', as documented by a female consumer living in Shanghai.

While there is a large and growing middle class in China, there is no *'middle-class mind-set.'* The ownership of a luxury good – often bought at a relatively early age, at the beginning of one's career, makes people believe – and sends a signal to others – that they are now part of the wealthy set. Hence, for brands, creating an association of exclusivity is important.

The young

China's luxury consumer is typically relatively young. On average, millionaires are 39 years old, which is at least 15 years younger than their counterparts in Europe or America (Hurun Report and GroupM China 2012). McKinsey reported similar findings: 75 per cent and 45 per cent of Chinese luxury consumers are under 45 and 35 years of age, respectively (Atsmon *et al.* 2011). This youthfulness translates into status and self-reward as the



Self-reward: Lily's Luxury Purchase Journey

2004/2005	2009/2010 2011	2011 to date
Gucci/LV Bag	Chanel/Prada/Loewe Bag	Want to buy a series of products which I really like and have a feeling like it is my brand!
• Bought the bag of these two brands which are for people who started to buy luxury goods. • Focus on Logo, want to show my status • The first luxury good is a Gucci bag. I got it from my ex-coworker with a very low price, for the bag was too big for her. I bought it just for the logo, and it was not comfortable to use actually, so I abandoned it soon.	• I wanted to have a leather bag which was expensive to me before, But at that time, I could afford it and I needed a bag ~~to~~ for some formal occasions. • These brands ~~bags~~ have good leather bags. I ~~can~~ also can put my laptop in Prada and Loewe bag when I go to work. • The first time I bought Loewe is when I went on a trip in Spain, my friend ~~just~~ recommended it to me, and it was also on sale. ~~when I bought~~ it • I want to buy the brands/products I like, not for logos anymore.	

Figure 12.1 An example of a luxury purchase diary

top drivers for consumption of luxury goods. Conspicuousness remains the primary motivation amongst first-timers. The car that entrepreneurs in third or fourth-tier cities would like to buy, after signing their first major business deal, is invariably a Porsche.

Female consumers

The luxury consumer is also more likely to be a woman. McKinsey reports that spending by females constitutes nearly 60 per cent of the market (Atsmon *et al.* 2012). According to Leo Lui, President of Hermès: 'One of the biggest changes is that, say, ten years ago, 80 per cent of the buyers in China were male. Now it's 50–50. Many young women, professional university graduates who work for multinational companies as middle managers, are buying Hermès' (Red Luxury 2010). Likewise, the growth in the number of female entrepreneurs has created new growth opportunities for luxury brands. According to the All China Women's Federation, there are already approximately 29 million female entrepreneurs in Greater China (Starcom MediaVest Group 2013).

Consumer liberation

However, in a society where there is practically no inherited wealth, it is quite surprising to find a growing disdain for 'new money'. People do not want to be seen as *'baofahu'*, or *nouveaux-riches*. There are other ways than just the display of luxury brand logos by which social status can be realized, such as freedom to do what one wants (as long as it is apolitical). The idea of freedom is of particular relevance, especially amongst the younger set. It means having the ability to buy everything they want, with the money that they have earned themselves.

Experiences

There is a growing willingness to spend money on experiences: international education, travelling overseas, learning about becoming a wine connoisseur, and indulging in physical activities such as golf, yoga, or mountaineering. According to the Hurun Report and GroupM China (2012), Chinese millionaires spent 25 per cent of their 'consumption basket' on travel, and another 25 per cent on their children's education. Wealthy men and women have, however, different spending priorities: while the former spend more on acquiring collections and entertainment, the latter are more interested in gaining experiences, spending on education, and tourism.

Expanding consumption patterns

It is misleading to assume that the luxury consumer lives exclusively in the megalopolises of Beijing, Shanghai, and Guangzhou. In fact, McKinsey predicts that by 2015, about half of luxury consumption will be attributed to the megacities of Shanghai and Beijing, and nine other large markets: Chongqinq, Dongguan, Foshan, Guangzhou, Hangzhou, Nanjing, Shenzhen, Tianjin, and Wenzhou (Atsmon *et al.* 2011). The remainder will belong to second and third tier cities – and this is where the majority of luxury brands are opening new stores, as they are forced to move deeper into China's interior to keep driving sales growth. Smaller cities such as Yiwu, Shijiazhuang, and Ordos are also potential drivers of the future growth of luxury goods sales in China. According to the Fortune Character China Institute (FCCI), luxury brand sales in tier two, and tier three cities, have now surpassed sales in tier one municipalities. Interestingly, Louis Vuitton's highest-revenue store in China is reportedly in Urumqi, the capital of Xinjiang province. Likewise, it was reported that the industrial cities of Taiyuan, Erdos, and Zhengzhou rank in the top five city markets for Bentley Motors (Jukes and Ruiying 2012).

Future challenges for luxury brands in China

Even as the market is hugely promising, there are significant challenges to actually building a luxury brand in China. International luxury brands need to align strategies to address competitive pressures, new government policies towards gift-giving, and the price differences of luxury brands between mainland China and overseas shopping destinations.

Competition

With every luxury brand making a beeline for China, the competitive activity is intensifying – driving the price of retail space to record highs. On average, Chinese consumers now recognize 59 luxury brands – a figure that has risen steadily over the years (KPMG 2013). It is a market that is rapidly getting crowded, and brand preferences can sometimes be surprising. For example, it was reported that the largest number of buyers of Humvees were the prosperous coal miners living in Taiyuan in Shanxi province (Yip and Chang 2010).

Virtue to vice

In 2012, the new government introduced measures to curb the lavish entertainment and gift-giving culture in China, which industry experts say accounts for a significant share of luxury spending. Billboards and larger-than-life installations, such as the gigantic Louis Vuitton suitcase displayed outside Shanghai's Plaza 66 mall, have since been taken down. In one case of disciplinary action, an official was sacked after photos circulated over Chinese social media sites showed him wearing numerous luxury-brand watches. During the Chinese New Year, this crackdown and vigilance pushed expensive liquor and high-end watches out of favour in the luxury gift-giving market. Around the same time, China's State Administration of Radio, Film, and Television (SARFT) banned advertising which encourages giving luxury gifts to those in authority. Sales and share prices of high-end Chinese liquor companies such as Kweichou Moutai have dropped sharply in response to the government's new policy on austerity (Bloomberg News 2013).

Pricing

It is still much more expensive to buy luxury brands in mainland China than in foreign luxury market destinations. The surge in Chinese overseas travellers has made this price discrepancy even more transparent, and Chinese consumers are buying abroad, notably in Paris, in order to avoid paying significantly higher prices in their domestic market. It is reported that 63 per cent of luxury shoppers have made at least some of the purchases abroad (Atsmon *et al*. 2012). According to Exane BNP Paribas, the price of a Gucci Joy Boston was 62 per cent more expensive in China than in Europe. It has been ascertained that the price difference due to taxes, duties, transportation, and currency fluctuations explain just 70 per cent of this price differential. It is argued that this could pose a problem for luxury goods makers, 'which could well find that their stores in China are reduced to window displays' (Gu 2013). However, Leo Lui, President of Hermès, offers a different perspective, which is perhaps more relevant to shoppers in the big cities such as Shanghai and Beijing. 'Hermès customers don't care about the price difference,' he says. 'Some do look for a better price, but others just want the convenience of shopping in China. Here they can talk in Chinese with our store associates. They can get better service from staff who recognize our VIPs' (Red Luxury 2010).

Strategic implications

What are the implications for connecting with the Chinese luxury consumer? We outline the following six take-away messages that will impact future strategies if international luxury brands are to succeed in this fast-changing market environment.

Think retail portfolio

It is important that luxury brands understand the Chinese shopper's brand engagement and retail journey. Usually, for luxury brands the point of entry is lower-priced items such as fragrances and cosmetics. The leading luxury brands – Chanel, Dior, Gucci, Armani, Hermès – have a significant presence in this category. When this group of consumers buy these brands for the first time, they are likely to be quite young; they are not spending a large sum of money, and they are almost certainly buying them from multi-brand department stores or duty-free shops. However, it is their introduction to the brand, and this must be cultivated.

For a majority of luxury buyers, the next big-ticket item is either bought on an overseas trip, or increasingly, online. The overseas shopping phenomenon is partly driven by the price gap, and partly by exclusivity and the retail experience. Shoppers also believe that stores in New York, Paris, London, and Milan have a far greater selection and the latest styles, which the stores in mainland China do not stock. Luxury stores and service brands are now offering more than just Chinese-speaking staff at their flagship stores. For example, Peninsula Hotels wooed Chinese travellers who were in the US for their New Year's celebration with hotel packages, and Van Cleef & Arpels hosted exclusive shopping events at its properties in New York, Chicago, and Los Angeles.

Online luxury retail is still in its infancy in China. Many international luxury brands have developed local sites, but e-commerce is still very much limited. Burberry only started its own e-commerce site in China in March 2011. Other e-tailing ventures include the growing popularity of discount sites. For example, Glamour Sales is an online website which offers luxury goods at discounts up to 80 per cent. The promise of getting discounted yet genuine articles is a big draw for its core customers, aged between 25 and 35 years. Glamour Sales created an invitation-only community, which has swelled to over 2 million members, growing by 60,000 new members joining every month (Mo 2013). Since many shoppers still consider it somewhat risky to buy luxury goods online, retailers are finding ways to lower the perceived risk for some of the first-time buyers. Italian e-commerce luxury retailer Yoox has teamed up with FedEx to launch a 'try-it-on' service, where the courier delivery person waits for the buyer to try on the ordered item and returns it immediately if the client is not satisfied.

The other key element in the retail growth strategy is for luxury brands that are already well established in the major cities, Shanghai, Beijing, and Guangzhou (Figure 12.2), to expand into lower tier cities, particularly in provincial capitals. Even as luxury consumers may do their first-time luxury shopping overseas, particularly in Hong Kong, shoppers do the maths for their next round of purchases. After getting familiar with the brands, they start calculating if the savings can offset the cost of flying overseas and hotel accommodation. Within their own communities, it is also important to 'be seen' shopping.

Think young

The post 1980s generation in China grew up in an era of unprecedented prosperity, especially when compared with their parents and grandparents. These young shoppers are breaking free from tradition and the expectations

Figure 12.2 Luxury store in Shanghai

of the older generations – at home and in the workplace. They want to live for the moment. Shopping is a form of escapism, indulgence, and a verification of their choices. Having the ability to buy luxury is an affirmation of their professional success. The youthfulness of the luxury automobile market in China is leading top marque owners to record breaking sales.

Not all youth are alike

The *Emerging Affluent* comprises those who spend their own money from the moment they start working, saving little, but comfortable in the belief that their parents will bail them out should they ever fall upon hard times, which they rarely do. This 18–35 years age group is extremely optimistic and more open to risk, because they have never experienced hard times. They have high disposable income relative to their spending ability, and tend not to save heavily. Looking into the future, they are clearly the group which will help China's household savings rate to decrease from the current 28 per cent to approximately 24 per cent by 2020 (Lee 2013). When it comes to buying luxury goods, the triggers to buy are usually more self-oriented, especially when they seek to treat themselves. Overseas travel, for example, is one of their big areas of expenditure. Limited by purchasing power, they are not impulsive buyers. Rather, they compare prices, and will wait for better deals. They are also much more likely to buy luxury online.

For this group, by positioning itself as accessible luxury, brands such as Coach have become extremely popular. The brand is typically priced

50–75 per cent lower than high-end luxury brands, thus avoiding direct competition. And this strategy does not only work for the young luxury consumer segment: it is also helping to capture the many emerging Chinese middle-class consumers. It also provides a broader reach into the second- and third-tier cities.

The second group is made up of those who are termed the *Confident Affluent*. Often, they are referred to as the '*fu er dai*', or someone who is content with spending the money of his or her parents. According to Ouyang Kun, head of the World Luxury Association's China office, 'China has the world's youngest luxury consumers and most of them buy the luxuries with their parents' money' (Xiaoyuan 2012). While the *Emerging Affluent* use their own money to buy luxury brands, the *Confident Affluent* buy them with their parents' money. As Xiaoyuan (2012) observes, 'Their parents had not enjoyed life during their entrepreneurial processes, so they spend a great deal of money on their children to remedy the regret' which has led to young people becoming consumers of luxury brands.

Being young and impetuous, these luxury owners display a sense of indifference and nonchalance towards luxury brands. They have not had to work for it – unlike the *Emerging Affluent*, so luxury is short lived, and disposable. Luxury brands need to work hard to keep them interested, surprise them, and treat them as VIPs.

Strike a balance between badge and experience

With such a large and fast-changing group of consumers, it is only to be expected that their motivations to buy will be diverse. We need to understand if shoppers are inner-directed or outward-directed; whether they are primarily buying for gift giving or for themselves. Research conducted by KPMG (2013) shows that, while social status and self-reward are the two largest drivers of luxury purchasing, the proportion of those buying luxury for the former reason is declining, while those buying for the latter reason are growing in number.

There is no doubt that 'face' is very important in China. It is both the earning of face, and giving face to one's business associates where luxury brands play a social role. It is, for example, important for women entrepreneurs to carry the right designer bag to social functions, and men wearing expensive watches is mandatory in order to gain respect and become part of a group.

However, luxury shoppers are not always buying for themselves. It is estimated that 50 per cent of luxury sales in China are for business gifting, especially in provincial second-tier cities (Hurun Report and GroupM China 2012). Gifting plays a key part in giving business partners 'face' through the creation of *guanxi* – the formation and consolidating of relationships in China.

With greater government vigilance and a crackdown on corruption, there has been a recent preference for low-key and experiential luxury. Industry insiders explain that government officials eschew large logos. Instead, there is a preference for experiences. The CEO of a real estate company commented, 'When we snag a big deal, I celebrate by inviting the key people involved to an overseas trip.'

The fast-growing number of Chinese millionaires has opened up immense possibilities for *guanxi* luxury experiences. For example, the rapid increase in the number of 'members only' clubs in China is evident. At the Hong Kong Jockey Club's Beijing branch, membership fees are nearly US$ 50,000. Access is for the very privileged. Costumed staff stand ready to cater to any whim or fancy. At the euphemistically named Gentlemen's Clubs in the provincial capitals, the décor is flashy, often kitsch, with gold being a commonly used colour. When they dine in expensive restaurants, wealthy Chinese expect the owner or the chef to serve them personally.

Alcohol drink brands understand this well. To satisfy the craving of the wealthy Chinese to expand their knowledge about entertaining, they are creating deluxe experiences. In May 2011, Diageo opened the first Johnnie Walker House to be built outside of Scotland at Shanghai's Sinan Mansions. This was inspired by the theme 'whisky conversations' in order 'to help Chinese consumers discover the status and rich heritage of Scotch whisky' (Diageo 2011). In December 2012, a larger and more luxurious Johnnie Walker House was opened at Ch'ien Men 23, one of the most prestigious locations in Beijing. This includes a bar, museum, retail outlet, and an exclusive member's only club. Experiences include the opportunity to work with the Johnnie Walker Master Blender in order to create a personalized blend, for which prices start from RMB 800,000.

Keep educating the consumer

The allure of luxury comes from the opportunity to share the rich cultural heritage associated with a brand. Brands have to ensure that they are actively promoting their history and craftsmanship to Chinese luxury consumers. Many Chinese consumers are buying these brands for the first time and have few points of reference. They want to know about the heritage and craftsmanship of the brand not only for reassurance, but also so that they can talk about it. This is also of particular relevance as a larger number of Chinese consumers are favouring less conspicuous, more understated, but authentic modes of luxury consumption.

This approach of educating the consumer has been adopted by Hermès. For example, the Hermès Silk Scarf Exhibition was held at the Shanghai Art Museum in 2007 to celebrate the 70th anniversary of its first scarf and the tenth anniversary of the brand entering the Chinese market. Other exhibitions included 'Leather Forever' at the Maison Hermès flagship store in Shanghai in 2010. Highlights included the display of 350 bags, which were suspended by invisible strings, and a recreated workshop in which a Hermès craftswoman could be seen working on a half-finished bag. Another example is 'All About Women', staged at Shanghai Exhibition Centre in 2012, which showcased modern art installations by Nicolas Tourte using Hermès women's products such as jewellery, accessories, shoes, and bags.

Indeed, there is evidence to suggest that affluent Chinese consumers are seeking greater knowledge. For instance, Affinity China is a private network that provides exclusive and intimate access to luxury brands for its affluent Chinese members. Examples of events include Glenmorangie whiskey tasting in Xintiandi, Breakfast at Tiffany's at Rodeo Drive, and an exclusive visit to Estée Lauder's global headquarters.

These initiatives by luxury companies are in response to the desire of their enthusiasts to gain knowledge about the brand, but also to understand about what makes it so special and valuable. Craftsmanship and understanding the designer's philosophy serve a dual purpose: it gives the luxury consumer something to talk about, and it allows him or her to appreciate the monetary value of the luxury item.

Becoming more Chinese

As China grows economically more powerful, the Chinese consumer expects brands to recognize and respect her rich culture. This sentiment is more pronounced amongst the ultra-HNWIs. This group comprises the business and political elite, who has typically been wealthy much longer than China's *nouveaux riches*. They are somewhat conservative and less conspicuous in their tastes. They are the connoisseurs of the luxury lifestyle; collecting art, partaking of most expensive Chinese liquors and foreign wines, and like to holiday in exclusive, private resorts. Being shy of the public eye, this group moves around in tightly knit peer groups, and is hard to reach. They prefer to socialize at home or at private clubs.

Due to their patriotic inclination, international luxury brands need to be tactful if they are to appeal to this sentiment. One brand that has followed this route is Bottega Veneta. It recently hosted an exhibition, 'Facing Faces', of emerging Chinese artists and photographers at its Shanghai Bund store. This is one of several initiatives that allow the brand to demonstrate that they connect with and recognize local culture, and thus help to enhance its image in China. Likewise, the company's owner Francois Pinault is a renowned collector of Chinese art. His decision to buy and then donate a set of Qing dynasty bronze zodiac heads which had been looted in 1860 was seen as a positive gesture and earned the respect of senior government officials and many luxury customers in China.

The Hermès strategy is quite different. It has created a separate brand, Shang Xia, that attempts to revive the renaissance of Chinese craftsmanship through a range of garments, accessories, furniture, and decorative objects made in China. Examples include the design of zitan wood chairs, inspired by traditional Ming-style furniture, and the production of egg shell porcelain using traditional techniques.

The revival of Chinese-inspired luxury was clearly evident when China's first lady, Peng Liyuan became an instant icon on her first official trip abroad. Media reports featured her wearing a coat and handbag designed by Ma Ke, designer of the Guangzhou label Exception de Mixmind. Overnight, the niche brand became a household name, and the handbag sold out within 24 hours. While Exception de Mixmind represents the success of a contemporary brand, traditional luxury brands are also attracting greater interest. One example is the cosmetic brand Shanghai Vive founded in 1898, which since its revival in 2010, and despite being priced higher than Dior and Chanel, has a loyal following amongst affluent women who are seeking to experience the images of old Shanghai.

As China moves ever faster to regain its pre-eminent place in the world's economy, its consumers, designers, and brands will exercise their influence on the global marketplace and culture as never before. Why should the luxury consumer and market be any different?

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13
Luxury in China: The End of Bling

Ben Cavender, Kevin Der Arslanian, and Conlyn Chan

Luxury in China immediately brings to mind throngs of Louis Vuitton-toting men and women, decked out head-to-toe in Gucci clothes. For many international luxury brands, China provided a lifeline following the global financial meltdown. Chinese consumers are undeniably one of the most important customer groups for these brands, be it within China, or abroad. In 2010, China replaced Japan as the world's second largest economy, and barely two years later, Greater China became the world's largest luxury market (CMR Group Research 2013). Understanding Chinese consumers has become every luxury brand's priority.

Nevertheless, the luxury market is changing at an incredible speed. The ultra-wealthy no longer want brands that everyone owns, and are driven up-market by the ubiquitous 'compulsory brands' that have lost much of their lustre through overexpansion. Gucci, for example, has four locations on Shanghai's Nanjing Road alone, two of which are barely 500 metres apart. Meanwhile, the new generation of white-collar professionals, the direct result of the one-child policy, are less interested in generic brands owned by the masses, and prefer to seek out products that can subtly demonstrate a sense of taste and identity: lifestyle brands. Finally, even luxury's core market in China, gifting, is being severely affected by the government's new anti-corruption campaign. A Rolex on a governor is no longer a sign of success, but it poses a real risk to the recipient. The cash cows of the past, Louis Vuitton, Gucci, Omega, and Rolex, are challenged to adapt to these new market conditions. The implications are indeed substantial. For example, a Rolex dealer in the Sanlitun district of Beijing was forced to close due to reportedly lacklustre sales (Wei 2013). The market is moving towards the 'end of bling'.

Changing consumer needs, wants, and desires

The move towards ultra-luxury

The affluent demonstrate their social status and success through the brands they purchase. However, the 'compulsory' nature of brands, such as Louis Vuitton, has led lower-income consumers to save two- to three-months' salary to purchase a luxury item. This has created an undesired predicament where the wealthy are running the risk of having the same luxury branded bags as their dedicated domestic staff.

As a result, the affluent consumer classes are moving upwards. They now seek exclusive products and services that only people at their social level can afford. High-end brands such as Hermès and Chanel are seeing a rise in popularity and strong sales, due to their higher prices and limited lines. *Haute couture* designer gowns such as Guo Pei Couture, Tina Couture, and Judy Hua are also growing strongly. In many cases, the ultra-wealthy now desire exclusive items that are beyond the masses' reach, such as luxury cars (Porsche, Ferrari, Bentley), luxury villas, Michelin-star chefs, English butlers, and even yachts and jets.

The move towards premium

Meanwhile, a new generation of luxury buyers has arisen. Born after 1980, living in financially comfortable families, and holding fast-track, white-collar jobs in multinational companies, they are a major force driving the evolution of the luxury market. These consumers are the first real generation of single children, having been brought up as the centre of their family's attention. This group is more self-centred in the sense that it seeks to define individuality by a unique lifestyle composed of multiple values, extraordinary experiences, and leisure-time interests.

These consumers feel mainstream brands are too generic and do not allow them to make a statement about their personality or taste. Consumers are increasingly seeking to show their individual tastes, but do so while still conforming within smaller, elite groups that share their interests. Increasingly, they are shifting away from luxury and towards premium brands such as Calvin Klein, Folli Follie, Miu Miu, and Chloé, allowing them both to purchase more items for the same budget, and to find more niche brands that more accurately match their personality.

As a consequence, they spend time and effort learning about the brand, through its website, online reviews, magazines, and other media, in order to identify a brand's specificities, heritage, values, and expertise, and judge whether it is a good fit for them. The majority also emphasize the shopping experience and expect the store to actively participate in selling a dream, a lifestyle. The moment of choice and purchase is almost as important as actually owning the luxury good. Premium brands that specifically tailor to smaller cliques are better able to create this kind of atmosphere, through the savvy use of educational materials displayed throughout the store, olfactive branding, and store design.

Flash status is no longer 'en vogue'

As the era of mass luxury brands reaches a new stage of development, so do the immediately recognizable flashy logos and trademark designs.

Due to the popularity of these brands, sporting a bag covered with Louis Vuitton monograms, or a large Gucci logo, is no longer seen as good taste by a growing number of luxury consumers. Flashy goods that a decade ago would have been fashionable or cool, are now seen as excessive; owning them is an admission of one's lack of education in the luxury space.

Compulsory brands are still seeing strong growth, however, driven by the *nouveau-riche* in tier two and tier three cities such as Nanjing, Hangzhou, Chengdu, or Wuhan. However, this further fuels the move away from these flashy goods, as tier one consumers look down upon this rising middle class as lacking taste, and seek to differentiate themselves from this group, which has only recently become acquainted with wealth.

The rise of international travel among the ultra-wealthy and the new generation of white collars has furthered this trend. As consumers increasingly travel to France, Italy, and the UK, they gain a better understanding of Western fashion standards. By observing the population of a few of the major fashion capitals of the world, they come to realize that understated goods are far more prevalent than flashy ones. Many luxury consumers in China thus begin to shift their style in that direction.

The trend towards being 'in the know'

As consumers move away from mass luxury brands and towards higher-end or premium brands, they are becoming increasingly confident in their tastes, and no longer need the immediate validation and reassurance that comes from flashy logos. These consumers also spend an increasing amount of time reading fashion magazines to better understand luxury and global fashion trends. *Elle, Vogue, Cosmopolitan, Rayli*, and *GQ*, are all avidly read; what celebrities are wearing is studied intensely. Knowledge becomes the key to the appreciation of luxury.

Validation remains important for Chinese consumers, however, but they no longer seek it among the general population. Rather, they seek validation among their peers. Everyday consumers on the street might not be able to recognize a Hermès Birkin or a Jimmy Choo, as it has no ostentatious logo. However, the consumers whose opinion matters, those that have real knowledge of luxury and sophisticated tastes, will immediately be able to identify them.

In this way, a micro-community is being created, of consumers that are *in the know*. This provides both a more powerful validation, while offering a forum in which to discuss, compare, and improve their knowledge of fashion and luxury. They abide by a creed that could almost be straight out of France's elite: *Vivons heureux, vivons cachés* (in order to live happily, live hidden).

Trend towards discreet luxury

This notion of living hidden has become increasingly important in the face of stronger government efforts to curtail corruption. Over the past decade, a major driver of the luxury industry's heady growth in China has been the phenomenon of gift-giving. Gifting plays an essential role in the building and maintaining of social ties, and is intricately linked to the concept of *guanxi,* a measure of one's network and relational capital. In October 2012, the Chinese government launched an anti-corruption campaign, and it has repeatedly targeted high-ranking officials in an effort to combat bribery. Flaunting one's wealth through conspicuous luxury is no longer an accepted practice for these officials, especially with China's exploding social media platforms. In August 2012, netizens posted a series of pictures on Sina Weibo of Yang Dacai, Director of the Shaanxi Province Administration of Work Safety, and pointed out that he wore multiple luxury watches, such as a US$ 63,000 Vacheron Constantin and a US$ 10,000 Rolex; highly suspicious behaviour given his annual salary of US$ 15,000. The posts went viral, and in the space of a month Yang Dacai was relieved of his position.

As a consequence, officials are increasingly shunning conspicuous luxury products that can readily be identified, in order to protect themselves from any potential backlash or be targeted by anti-corruption officials. The fall in the popularity of luxury items as gifts is the main reason behind the growth slowdown of 2013. For example, Cartier reported a 60 per cent decrease in sales on a year-on-year basis during this period (CBN Weekly 2013). Purchases now revolve around discrete luxury brands that would be unidentifiable to the average Weibo user.

However, the government crackdown is not solely responsible for the fall in popularity of luxury products as gifts. Whereas in the past gifts were effective in securing business advantages, this has rapidly changed with China's recent economic slowdown. Firms and government offices are becoming increasingly value-driven, and seek to obtain the best possible deals, rather than simply collaborate with close friends or relations. The practice of following an open bidding process has led to greater transparency in which gifts play a less prominent role.

How brands need to adapt

There is compelling evidence that the decline of bling is gaining momentum in China. As gifts' effectiveness in facilitating business falls, and are shunned by government officials and businessmen alike, international luxury brands will need to explore alternative strategies. Likewise, as the increasingly experienced luxury consumer regards bling as a sign of lack of sophistication and taste, mass luxury brands will need to adapt quickly to this changing market.

Tone down the bling factor

Mass luxury brands need to consider how to tone down the bling factor of products in China's evolving luxury market. For example, Louis Vuitton is increasingly communicating about its *haute couture* lines and emphasizing its status as a *French Maison* to retain its ultra-wealthy consumers. Moreover, products should be discreet, with only small design cues to indicate the brand, which can only be picked up by consumers who are aware of what to look for, e.g. a small logo on the clasp, a charm around a bag handle, a certain cut or pattern that is consistently used, etc. Bottega Veneta succeeds admirably in designing such products although they have no obvious logos, the in-the-know micro-community will instantly recognize the distinctive weave.

However, other steps should be taken to create a loyal group of consumers that will not only consistently buy from a specific luxury brand, but also promote and advertise it to their relevant target group. Refined customer loyalty and engagement programmes are also crucial in keeping customers satisfied amidst fierce competition. Hiroshima, a premium handbag brand with over 30 retail outlets in China, services their loyal customers with monthly greetings, leading to high retention and repeat purchases.

Enhancing status differentiation

Brands targeting the ultra-wealthy, which are seeking true status differentiators, will need to respond to this need by offering products that only they can obtain.

The easiest way to do so is to adjust a brand's pricing to the point where it is only affordable to a small subset of individuals. However, as these individuals are increasingly sophisticated and knowledgeable about luxury, this price rise needs to be justified by exceptional materials, improved quality, use of elite, world-class designers, or better branding that leads to a credibly superior brand image.

Brands may, alternatively, try to build a more exclusive positioning by releasing limited editions of certain products that can only be obtained through waiting lists and a good relationship with the brand (e.g. the Hermès Birkin bag). Luxury brands should also push the concept of 'tailor-made' and 'custom-designed' products. It is one thing to have the latest bag from a top luxury brand, quite another to have the only bag with that design.

Another way to enhance exclusivity is to partner with an exclusive membership club, or hotel, and manage a select guest list of socialites and ultra-wealthy consumers. These events are, ideally, restricted to a select number of guests in order to ensure the delivery of an intimate and luxurious brand experience. This class of luxury consumer enjoys the privilege of being invited to private events to discover exclusive brands and to see and be seen by their peers. The in-the-know micro-communities look towards these socialites and seek to emulate their good taste and class.

Creating an 'in-the-know' culture

As the value of the logo and immediately recognizable designs falls, luxury brands need to bring value to other parts of their products and brand. In order to do so, brands will need to create an 'in-the-know' culture around their products, by providing information that consumers view as a proof of value.

Brand heritage and history is a key element of this justification. Chanel has seen rising success in China after the release of the film *Coco*, which allowed consumers to not only better understand from where the brand had risen, but also identify with Coco Chanel herself, as well as associate Chanel with independent, successful, and elegant women. Brands should communicate on where and how they were formed, and why they have built a strong expertise in a specific area. Likewise, Louis Vuitton has increasingly emphasized that it originally worked for Empress Eugenie, granting it a royal and elite image. In 2011, it also cooperated with the National Museum of China to present the exhibition, *Voyages* showing the brand's historical associations with travel from an artistic perspective.

Most importantly, however, these brands need to be able to leverage the necessary communication channels in order for consumers to be able to learn more about them, and build the knowledge base necessary to become 'in-the-know'. When consumers learn of an exclusive new brand, they will seek additional information to better understand it, and a presence on major social media websites such as Sina Weibo is absolutely critical; to stand out, brands need to constantly offer new content, e.g. videos of fashion shows, stories to explain the influence behind new designs, newly released ads, or even contests. Being omnipresent in print, and online magazines such as *Elle* and *Rayli*, is also crucial, not only in building brand awareness, but also in demonstrating celebrity's use of the brand at high-profile events. These informal celebrity endorsements provide not only visible credibility for brands, but also a better understanding of the brand values, which should resonate with luxury consumers.

The new luxury era

Many mass luxury brands such as Louis Vuitton, Gucci, and Rolex, have unexpectedly found themselves in a precarious position. Their past success rested upon its uniform offerings that were universally seen as must-haves. Today however, they need to be able to decouple their offering, by selling core products to the rising luxury masses, and by providing true high-end products for the ultra-wealthy, and a brand with which younger consumers can identify and use as a platform on which to build their lifestyle. International luxury brands will need to strike a delicate balance if they are to appeal to this changing consumer sentiment.

China's luxury market will, without a doubt, be very different in five years. Where today it still *seems* homogenous, dominated by compulsory brands, tomorrow it will include an increasing number of niche brands that perfectly match the needs and wants of small groups of loyal consumers. Luxury will become a way to broadcast to a select group of individuals who consumers are and what values they hold.

Luxury brands that have the know-how to develop subtle but luxurious products, create a clear brand image, and use the appropriate communication channels to educate their consumers about its history, heritage, expertise, and designs, are poised for success. China is seeing the end of bling, and the start of a brand new luxury market.

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14
Luxury Brands and Deriving Fashion Meanings in a Media Context in Hong Kong

Tommy Tse and Len Tiu Wright

Given the economic slowdown in the West and the ongoing financial problems in the Eurozone, it is not surprising that both mainland China and its territory of Hong Kong are particular draws for global fashion retailers heading to greener pastures. By 2014, China is forecast to become the largest consumer market for luxury goods, with consumption rising to US$ 14.6 billion (European Business Review 2013). Compared with the US, as the world's largest industrialized country, China's gross domestic product (GDP) per head, at US$ 3,270, is around 15 times less than that of the US, at US$ 46,350. However, China has 1.3 billion people versus the US, which has a population of 308.8 million (*The Economist* 2011). Attractive factors for overseas luxury brand manufacturers and retailers include the burgeoning Chinese middle classes in mainland China and Hong Kong, who have a rising propensity to spend on consumable products aided by an increasing Chinese population and the rising pace of industrial and commercial developments. China and its Hong Kong territory are very attractive propositions for brand manufacturers seeking to grow existing brands or to establish new ones.

Research conducted by Bain & Company (2010) lends some support for the above. The top ten brands that mainland Chinese consumers desired the most in 2010 were: Louis Vuitton, Chanel, Gucci, Armani, Christian Dior, Rolex, Cartier, Hermès, Prada, and Lancôme. As of December 2011, the order of preference had only slightly changed: Louis Vuitton, Chanel, Gucci, Christian Dior, Armani, Hermès, Rolex, Cartier, Prada, and Burberry (Bain & Company 2011).

Looking at the store count in mainland China of selected luxury brands, by the end of August 2010 in the same reports, the top ten were ranked based on the following sequence: Dunhill (93 stores); Hugo Boss (89 stores); Burberry (50 stores); Salvatore Ferragamo (48 stores); Bally (46 stores); Gucci

(37 stores); Louis Vuitton (34 stores); Cartier (33 stores); Hermès (20 stores), Versace (19 stores); and Christian Dior (19 stores). What a difference a year makes. In December 2011, changes for the top ten in order were: Hugo Boss (114 stores); Armani (104 stores); Dunhill (104 stores); Bally (69 stores); Salvatore Ferragamo (57 stores); Burberry (56 stores); Ermenegildo Zegna (56 stores); Coach (52 stores); Gucci (45 stores); and Louis Vuitton (38 stores).

Hong Kong's fashion scene exhibits these and many luxury brands, as evidenced in its high streets and shopping malls. An increasing number of luxury brands have opened flagship stores in the Greater China market and these have, at times, overtaken their originally franchised stores or authorized business licenses from their Asian-based multi-label distributors. Consider, for example the Bluebell Group and the ImagineX Group (Chevalier and Lu 2010). These multi-label distributors once helped these companies in developing their brands to promote their local or regional awareness and likelihood to progress to the mature stage, while running their own directly operated stores (DOS). Overall, what these fashion corporations sell are, to a very large extent, not the physical product, but augmented fashion brand values nurtured by their ongoing marketing communications.

The notion of fashion value attached to brands

The notion of fashion value within the cultural contexts of societies, as well as in the Chinese culture, is much more complex than that of, say, explaining product categories. The notion of 'fashion' is fabricated from texts and images; selling fashion products means creating specific psychological perceptions about different types of fashion or the uniqueness of brand values. However, 'fashion' as a whole is never a stable quality, but keeps morphing and self-evolving in markets and societies under the influence of what are usually called 'fashion trends' or 'trendsetting'.

The communication of fashion is not based on a one-way communication from a supplier, but in a semiotic and symbolic mode, meanings are mutually created and interpreted. On the one hand, it seems that senders can control the meanings, but on the other, in the encoding and channel stages, there are a great deal of subjective interpretations of the brand, negotiation between parties, image projections with consensual alternation and appropriation in fabricating messages and images about brands as 'iconic', 'unique', or 'fashionable'. This is borne out in Yin's survey (1999) of foreign firms advertising in China, which noted that 'saving face', 'eating habits', and 'gender' were less important to creative directors in producing advertisements. We have also noted that global Western brands do not need to either fully or partially embrace the values and beliefs inherent in Chinese culture, since such brands from their inceptions, were imbued with their own Western traits. However, the allure of fashion and global brands requires understanding in global cultural terms. Successful global brands from products produced by fashion retailers, e.g. shoes from Jimmy Choo, jeans from Levi Strauss, and tweed suits from Mulberry, create a tangible sense of a global community with their fashion followers in different parts of the world. While the world's markets consist of heterogeneous societies, the allure of global brands makes a contribution to unifying people in terms of their liking and taste for such brands and being able to buy these products.

Making brands fashionable

Immanuel Kant once said that 'novelty makes fashion alluring', highlighting the 'new' as an essential trait of fashion (Svendsen 2006). Ulrich Lehmann has explained that the etymology of the French word for 'fashion', *mode*, is the root of 'modernity' in French: *modernité* (Lehmann 2000). Apart from exemplifying the modern, the novel, the voguish, and the vicissitudes of fashion can be infinite and ever-changing. That is also why fashion branding cannot simply rely on a formulaic, stable set of core values as McDonald's does with its 'happiness and love'. Cyclically shifting global fashion trends (Easey 2009) require changing to adapt to new 'trends' (Millan *et al*. 2013) while remaining true to a brand's core identity. Indeed, this interplay of internal brand values and external fashion trends plays a significant part in updating the processes of fashion marketing communications.

High-end fashion clothing brands often use their chief designers as their presenters. Marc Jacobs of Louis Vuitton, Karl Lagerfeld of Chanel, Phoebe Philo of Céline, and Alber Elbaz of Lanvin are well-known examples. These chief designers wield the power of creativity throughout the marketing communication process, and regional advertising agencies, especially in places like Hong Kong, can hardly play a significant role in art direction during the encoding process. Rather, they must simply adapt the print advertisements and visuals assigned by the creative directors at the client's headquarters, slightly adjusting the informational elements such as shop addresses and contact numbers. The regional agencies are usually closely monitored by the global communication team when preparing for a public relations event, with central approval of the production contractors, venues, spatial designs, celebrity endorsers, guests, and media partners. Consequently, despite attempts at central control, fashion communication, even out in the provinces, is a distinct form of multiple-message communication.

In Hong Kong, advertising and public relations are the two forms of communications which fashion marketers rely on most heavily. International fashion brands expect their Asian marketing teams to adapt print advertisements developed elsewhere, while maintaining a universally coordinated brand image. Indeed, for them this is the essence of integrated global marketing. In Hong Kong magazines, locally produced fashion advertisements are rare. Local advertising managers for fashion brands mostly handle media planning and the control of cost, timing, content, and distribution. Knowing this, readers assign greater credibility to editorial coverage and third-party endorsements. They become cynical and doubtful about paid advertising, leading to the increasing necessity of effective public relations. Asian fashion marketers focus especially on building good media relations, so they must understand the characteristics and needs of a market's key media outlets to pitch credible brand and fashion offerings with effective media coverage.

Even so, no consistent editorial coverage across different media can be anticipated. During fashion media pitching, one of the fashion marketer's major goals is to align the content of such editorial coverage with the brand's desired identity and positioning as far as they can. Raising the awareness of the brand and enhancing consumer preference for it versus competing brands are normally the goals of Asian fashion publicists. They can only hope that this leads to sales and brand loyalty in the long run – their more marketing-oriented PR objectives.

In Hong Kong, the encoding process in media pitching is clearly different from that of advertising. Local fashion marketers can offer no creative brief, cannot exert direct control over the production of advertising content or demand an exact time of distribution or priority pagination of any coverage. The media organizations would regard any attempt to do so as violating their editorial autonomy. Media pitching is thus a negotiation which involves many uncontrolled factors. However, since editorial coverage is generally perceived as more credible, fashion marketers still try to generate such messages despite the high degree of uncertainty. Success can lead to greater influence over attitudes and preferences, which can generate sales for high-involvement fashion products. Nonetheless, many fashion marketers are reticent to pitch for coverage other than marketing-oriented editorial content such as creative feature stories, because from their corporate point of view it would not lead directly to brand awareness, consumer brand preference, and conversion to sales. Indeed, some marketers view such coverage as inappropriate and an inconsistent diffusion of the fashion message, which might jeopardize a brand's carefully coordinated image.

A brand's image is, therefore, cautiously controlled and communicated. There are big investments at stake. Hong Kong rivals the world's famous capitals in having very expensive commercial rents. The notion of retailers and manufacturers of leading brands vying for position in prime shopping locations in land-scarce and high-population density Hong Kong is supported in a Reuters report (Reuters 2013). This can act as a barrier to entry for smaller manufacturers trying to grow their fashion brands in retail outlets, but the opportunities of Hong Kong as a gateway between China and the rest of the world, and as a shopping centre for mainland Chinese shoppers are not to be underestimated. In terms of location being used to help its 'place marketing', Hong Kong is a flight stopover for wealthy mainland Chinese looking to pick up bargains, such as, 'a Louis Vuitton bag or a wristwatch for up to 40 per cent less than in Beijing or Shanghai' (Reuters 2013).

Deriving meanings from fashion to support brands: A case in point in a participant observation study

In a study conducted by the lead author, participant observation was applied to the work of *Milk X Monthly*, a monthly fashion magazine published in Hong Kong (Figure 14.1). *Milk X Monthly* was then a five-year-old fashion magazine with a print circulation of 50,000 in Hong Kong; 300,000 in mainland China; and 20,000 in Taiwan. In the first two weeks of preparing an upcoming issue during the observation period, four editorial feature topics

Figure 14.1 Fashion photography session for the cover page of *Milk X Monthly* issue 60 (August 2011)

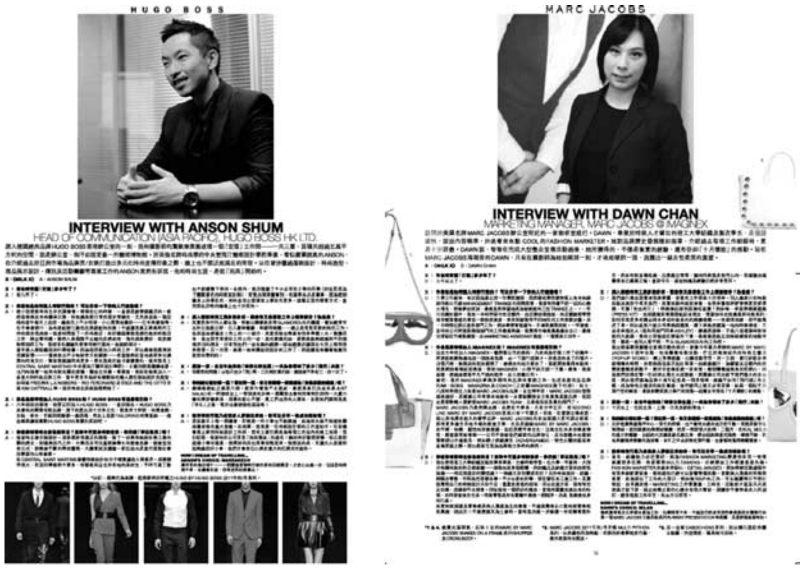
Figure 14.2 Interview with the senior fashion marketers of Harvey Nicholas (left) and I.T. Apparels Ltd. (right) for the *Milk X Monthly* feature, 'The Fashion Network'

were proposed. Those were (1) 'Days and Nights of Canton Road' describing a well-known tourist district in Hong Kong with many international, high-end fashion flagship stores; (2) 'LVMH's Visual Merchandizing Aesthetics', presenting the shop window displays of some fashion brands under the global luxury conglomerate LVMH Moët Hennessy; (3) Louis Vuitton S.A. (the LVMH Group), 'Interviewing LV Product Connoisseurs' investigating why and how much Louis Vuitton customers appreciated its products; and (4) 'Interviews with Asian Fashion Marketers' (which eventually appeared as 'The Fashion Network: A Fashion Marketer's Outside and Inside'), exploring trends in Asian fashion marketing by interviewing a group of experienced fashion marketing practitioners.

The work was done in preparation for Hong Kong's *fashion network story,* by formally contacting and interviewing Asia-based fashion marketers on behalf of *Milk X Monthly*. This involved a list of the fashion brands distributed in Hong Kong by the 'big three' of international luxury fashion: the LVMH Group, Kering (ex PPR S.A. Group), and Compagnie Financière Richemont SA (the Richemont Group). A list of contacts was compiled by reviewing ten previous issues of *Milk X Monthly* and noting the names of those who had been featured, and the advertised brands. This yielded a list of 139 fashion labels for winnowing by the fashion editor and a womenswear fashion reporter. Some were deemed 'unsuitable' for being 'not high-end or luxurious enough for *Milk X Monthly*' or 'not popular in Hong Kong'. Then, as the chief editor had predicted, corporate guidelines forbade the marketing staff of many firms from expressing any personal opinions related to their brands to press reporters. Many brands were eliminated due to prior editorial concerns, such as: 'they're not interested in being interviewed'; 'they never answer this type of feature interview questions, we tried it before'; 'they only do product features and loan-outs, the typical product feature'; and 'except the Chief Designer or the CEO, all the other staff are never allowed to participate in any kind of interview according to the brand's regulations'. In total, 83 brands were eliminated, leaving 55.

An invitation email and 12 proposed interview questions were sent to a manager responsible for marketing each of the 55 targeted brands. Eventually, 16 agreed to participate (Figures 14.2 to 14.5). All interviewees directly and indirectly introduced their brands' products as fashionable, provided product photos or facilitated their brands' photoshoots. Around 80 per cent of the textual content created by the researcher remained unchanged by the interviewees and the Editor of *Milk X Monthly*. The results of the interviews were collated and published in an edited feature for the November 2011 issue. In total, 24 pages of featured interviews were produced, including the individual photos of respective fashion marketers, their views on fashion, the introduction of their affiliated brands' and their own fashion products. None of the featured brands and their products were described as 'unfashionable'.

Figure 14.3 Interview with the regional communications director of Piaget for the *Milk X Monthly* feature, 'The Fashion Network'



HUGO BOSS

INTERVIEW WITH ANSON SHUM

HEAD OF COMMUNICATION (ASIA PACIFIC), HUGO BOSS HK LTD.

MARC JACOBS

INTERVIEW WITH DAWN CHAN

MARKETING MANAGER, MARC JACOBS @ IMAGINEX

Figure 14.4 Interview with the senior fashion marketers of Hugo Boss (left) and Marc Jacobs at ImagineX Group (right) for the *Milk X Monthly* feature, 'The Fashion Network'

The non-participating brands' official responses on the phone and by email indicate that the interviewed international fashion enterprises tend to adopt a top-down, 'one-voice' approach in handling external communications with the media. Even though the Asia-Pacific region and Greater China have become prominent markets for such firms in recent years, they tightly control their dissemination of messages to the media using explicit guidelines and implicit rules. Their staff and representatives in Asia are only authorized to facilitate a consistent set of marketing and public relations activities. They favour advertorial product features, or perhaps email interviews with the CEO and chief designer over which they can exert a high level of control over the content.

Product loan-outs of luxury brands are also common, according to the experiences of *Milk X Monthly* editorial staff, as these generate editorial coverage with little chance of deviating from the brand's identity and communications objectives. However, in Asia, both the advertising and public relations roles are often performed by the same publicist. The same marketer, usually the Communication Manager/Director serves the media at press lunches and negotiates with their advertising sales staff, sometimes simultaneously (e.g. in the case of Hugo Boss). They control the advertising budget which sustains a publication, and they are able to use that power in directly

Figure 14.5 Interview with the local PR managers of Estée Lauder (left) and H&M Hennes & Mauritz AB (right) for the *Milk X Monthly* feature, 'The Fashion Network'

or indirectly pitching for favourable editorial coverage. The qualitative data collected from the participant observation at *Milk X Monthly* seem to support this argument to a great extent.

Conclusions

The rise of fashion businesses in mainland China and Hong Kong, in growing their brands, are attracting the attention of international media conglomerates. This gives fashion marketers more control over editorial content in their media pitching, but there is scope for improvement, as our research study has shown. The observations from the participant study confirm that the process of fashion marketing communications frequently involves publicity and media messages about brands. Marketing communications also include appropriation and negotiation of meanings. Negotiation about the priority, suitability, and the 'fashionable nature' of various textual and visual messages often emphasize the economic factors, rather than the aesthetics. In such negotiations, power relations favour the major advertisers and global fashion conglomerates.

Deriving and encoding the appropriateness of fashion meanings to support brand advertising require consensus between international fashion marketers and local fashion media practitioners, with both sides needing to negotiate how best to interpret such meanings. International fashion companies, especially the successful ones, endeavour to control the presentation of their advertising messages and editorial content for their brands. In Hong Kong, local fashion marketers appear to have more power than the local fashion media, while the power of global fashion marketers supersedes that of the Asian fashion marketers.

The pervasiveness of global brands and their fashionable allure are also supported by an international consumer culture exposed to the experiences of using modern, technologically advanced consumer products, e.g. social media. These and the derivation of fashion meanings to support brand advertising are indicative of how luxury brands, supported by both local and international fashion cultures, remain global.

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15
China: Incubator of Luxury's New Business Models

Michel Gutsatz

Luxury brands have built their tremendous development on a specific business model that was developed in Europe in the 1980s and 1990s – at a time when China was not even on the radar of most luxury executives. This business model has ensured that gross margins are consistently above 60 per cent and, in some cases, reach 75 per cent. Most American luxury brands, which had gross margins between 50 per cent and 60 per cent, have since replicated this business model and, as a consequence, grown their gross margins (Figure 15.1)[1].

The luxury brands' business model defined

What is this luxury brand business model? It consists of six major components:

1. *The importance of design and creation*: New product design in luxury brands is a process whose origin is tuned with the creative identity of the brand's designer. A Creative Director coordinating designers, in-house designers or freelancers, is central to the brand. As identified in Gutsatz and Auguste (2013), they are one of the four key talents to be managed. From a business model perspective, creation is a key activity for luxury brands.

2. *Control of production*: A consistent finding in studies worldwide is that customers associate luxury with quality. This has important implications: quality must be monitored and strictly controlled. One of the major issues luxury brands have been facing in light of the democratization of luxury, which can be referred to as *Luxe Populi* – is to ensure a consistently high standard of quality. There are two ways to achieve this: one is to have iconic products manufactured by skilled craftsmen (and Hermès is a major actor there – as are Chanel and most French, Italian, and British brands), the other (non-exclusive) is to strictly control production. This means, for instance, having one's own production sites (such as Louis Vuitton or Tod's)

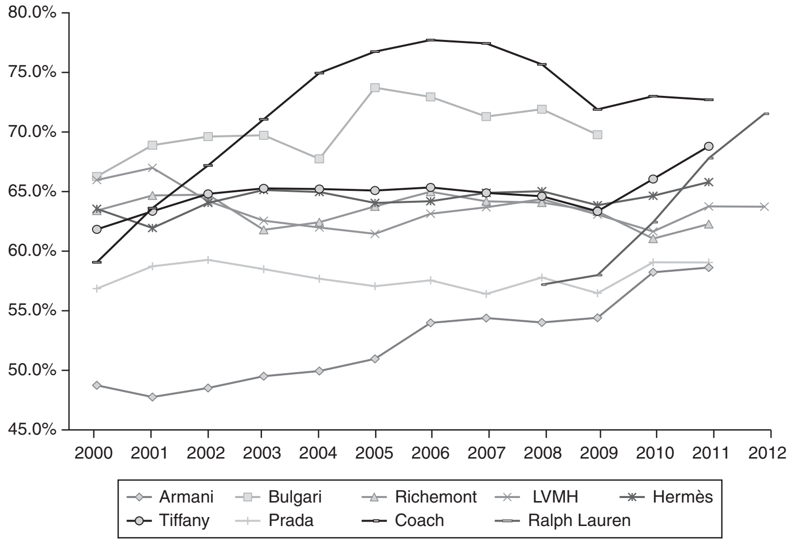

Figure 15.1 Gross margins of major luxury groups and brands

or outsourcing to partner suppliers (as Gucci does in the Italian districts). This creates an important dilemma for many fashion brands and US brands: how to strictly control production with your suppliers in Asia and elsewhere?

3. *Place of production*: Control of production is closely linked to another dimension of luxury, which is place of production. Can and should a brand put on its labels, 'Made in Italy', 'Made in France', 'Made in the USA', etc.? Pertinently, how does it impact consumers' attitudes and behaviours? In fact, European brands, through their professional associations,[2] have created a barrier to entry for competitors: they have convinced consumers that only 'Made in (Western countries)' products can be labelled as 'luxury' products. This leaves many US brands (e.g. Coach) facing a fundamental question: are we luxury? Should we say we are 'Made in USA' or 'Made in New York' – with its very positive fashionable image?

4. *Control of image*: According to Bernard Arnault, the LVMH Chairman, 'If you control your distribution, you control your image' (Chevalier and Gutsatz 2012, p.5). Image control is critical for all luxury brands because the emotional contact between the brand and its customers is central to the relationship. As luxury brands are drivers of personal identity, they can create strong emotions in those who buy their products. These emotions have to be observed – and perceptions of the brand image are essential here. This is the task, and responsibility, of both the creative department and the marketing department (if it exists as such).

5. *Control of distribution*: Domenico de Sole, taking over the helm at Gucci in May 1994, said 'In December 1994, within six weeks, all stores worldwide had been "Milanized", that is, redesigned on the model of the Milan store. Small changes, not expensive but which made major impact' (Chevalier and Gutsatz 2012, p.120). This highlights a major change for many luxury brands: the move into fully owned stores. At this point in time, only Louis Vuitton was distributed 100 per cent in its own stores, and it still is. Other brands had a wholesale-dominated business model. Fully owned retail is increasingly the norm, and this is a major dimension of luxury brands' current business models.

6. *Centralization of all major decisions concerning strategy, design and creation, and production*: All these operations are led out of the brand's headquarters, in Europe or in the US. Production for European luxury brands that defend the 'Made in...' label, as seen above, is led in the home country. Marketing and distribution functions have been decentralized somewhat – but remain strictly controlled by headquarters. Regional Managing Directors and their teams have had their say in identifying new store locations, or in developing regional marketing strategies. This has occurred most often in beauty, and wine and spirits – much less so in the accessories, watches and jewellery sectors.

Two categories – one in beauty, and the other in automobiles – opened the way to an alternative model. A company such as L'Oréal has both R&D centres and production facilities in large regional markets, so as to be in close proximity with very localized customer tastes, and to supply markets efficiently.[3] Most luxury automobile brands, all of them German, were faced with a major price challenge when they entered the Chinese market: the level of import duties and consumption taxes was high (25–40 per cent) and local production became crucial. Audi was the first to open manufacturing facilities in China in 1995, followed by India in 2007, and Indonesia in 2011. BMW has plants outside Europe in China, the US, and South Africa. Mercedes-Benz has been manufacturing in the Americas and, as of 2007, in China.

Reverting to our original business model, this challenges conventional thinking: place of production can be anywhere in the world, without customers questioning the 'Made in China' label. This is because the image of German engineering, or French beauty, and of their strict quality control is such that, irrespective of place of production, the products are considered as good as 'Made in Germany' or 'Made in France'.[4] The major conclusion to be drawn is that customers will trust the brand itself, including its cultural background – in this case, Germany and 'German engineering', independently of the place of production, if the brand is strong enough.

Redefining the luxury business model

This winning business model of luxury brands is now being redefined internally – by innovative current actors, and externally – by the arrival of new Asian players on the market.

Faced with the importance of what is now their number two market, i.e. Chinese consumers, Western luxury brands are internally adapting their traditional business model in two ways. Firstly, they are introducing regional organizations that mirror the central one – including the presence of design centres in Asia, and in some cases, of strategy departments (Figure 15.2).[5] This has huge implications for talent management within the luxury brands' organisations. For example, Prada decided to open a design centre in Hong Kong in 2011. Other companies, such as Burberry and Coach, have created strategy teams in China/Asia.

Secondly, they are moving from a two-pole strategy (Heritage & DNA + Modernity), which has been, until now, the answer to the question 'how to balance tradition and modernity?' to a three-pole strategy which now includes 'relevance' – answering a new question: how can our brand be relevant to a given region? Cosmetics[6] and car brands[7] have long since taken this new route, but traditional apparel, accessories, jewellery, and watch brands are only now following suit. This relevance issue is tackled in products where many brands are trying their best to come up with designs suited to this new critical market. Nevertheless, there is a trap into which luxury brands should not fall: overdoing it. What makes a Western luxury brand link to Chinese customers is its character of 'Westerness'. It is because they are French, Italian, German, British, or American that Chinese customers will adhere to and buy these brands.

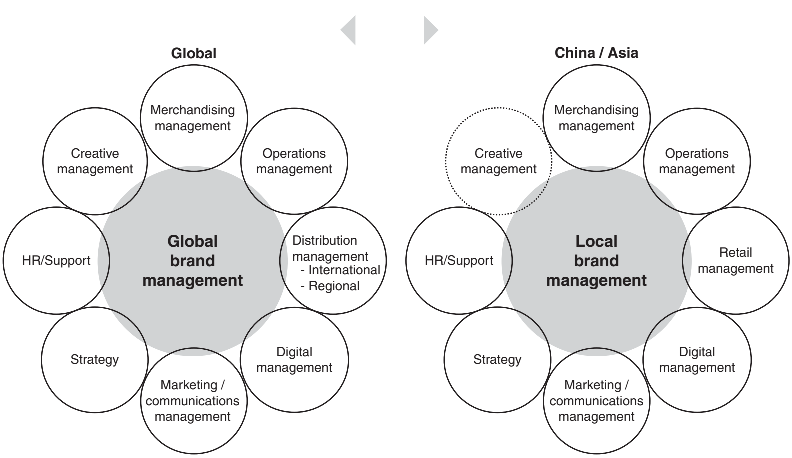

Figure 15.2 The regional organization, a mirror of the global organization

This relevance dimension is also critical when it comes to management: luxury brands are increasingly hiring Chinese executives to manage their operations – but too few luxury brand top executives are Asian. One can see the impact of hiring a local Managing Director when one refers to the introduction of Louis Vuitton in Japan[8]: had they not hired Kyojiro Hata, the brand would not have gained such traction on the Japanese market (Hata 2004).

Externally, Western luxury brands are now facing what no one would have imagined ten years ago – the emergence of Chinese luxury brands and of course, Indian luxury brands will follow. These newcomers are themselves reinventing the traditional luxury business model in different ways. We have identified three major new business models:

Business model 1: Western brands creating Chinese brands

Who could have imagined in 2010 when Hermès CEO Patrick Thomas announced the launch of Shang Xia, with Creative Director and CEO Jiang Qong-Er that, what was dubbed at the origin as 'Hermès' Chinese brand' would quickly become *the model* of a Chinese luxury brand? The brand is now well-known, despite having only three stores: Shanghai, Beijing, and most recently Paris. It is known for its extraordinary products, the quality of its craftsmanship, and the unique level of its service. We are witnessing the birth of a brand, bringing together the best of two cultures – the best of Chinese design and craftsmanship, and the best of brand management know-how from France. As a result, 60 per cent of its sales are attributed to Chinese customers – who adhere emotionally to their Chinese heritage. Shang Xia is following in the steps of Hermès, both by controlling its growth, and by presenting itself not as a luxury brand, but as 'a brand of quality'.

Early in 2013, BMW announced it would launch a new Chinese brand named Zinoro with its local partner Brilliance Automotive. This brand, whose Chinese name is Zhi Nuo, 'the promise', will focus on electric vehicles engineered for both developing and mature markets. BMW thus focuses on what automobile companies consider the market of the future-electric cars – and develops a dual-brand strategy in which BMW will have its own luxury electric vehicles. This is set to be the 'BMW i' product line, to be launched in 2013, and a brand targeting its potentially largest customer base.

In October 2012, The Estée Lauder Companies launched a new brand, Osiao, targeted for the Asian market, and in particular, China. The strategy of the US group does not consist of creating a Westernized version of a Chinese beauty brand, but of creating a beauty brand that is essentially Chinese. As Fabrizio Freda says: 'It will be a brand with a unique position, a brand that will give consumers a sense of being local, of being really dedicated to them' (Singer 2012).

What does it consist of? It is a brand that builds on the fundamental concepts of beauty in China: external beauty is the reflection of internal well-being. In Chinese, health and well-being are both conveyed by the word, *Jiankang* – an adjective meaning healthy, whole; where the two ideograms signify *Jiàn* (strong, to be good at, in good health) and *Kang* (abundant, in peace). Here, it is seen from the perspective of holistic health, where beauty reflects health, and where health is the result of overall harmony. Viewed in such a context, Western beauty brands remain merely 'cosmetic' – i.e. they affect only the surface. Chinese beauty brands (and also Japanese brands) have a much broader spectrum: they refer back to health and well-being. This concept of beauty has implications that Osiao exploits.

- It positions itself as the 'radiant' brand – its catchphrase is 'to reveal the radiance of your skin'.
- Its name is composed of five letters (an auspicious number), and starting and ending with the same letter, it aspires to be a sign of harmony.
- All essential ingredients are derived from traditional Chinese medicine.
- The range includes both skincare and food supplements.
- The counters remind one of traditional Chinese apothecaries, equipped with wooden cabinets.
- Its beauty advisers adopt a method of skin diagnosis along the lines of traditional Chinese medicine, and develop local massage techniques to help the skin absorb the product.

With Osiao, Estée Lauder is building a premium brand based on time-honoured Chinese values and know-how – in other words, creating a Chinese luxury beauty.

This new business model that three major Western companies are developing should be followed closely: they are moving from the traditional practice of 'buying a local brand' to an innovative 'creating a local brand' to address the specificities of a growing market.

Business model 2: Designed in China, Made in Italy

'Made in China' today is directly impacted by the consequences of the 'factory of the world' syndrome: Chinese products are considered, sometimes not untruthfully, as being of poor quality. JWT (2012), in a recent study, found that Western consumers consider Chinese products to be cheap, mass-produced, of low quality, and with poor safety standards. The constant scandals involving food quality for instance can only reinforce this perception.

However, China is at a turning point in its history, which is resulting in a change of its growth model. The factory of the world is now progressively focusing on value creation. The key priority of China's current Five Year Plan

(2011–2015) is to transition the country's perception from 'Made in China' to 'Created in China'.

Faced with this negative perception of the 'Made in China' slogan, some brands have decided to tweak their business model by proposing to design their products in China and have them manufactured in Europe. Two such examples follow. First, Sheji-Sorgere, a high-end men's fashion brand, is developed by China Garments with an Italian designer named Francesco Fiodelli. By working out of a design studio in Beijing, but producing in Italy by Caruso SpA, the brand benefits from the 'Made in Italy' label.

Second, Fenix Hong Kong Limited is an Original Equipment Manufacturer (OEM) in knitwear, operating factories in Hong Kong and mainland China, that decided to shift to brand retailing in the early 1980s (Sheau Yun *et al.* 2008). In 1986, it became Prada's Hong Kong agent, a relationship that lasted 12 years. Knowing that its franchise for the retailing of Prada would be terminated, Fenix decided to introduce its own brand, Anteprima, in 1994. To ensure its success, a major decision was made to invest in design and production facilities in Italy. Two design offices were set up: one in Hong Kong, which was mainly responsible for knitwear and wire bag collections, and one in Milan, for their woven products. Woven and leather products are manufactured in Italy, and all the others are produced in China, albeit using Italian materials. Anteprima benefited from a major breakthrough at the beginning of its development. It signed a three-year contract with Prada, which designed and produced the brand's products. Anteprima was therefore designed and manufactured in both countries – with each country specializing in its core competencies. In a sense, Fenix set up a business model that spans both business model 2 and business model 3, as we shall see.

Business model 3: Multiple critical locations

Other brands are changing one of the major dimensions of the Western business model: the unique location of the brand's headquarters, which ensures that heritage is preserved and control of operations ensured.

Tai Ping Carpets is one such example. In 1995, when James Kaplan was called by the Board of the company to be its new CEO, he found a traditional Chinese company headquartered in Hong Kong, with so few branding competencies that its owners had to bring in an international consulting firm, who recommended they develop a brand management strategy (Gutsatz and Auguste 2013). He built an international management team and decided to transfer their business headquarters to New York, leaving the legal headquarters in Hong Kong. But there was an interesting revelation in this ailing company. The European subsidiary had opened a Design Centre in Paris, so as to benefit from the French and European design ecosystem. He therefore decided to keep and develop this Paris design centre as the brand's global design centre. The brand now has three critical locations from which it operates. We can therefore say that, in a very pragmatic approach, it has multiple headquarters, with its business headquarters in the US, design headquarters in France, and its legal headquarters in China.

In both the Anteprima and the Tai Ping cases, the choice was made to locate essential competencies where these were readily available: brand management in New York, design in Paris, or in Italy, manufacturing leather and weaving in Italy. These brands demonstrate that being global does not only mean opening sales subsidiaries in all major countries of the world: it also means reorganizing central operations so as to tap all competencies where they are available, and transforming the unique headquarters model into a flexible network of departments in multiple locations.

Conclusion

The luxury industry is undergoing tectonic changes, which we can link to a change in market conditions, but also to a generational change at the head of most luxury brands. In fact, we may be witnessing the advent of a new phase in what a recent Boston Consulting Group study calls 'luxury ecosystems' (BCG 2013). As the context is becoming more complex, with 'a more volatile world, the rising importance of scale, the new capabilities required to grow successfully in fresh territories, technology's broader role, and tighter time constraints' (BCG 2013, p.7), brands are adapting. Ecosystems are nothing new to luxury brands: they have always had to master and control tight networks of partnerships – designers, suppliers, distributors, marketing talents, etc. A perfect example in the production domain is the Gucci organization as depicted by Lorenzo Zanni (2012) and known in Italy as the *sistemo moda*.

Given Asia's status as a crucial market and a purveyor of new actors, there will be further refinements to this ecosystem strategy, meaning that brands will need to reorganize in a more flexible manner: delegating 'central' functions to regional entities, creating new organizations dedicated to developing markets, launching innovative brands, and preferring multipolar organizations to strictly centred ones. The major issues luxury brands will then be facing are talent issues: where do we source the talents for our new organizations?

Notes

1. Courtesy of Gutsatz, M. and Auguste, A. (2013), *Luxury Talent Management*, Basingstoke: Palgrave Macmillan.
2. Comité Colbert (France), Fondazione Altagamma (Italy), The Walpole (UK), Circulo Fortuny (Spain), and Meisterkreis (Germany) have now regrouped into the European Cultural and Creative Industries Alliance.
3. Its luxury brands' products are manufactured in Japan, while its mass-market brands' products are manufactured in China.

4. We could discuss similar issues in the beauty industry, where customers do not question that L'Oréal luxury products are manufactured in Japan for all the Asian markets.
5. Courtesy of Gutsatz, M. and Auguste, G. (2013), *Luxury Talent Management*, Basingstoke: Palgrave Macmillan.
6. Think of whitening products.
7. They have adapted their models to suit the fact that Chinese customers have drivers: therefore, the back seats must have ample leg room.
8. Louis Vuitton opened its first stores in Japan (Tokyo and Osaka) in 1978.

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Part V

New Frontier Markets

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16
Towards a Definition of Authentic African Luxury: Luxe *Ubuntu*

Swaady Martin-Leke and Elizabeth Ellis

As the cradle of humankind and home to one of the world's first civilizations, Africa has developed and fostered crafts, techniques, and inspirations that can be seen as some of the foundations of global luxury. For thousands of years, Africans have gathered precious stones and metals to create original objects of adornment: thick strings of beads made from precious metals, coral, amber, or glass, precious jewels such as turquoise, sapphires, rubies, and emeralds, carefully formed into jewellery or ceremonial objects; earthen clay, masterfully moulded into the forms of deities. Making use of the richness and diversity of the resources found on the continent, craftsmanship became highly sophisticated in the mighty African empires as artisans perfected numerous complex techniques under the tutelage of royal courts. In some societies, the fineries they were commissioned to create were of such importance that the craftsmen lived with their rulers; the artefacts they meticulously created were significant not only in their artistry, but as expressions of history and visual keepers of legends, to honour both kings and gods.

Throughout the ages, African luxury has ceaselessly evolved into various forms, owing to its skilled craftsmen. The art of weaving has been carefully practised for centuries, creating the finest fabrics. The dexterity and radiance showcased by the rainbow-coloured Malian cotton *bogolan* and the ancient, intricately woven patterned *kente* cloth worn by the Akan of Ghana and Côte d'Ivoire are a testament to this skill. Likewise, fabrics such as linen, silk and raffia have been woven in Africa since as far back as the tenth century. Precious indigo dyes were also kept and applied by the Yoruba of Nigeria and the Manding of Mali, to transform the simplest cloth into awe-inspiring textile.

Gold and silver were fashioned into prestigious objects and jewellery set with precious gems to create the most dazzling artefacts; the Coptic crosses of Ethiopia, the masks of the Egyptian pharoahs, the geometric necklaces of the Tuaregs and the lavish adornments of the Ashantis all display the artistry that were deemed the pinnacle of refinement, fit only for the most highly esteemed. Brass, bronze, and copper were also transformed using the technique of lost-wax casting by the Sao of present day Cameroon and Chad. Furthermore, the earliest evidence of the use of iron – which was a particularly rare and precious metal due to its presence in a single, remote region – has been traced to the Nigerian culture of Nok, thanks to the discovery of iron furnaces dating from around 520 BC (Breunig and Neumann 2002).

Beautiful, delicately carved objects and accessories were crafted from ivory, tortoiseshell, and the purest amber, the latter being harvested from the ocean off the Swahili coast encompassing Tanzania, Kenya, Uganda, and Mozambique, as well as the adjacent islands of Zanzibar and Comoros.

Finally, it is unknown how much the Nok culture, as well as those of the region south of Lake Chad between the 5th and 16th centuries, substantially developed ceramic art (Castarède 2008). Nok terracottas were individually built up from coils or crafted using the technique of subtractive sculpture inspired by wood carving, rather than being cast in moulds (Fagg 1967).

Though these earliest expressions of African luxury over the course of different civilizations mainly concerned the continent's people, not all of the world remained so unaware of the level of craftsmanship displayed in Africa (Manning 2009). Archaeological excavations on the Swahili coast of Eastern Africa have revealed that Arabian, Indian, and even Chinese merchants sailed to Africa to trade luxury items from their parts of the world (Fyle 1999).

From heritage to luxury

The challenging geographical barriers, such as the Sahara desert, the arid Sahel, the mountains of the Ethiopian Highlands, and the sheer size of the African continent, made the exchange of resources and skills a more lengthy and complex process. Tribal strife and societal disruptions also led to the disappearance of entire peoples and their techniques. The profound misdeeds of colonialism and the horrors of slavery greatly stifled the further development of luxury in Africa for an extended period of time, during which the continent's resources were held by foreigners; mercantile exploitation long led the continent's resources to be extracted and transported to the colonizing countries to be processed and transformed abroad, and ultimately returned and sold (Castarède 2008). The increasing dependency on European goods in general from the 17th century also 'led to the disappearance or deterioration of such [...] industries as the manufacture of beads, cloth, and crafts in gold and bronze' (Ohaegbulam 1990). Most recently, the transition to post-colonial rule was in some cases led by a leadership that did not or could not fulfil the requirements for the development of striving economies that could encourage the production of luxury goods.

The gap between Africa's luxury resources and the local production and consumption is still astonishingly wide. Four of the top 20 gold-producing countries are in Africa. Ghana, Mali, Tanzania, and South Africa provided about 10 per cent of the world's gold between 2005 and 2009 (Gajigo *et al.* 2012). As for diamonds, the continent accounted for 57 per cent of the world's production, and as of 2010, was expected to increase by 2 per cent per year over the coming five years (United States Geological Survey 2010). Highly sought-after ostrich leather, for instance, is almost exclusively sourced from Southern Africa, and yet it is mostly only used by renowned European fashion houses. Despite the country's extreme wealth in terms of resources, Africa lies far behind Asian, European, and North American luxury market consumption (Bain & Company 2013).

Notwithstanding this, Africa today is experiencing the changes brought about by a renaissance initiated almost over two decades ago. It is in times of relative peace and stability that enabling environments and creative innovation are possible. In 1994, South Africa experienced the first democratic election, appointing Nelson Mandela as head of state; it was the start of what was to be coined the 'African Renaissance'. Championed by former South African president Thabo Mbeki, the concept puts forward that Africa must overcome the challenges facing the continent.[1] This outlook on Africa's capacities and future also implies an extremely important notion: Africans are capable of initiative, creativity, individuality, and entrepreneurship. This means two things for the African luxury industry – a thriving and self-sustaining luxury market can be achieved by the work of individuals displaying these qualities, and unique and high-quality products and services are expected by like-minded customers.

Africa already has a noticeable presence in certain categories within the luxury industry. For instance, the luxury hospitality sector is well developed in Africa – with nine of the top 50 hotels of the world (Travel + Leisure 2013). There are many ways to experience unique African refinement by combining the warmth of local culture and the elegance of luxury in breath-taking environments. Relais & Châteaux has 33 establishments across the continent, and Starwood Hotels & Resorts has offerings in Mauritius and Ethiopia in The Luxury Collection class. In the field of design, Africa's creativity has been globally recognized, with Cape Town being named 'World Design Capital 2014', just as the who's who of the African design world annually meets at Ravi Naidoo's Design Indaba. Africa has also made its mark in the luxury wines and spirits market, with its renowned wines from the Western Cape province of South Africa.

In other sectors, such as personal goods, much work still needs to be done. Marketers can learn from examples in countries such as China, where newer brands such as Shang Xia (Hermès Group) and Shanghai Tang (Richemont Group) have overcome the stigma of producing anonymous, 'Made in China' brands to create sought-after, high-quality luxury brands. Africa must do the same, by showing the level of craftsmanship and know-how defined by the highest quality standards. As Simone Cipriani outlined at the International Herald Tribune Luxury Conference 2012, 'Handmade in Africa' is becoming a standard of craftsmanship that has no equal across the world.[2]

The emergence of a luxury industry in Africa

There is already an impressive list of luxury brands present on the continent both in direct and indirect retail. Interestingly enough, De Beers, for instance, was founded in South Africa by English businessman Cecil Rhodes before being owned by magnate Ernest Oppenheimer, just as Richemont was created by South African Johann Rupert, thanks to local assets. Iconic brands of the LVMH, Kering (ex-PPR), Richemont, and Estée Lauder groups, all have some direct presence in Africa and an increasing number of international luxury brands are planning to expand their footprint in Africa. For example, between 2011 and 2013, Jo Malone opened four retail locations in South Africa. Alexander McQueen, Balenciaga, Chloé, Oscar de la Renta, and Roland Mouret – just to name a few – have also just found a South African home, as of July 2013, in the luxury boutique department store, Luminance. However, while international luxury brands have risen to the occasion, Africa has been slow on the uptake – that is, until now.

While Africans have a noted appetite for international luxury brands, locally relevant high-quality products are also increasingly sought after. Research shows that Africans are more likely to purchase high-end goods if they resonate with their own codes of luxury, making local brands as competitive as international brands (McKinsey 2012). Unique preferences and tastes in relation to their cultural environment serve as the inspiration needed for more brands to develop a distinctive African value proposition. For example, the success of African fashion houses, such as Gavin Rajah, Maki Oh, Kluk CGDT, Mimi Plange, Christie Brown, and Adele Dejak has confirmed this. An increasing number of African brands are now available in luxury department stores around the world and on websites such as YOOX.com. In 2013, Nigerian house Lanre da Silva debuted in Dolce & Gabbana's Spiga2 Concept Store located in Milan.

With its fast-growing middle class, Africans want to consume better-quality goods. According to Nielsen (2012), 28 per cent of Africa's population based on an average of urban and peri-urban consumers in the seven countries studied, control 47 per cent of income, are well educated, with high discretionary spending, and are more than willing to buy expensive and exclusive products. This attractive consumer segment is driving the expansion of large high-end retail locations in Africa such as Morocco Mall (Casablanca), premium concept store Merchants on Long (Cape Town), in addition to other concept stores such as Luminance (Johannesburg), Temple Muse (Lagos), 2A (Johannesburg), Aspley (Cape Town and Johannesburg), and the soon to open Alara in Lagos, Nigeria.

The Alara store, one of the most innovative luxury stores to date in Sub-Saharan Africa, provides West Africa with its first signature retail and lifestyle environment, promoting emerging talent while establishing a creative hub. It has been designed by architect David Adjaye[3]. A place for the appreciation and acquisition of *'objets d'art'* such as furniture, textiles, fashion, sculpture, and art, the space will be continually curated and reinvented – drawing visitors again and again, and offering an experience that is ever compelling. Alara's owner, Reni Folawiyo explains:

> African luxury does not differ from luxury anywhere else today save its unique location and its peculiar history. Luxury is the freedom to enjoy beauty . . . freedom of artistic expression and expectation to create and enjoy beautiful things of high value and quality. And yes, we are also African. Alara was conceived to show the world who we are today, to share how we live and to show Africans that we have a lot to be proud of, that we create and enjoy objects of exceptional quality and beauty, to celebrate those who have done it, to support and encourage those who wish to, to exchange, educate, elevate, and beautify.

The development of an authentic African luxury: Luxe *Ubuntu*

Developing an authentic African luxury means identifying with core values and cultural meaning shared by the entire continent. Though each community has weaved its own social fabric, each one has done so based on tradition, heritage, and experience. With these follow the impact of every action on all segments of the community. One deeply African concept, shared by all Africans, which embodies this thought is *'Ubuntu'*. Throughout all of Africa, its many positive connotations come down to the 'humanness' of one's self: 'The essence (of the concept) is that one's humanity is dependent upon one's relationship with others' (Khoza 2012). The Zulu proverb *Umuntu ngumuntu ngabantu* which translates to 'A person is a person through other persons' or 'I am because we are' expresses this profound interconnectedness. Within a similar context, Nelson Mandela explained *Ubuntu* as follows:

> A traveller through a country would stop at a village and he didn't have to ask for food or for water. Once he stops, the people give him food and attend him. That is one aspect of *Ubuntu*, but it will have various aspects. *Ubuntu* does not mean that people should not enrich themselves. The question therefore is: Are you going to do so in order to enable the community around you to be able to improve?[4]

The underlying philosophy of *Ubuntu* gives African luxury an added purpose: it creates a unique and dynamic relationship with the community by promoting a model that takes into account its wellbeing and strives for the overall creation of wealth. In other words, *Ubuntu* luxury's focus is not solely based on its own success, but rather on the possibility of positively contributing to its environment as a whole, which in turn makes it unique. A Shona greeting from Zimbabwe, for example, asks *Mangwani, marara sei?* (Good morning, did you sleep well?), and replies *Ndarara, kana mararawo.* (I slept well, if you slept well.) This illustrates a concern for another's well-being, be it through practices and values. The community does not only include the one from which African luxury stems, but also naturally extends to the consumer. An African luxury brand is the first warrantor of its goods and services, as it must take into consideration both the consumer's satisfaction and its reflection upon itself and its community.

A certain number of African luxury brands – notably in South Africa – have begun incorporating this Luxe *Ubuntu* philosophy (Figure 16.1). By doing so, the sustainability and empowerment of both the luxury industry, as well its environment, are taken into consideration. Luxe *Ubuntu* thereby creates economic value in a way that also creates value for the African society at large by addressing its prosperity needs and challenges. It aims to expand the meaningful income of all stakeholders contributing to luxury at the various levels of the supply chain by essentially providing routes to market their products and keeping the added value in Africa. The focus is thus on broad-based wealth creation by enabling access to markets thanks to high-end quality products conceptualized and produced in Africa, and sought after by connoisseurs worldwide, as well as 'limited editions' to showcase exceptional

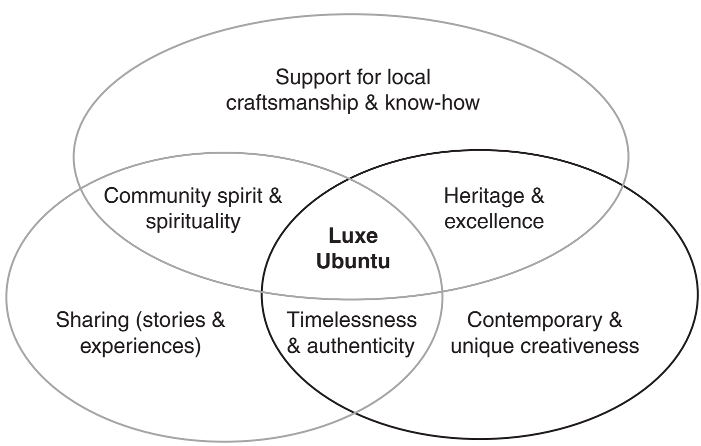

Figure 16.1 The Luxe *Ubuntu* virtuous circle

local artists, and the development of skills, including the organizational and business capacity of co-operatives.

An example is Hanneli Rupert's Okapi handbags and leather goods, which are designed to be coherent with the principles of Luxe *Ubuntu*. Everything from the finest leathers and gold-plated chains, to the smallest details of their labels and packaging, are made from the materials of the utmost quality that all originate from Southern Africa. The brand testifies to the wealth of resources in Africa, taking into consideration their availability and the importance of sustainability, even to the extent of Okapi's signature talisman: the springbok horn, sourced from the Karoo region of South Africa, belongs to one of the few antelope species considered to have an expanding population. Tammy Frazer's Frazer Parfum is participating in the economic revival of the essential oil industry through the promotion of responsible farming where natural and raw materials are directly sourced in line with the principles of biodiversity. The organic scents are then captured in hand-blown flacons that showcase local design by leading hand-blown glass artist David Reade. The African luxury perfume brand has demonstrated as much appeal to international markets as traditional luxury perfume brands, and can be found on sale side-by-side with traditional brands at high-end retailers such as Harrod's in London, and the Annandriya Perfume Lounge in Amsterdam.

Looking to the future: Overcoming challenges and prospering

The future of luxury in Africa offers growth opportunities. The African luxury market has consistently grown by 5 per cent per annum, with the South African luxury goods market alone expected to grow 20–30 per cent in the next five years (Bain & Company 2012). South Africa in particular represents somewhat of a new frontier for the development of the luxury market. As noted by Luxury Branding (2009, p.11):

> The South African consumer's relationship with luxury brands is complex [...] and has its roots in the country's troubled political and social history, but a more recent contributing factor is the policy of Black Economic Empowerment. This has catapulted a new elite from poverty to affluence in less than a decade, creating a relatively small but highly visible echelon of new luxury consumers in the process.

Despite tangible opportunities for growth, there remain some serious challenges which need to be overcome if Africa is to develop a significant and globally recognized luxury industry. One of the main challenges is that Africa's industrial fabric is not made for high-quality goods produced at a competitive cost relative to China or India. There are few suppliers who source or manufacture their products in Africa. Then, when world-class quality standards are met, the consistency is not yet guaranteed. African artisans are generally not set up to scale their activities and are often paralysed by the prospect of growing their business beyond the earning 'enough-to-live' stage. At this stage, African luxury brands cannot afford any inconsistency in quality or sub-standard quality levels. Africa has traditionally been regarded as a place of low-quality goods with a lack of refinement. Hence, there needs to be a serious and systematic commitment to improve quality, and thus upgrade this image. African luxury brands are competing with international brands and should benchmark themselves against the best.

Retail distribution still remains a significant challenge in which there are still too few dedicated luxury retail areas. This situation suggests that customers in Africa may increasingly welcome the opportunity to acquire luxury goods with the click of a mouse. While e-commerce luxury goods platforms are becoming more prevalent in South Africa, African consumers are nevertheless still more inclined to prefer in-store shopping experiences (Nagel 2013). Yet, a case study in Kenya has revealed that 77 per cent of Internet-enabled individuals do buy online, especially on interactive mobile platforms that provide an easy way to connect with consumers (Zab 2013). This highlights the relevance of luxury mobile applications, where it will be possible to search for, compare, and even order products. It is inevitable that this will gain in importance as the number of mobile Internet users in Africa increases.

Funding of the African luxury industry should not be underplayed either. Overall, the luxury industry is consolidating itself and demonstrating how increasingly resource-intensive the industry is becoming. Most globally successful brands are owned by large conglomerates, or investment funds with deep pockets, whereas in Africa there is still a lack of understanding by financiers on the upside of supporting luxury ventures. In South Africa, however, the National Empowerment Fund, and Nonduna Investments are trailblazing with their investment in Ndalo Luxury Ventures to set-up in South Africa and further African expansion.

Finally, there is a serious shortage of specific skills needed to grow global African luxury brands. This is another challenge that will not be easily overcome although there are already former African subcontractors, notably in Northern Africa, that have been taking back the reins of command and succeeding in building and growing stronger retail brands in sectors such as the textile industry. This situation is exemplified by the Tunisian brand CRJ, which has integrated its sourcing and full supply-chain in-house to develop skills and know-how (Meyer 2011). Even in the luxury service sector, the Société Maghrébine de Service et Assistance (SMSA) has recently acquired the French company Luxe Sensation with the aim of expanding its concierge activities across more African countries. Such cases demonstrate the potential for development and growth of the

African luxury market on the continent and beyond (La Nouvelle Tribune 2013).

African luxury is an homage to the cultural roots of Africa. It acts as a reference equally regarding the preservation and florescence of its heritage, and craftsmanship, with the utmost quality, but most importantly by conveying its unique identity: Luxe *Ubuntu*.

Notes

1. Speech by Deputy President Thabo Mbeki at the United Nations University, 'The African Renaissance, South Africa and The World', 9 April 1998 can be accessed at http://archive.unu.edu/unupress/mbeki.html
2. Handmade in Africa: Simone Cipriani and Ilaria Venturini Fendi at the IHT Luxury Conference 2012. The presentation can be viewed at http://www.youtube.com/watch?v=_2J9znzPfA4
3. David Adjaye who designed the forthcoming Smithsonian's African American Museum, was named *Wall Street Journal Magazine's* 'Architecture Innovator' of 2013.
4. An interview with Nelson Mandela can be viewed at http://www.youtube.com/watch?v=5CWeof3jjuU

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17

Afro Luxe: The Meaning of Luxury in South Africa

Inka Crosswaite

In Africa, growth in wealth is a longer-term trend that hails a new era for the continent. According to Capgemini's World Wealth Report (2012), the total investable wealth of high-net-worth individuals in Africa totalled US$ 1.1 trillion in 2011. To put this into perspective, this compares with US$ 1.7 trillion for high-net-worth consumers in the Middle East. South Africa and, most recently, Nigeria are regarded as the jewels in the African crown. Bain & Company estimates that Africa has more than 120,000 US$ millionaires compared to 95,000 in Russia. It is, however, South Africa that enjoys the lion's share, with 71,000 millionaires; about 60 per cent of Africa's total. Similarly, the continual rise of the upper-middle class has helped to place the country on the luxury map. It is estimated that, by 2020, 420,000 South African households will have disposable income that exceeds US$ 100,000 (Rice 2013). This has translated into the arrival of luxury brands including Cartier, Burberry, Louis Vuitton, Fendi, Gucci, and Salvatore Ferragamo at luxury retail locations such as V&A Waterfront in Cape Town or Sandton Mall and Hyde Park Corner in Johannesburg. South Africa has evolved as a luxury market destination. According to Euromonitor International, spending on luxury goods increased from US$ 628.5 million in 2007 to US$ 1 billion in 2012 (Warc 2013). There seems to be no slowing down this momentum as South Africa continues to indulge in luxury products and services.

Given this context, it is not surprising that we find an increased interest in luxury brands in Africa's most southern country. A range of post-apartheid policies, such as the government's black economic empowerment (BEE) policy, as well as the country's natural wealth, have spurred the creation of a new elite in South Africa: an elite which has risen from poverty to affluence in less than a decade. It is a comparatively small, yet highly visible and diverse group of luxury consumers.

This chapter explores the various typologies and attitudes of South African luxury consumers, and discusses the meaning of luxury in South Africa and how it has evolved over time. It analyses how and why the meaning of luxury diverges from counterparts in Europe and North America. Using a Cultural Insight approach, rooted in semiotic analysis, anthropology, and cultural studies, we can understand consumers from a broader contextual perspective.

Brands and consumers are meaning-makers: they exist in a world of signs and symbols filled with unspoken meaning. Today, marketers need to comprehend how cultural meanings evolve. Cultural Insight explores the underlying, often hidden structures and patterns of thought and behaviour that influence the way people give meaning to their perceptions of the world. It looks at how the world is changing, picks up on emergent shifts, and then suggests to brands how they could adapt their positioning or creative execution to either remain relevant in existing markets, or seamlessly enter new ones.

The core of the analysis is to reveal cultural codes or themes to show the most significant meaning of discourses – such as luxury – within the context of a cultural setting. It allows marketers to stretch their thinking and find fresh and culturally relevant strategies and ideas for innovation.

The changing face of luxury

Luxury is a social construct with many meanings – such as ‘rare’ and ‘unique’. It has dream value, and offers a specific sensory world of refined aesthetics, sensuality, and indulgence. It often builds its identity around a creator and has its roots in history. Luxury also means you don’t consume, or even own an object. Instead, you build a relationship with the luxury object; it becomes part of your identity. The German sociologist Georg Simmel, who defined the fashion system, expresses this relationship succinctly. His words also hold true for the meaning of luxury:

> Fashion is the imitation of a given example and satisfies the demand for social adaptation . . . At the same time it satisfies in no less degree the need of differentiation, the tendency towards dissimilarity, the desire for change and contrast, on the one hand by a constant change of contents, which gives to the fashion of to-day an individual stamp as opposed to that of yesterday and of tomorrow, on the other hand because fashions differ for different classes – the fashions of the upper stratum of society are never identical with those of the lower; in fact, they are abandoned by the former as soon as the latter prepares to appropriate them.
>
> (Simmel 1904, p.133)

Simmel’s definition of the fashion system points to an important aspect of luxury; luxury is relative and, like beauty, it is in the eye of the beholder. To the person sleeping on the streets of Cape Town it is a McDonald’s Big Mac, to the ‘blue-collar’ worker it is a flat-screen TV, to the ‘middle-class’ resident it is a birthday celebration in a first-class restaurant, to the CEO it is a yacht charter, and to the wealthy it is their lifestyle. Simmel also points to the fact that luxury is in flux. As time goes by, 'one generation's indulgence might become the next generation's necessity' (Twitchell 2002, p.43). The challenge for the luxury brand is about fuelling the relationship with its consumers in a changing and progressive world.

As the *Zeitgeist* changes, so must the *Brandgeist* – in other words, the brand must retain its cultural relevance. On the international stage the *Zeitgeist* indicates that the meaning of luxury has changed. In the past, luxury brands asserted their superiority through their history, heritage, and iconic nature. Today, there is a rapidly emerging disdain for bold display, an ability to be discreetly astute, experience-led, and offer cutting-edge design, simplicity, and understatement.

In Europe, the stark reality of the economic slowdown has focused people's attention on the value of other issues; such as health, family, and freedom. Careful frugality and a focus on value have replaced 'bling' as an expression of luxury.

The Giving Pledge[1] initiated by Bill Gates and Warren Buffett in 2010 was only a precursor to this more philanthropic expression of luxury. Today, we find more expressions of what could be termed sustainable luxury.

For example, designers such as Stella McCartney and Linda Loudermilk are enthusiastically redefining the soul of luxury by combining the values of responsibility with quality and aesthetics. Hermès supports local artisans in China through the creation of the Shang Xia luxury brand, which offers a modern and localized adaptation of authentic and handcrafted decorative objects. Industry events such as the 'Sustainable Luxury Forum' held in June 2013 in Geneva, indicate that corporate sustainability is no longer a 'nice-to-have' option for luxury companies, but has become a reputational imperative. Even BMW is no longer about the flashiest, fastest car – it is now about joy and creativity, about simply being, and sustainability.

Emblematic society

While we see the trend of sustainable luxury emerging in South Africa, the emphasis is still very much on bold status display and 'bling' culture, which, according to Gumede (2011, p.18) means that individual worth is measured on whether one can afford the bling lifestyle: 'This new lifestyle is the new standard of achievement – a sign that one has made it.' This standpoint is underlined by the ANC Secretary General Gwede Mantashe, 'the new order [after 1994] . . . inherited a well-entrenched value system that placed individual acquisition of wealth at the very centre of our society as a whole'.

As a result, conspicuous consumption is rife. Some consider the excessive display of wealth by South Africa's new black elite distasteful, if not immoral and distorted. Lavish parties, where sushi is served on models' bodies and champagne is wasted by the magnum are harshly juxtaposed against the deep poverty of the vast majority of South Africans. But there is a social context which cannot be overlooked. Keni Kunene – also called 'King of Bling', was publicly scolded by a union leader for throwing lavish parties. He countered with an open letter to Cosatu General Secretary Zwelinzima Vavi claiming his license to be wealthy and express it. He wrote:

> You remind me of what it felt like to live under apartheid. You are telling me, a black man, what I can and cannot do with my life . . . You are narrow-minded and still think that it's a sin for black people to drive sports cars or be millionaires at a young age.[2]

Socio-cultural analysts give various reasons for South African 'bling' behaviour and conspicuous consumption. 'Bling lifestyle' is perceived to be a way to demonstrate freedom from the oppression of the apartheid system which had resulted in years of domination and racial prejudice (Chevalier 2011). Policies kept the majority of the nation's people economically disempowered and often living below the breadline. It is argued that the natural psychological reaction to such experiences in an era of independence and prosperity is to find ways to affirm one's social status as equal to any other citizen. (Diakanyo 2010).

Studies on Southern African elites or African bourgeoisie (Kuper 1965, Brandel-Syrier 1971, Nyquist 1983) have shown that the practice of conspicuous consumption among black elites existed prior to Apartheid times. Brandel-Syrier (1971) describes social elites living in Reeftown, South Africa, in the 1960s. They were highly educated families that acquired their wealth mainly through ownership of property and several houses. Similar elite groups existed in Soweto at the same time (Krige 2012). The social elites at that time were status conscious. While status meant a combination of education, sophistication, and propriety, it also meant a lifestyle of conspicuous consumption. Living in the right area, owning a car, good furniture, clothing, and physical appearance (predominantly hair straightening and skin lightening) were the signifiers of a prestigious life in the township as described in the words of Brandel-Syrier:

> The elite's tastes in art and literature inclined towards Victorian standards. Furniture had to be heavy and ornate. Stories should have a moral; evil should receive punishment; and virtue should be rewarded. Dickens was a favourite. They also liked to read biographies of famous people – Napoleon, Catherine the Great, Hitler, Marx, Churchill and other figures in history. The interest here was in discovering why such individuals had achieved fame. What was their magic?
>
> (Brandel-Syrier 1971, p.44)

Yet, status distinction and display go further back to pre-colonial times. Not only did a tribal African aristocracy exist, African society was itself emblematic. Proper attire and display of wealth were perceived as honourable, expressing the wearer's dignity and setting codes of social behaviour. Particular honour and pride were granted to age, genealogical seniority, male adulthood, and political position. Aristocratic chiefs signalled their authority by wearing special animal-skin clothing, ornaments, and other paraphernalia of power. They were entitled by custom to display, mobilize, and increase their wealth through the acquisition of wives and large herds of cattle (Kuper 1963).

Traditionally, it was not only the South African aristocracy that marked its social standing; everyone did, signifying their age, gender, kinship, rank, and ethnicity through their attire and etiquette. For example, a woman's clothing indicated whether she was married or not, could indicate her age, and even the specific role she fulfilled when wearing a particular type of dress.

Another example is the *Amabhayi* or *Ibhayi* blankets worn by the *Mfengu*[3] people. They signified the wearer's wealth and status. The blankets were lavishly decorated with up to 1,000 mother-of-pearl buttons, 1,000 glass beads, and embroidery. *Ibhayi* were worn around the shoulders as body wraps, and often used to cover children.

There are numerous other illustrations of how dress, attire, and cultural artefacts were used to mark class differentiation and status in South African society. With the spread of colonial capitalism, luxury goods and high-status manufactured items became symbols of social status. European fashions in dress, housing and household utensils, worship, and transport became an addition to previous symbols of status.

Therefore, status display is not something new: it is an inherent part of South African culture, which is reflected in the relationship between South Africans and luxury goods and services. Possessing and flaunting status symbols like luxury brands is an expression of South African pride and tradition, and not always sheer excessiveness. It is partly sharing one's success with others which is expected in South African society.

Many wealthy South Africans who have moved out of the townships are going back on the weekends. For some, it is about not forgetting their roots, while for others, it is about 'sharing' their success. A popular leisure activity is to meet at the car wash where suburban and township locals come together to display their cars and other possessions, and have a barbecue and drinks. Brands employed there to 'share success' need to be easily recognizable to act as a badge of achievement, they need to have 'cultural cool' capital.[4] Those who stay in the township are proud that their rich friends are coming back and perceive them as aspirational role models for the youth, as they have gone from 'zero to hero'. They are admired, and even more so, if they leave a legacy behind them in terms of supporting local soccer clubs, charities, etc., and their potentially long list of relatives.

For luxury brands, this means that the understatement and overt simplicity driving the European and American luxury goods markets only applies to the minority of luxury consumers in South Africa. Instead, expressions of flamboyance and bold display tap into the dominant and most widespread attitude of South Africa's luxury consumers, who are looking for brands and products that satisfy their need to display and 'share' their accomplishments.

A taxonomy of South African luxury consumers and status display behaviours

We can identify four main types of luxury consumers in South Africa, and 'status' informs their behaviour to varying degrees. At one extreme, the exceptionally status-driven, materialistic, demanding extroverts tend to see luxury as one of the principle mechanisms by which they can benchmark their success. At the other extreme, experts love luxury for luxury's sake, and appear to have a genuine appreciation of beautiful things, with no serious preoccupation with what other people think about their status.

- The 'money aristocracy' are familiar with luxury and are confident navigating it. They mainly inherited wealth from family assets and are aware of their status and being part of the establishment. They have an interest in classic brands, but are not ostentatious in their consumption, and may even be frugal spenders.
- The 'established business magnate' experiences luxury as a way of life and values uniqueness and limited-edition objects, which are expensive and highly collectible. He or she is status conscious, but displays this through connoisseurship and distinction, not flamboyant consumption.
- The 'self-made' or 'new money' has a very different upbringing, lifestyle, and education to that of 'old money'. For them, luxury goods are perceived to offer higher quality, which is worth paying for, but they are constantly educating themselves in the concept of luxury to acquire status skills. They have a strong drive to learn what it means to be truly affluent and what it means to be associated with money. Brands help them to attain the desired sense of self, of individualism, as well as accomplishment and 'having made it'. Their status, therefore, is displayed outwardly via luxury goods and services.
- The 'deluxe aspirer' is someone from the emerging middle class en route to entering the world of luxury. These are often self-made people with an enormous drive, a high need for distinction and a 'go-getter' mentality. They buy luxury and premium goods to show off their success. In fact,

> if their peers don't recognize the value of their possessions, their money has been wasted. For them, status skills are less important, as it is all about 'show-time'.

'Self- made' and 'deluxe aspirers' are the biggest clusters of luxury consumers in South Africa. While the first are more discerning, they both aspire to more ostentatious expressions of luxury. As such, for the medium term, the beauty and power, glitz and glamour of a wealthy and conspicuous lifestyle will fuel the luxury goods market in South Africa.

Looking to the future

Afro Luxe

The above attitudes towards luxury will change in the long term due to global influences and increasing African pride. There is already an emergence of what we term 'Afro Luxe', which marries the modern world with Africa's very traditional one. It is not an international expression with an African spin: it is modern African luxury.

This Afro Luxe trend will be further driven externally by the global megatrend which sees the reversal of the old economic world order. Emerging markets are on the rise. The International Monetary Fund has predicted that in 2013 the gross domestic product (GDP) of emerging markets will surpass that of advanced markets (IMF 2012). Not only will emerging market products and services cater for their own growing middle class, they will cater for all markets.

As globalization has reached its tipping point, we will see people in emerging markets increasingly celebrating their cultural traditions, heritage, and traditional lifestyles, and creating their very own expressions of luxury. Further driving the rise of Afro Luxe will be the need for authenticity, vibrancy and dynamism, and a growing desire of South Africans to do things their way and to express who they are in their lifestyle choices.

US and European fashion designers have, for a long time, used Africa as inspiration for their creations. Like Picasso many years ago, designers such as Yves Saint Laurent, Bottega Veneta, and Diane von Fürstenberg all have been inspired by African art and artefacts. Fürstenberg, for example, has designed an iPad cover inspired by a woman's cotton scarf from Nigeria. Hermès has worked with Tuaregs and Fendi sells bags made in Kenya. African crafters make aesthetic pieces imbuing luxury brands with the flair of sustainability and consideration of ethics.

The time is right for Africans to rise to the challenge by creating their very own Afro Luxe. Forbes Mavros, son of Patrick Mavros, who established 'Patrick Mavros', a Zimbabwean jewellery company with a flagship store in London, claims that 'African luxury is a rarity . . . There are not many brands that have touched the international pulse and remained African in their identity' (McTernan 2013).

While Mavros is probably right in claiming that there are not many brands which express Afro Luxe, Afro Luxe brands are increasingly entering the market. Forerunners of Afro Luxe include fashion designers Gavin Rajah, Malcolm Kluk, and David Tlale, who enjoy a solid local following and are celebrated on the world's runways from Paris to New York. Precious Moloi Motsepe's[5] venture, 'Africa Fashion International' has further spread the word of Afro Luxe through a range of initiatives, such as Mercedes-Benz Fashion Week Africa, Mercedes-Benz Fashion Week Cape Town, and Mercedes-Benz Fashion Week Joburg.

Other South African designers are becoming renowned locally and internationally. Haldane Martin, for example, is a South African furniture designer who creates contemporary pieces that, according to its website (www.haldanemartin.co.za), form a common thread that includes 'South African cultural identity, biomimetics, sustainability, craft, digital design, and complex geometry' (Figure 17.1).

The South African luxury tea brand YSWARA is another example (Figure 17.2). The company offers a collection of high-quality rare African tea blends, and tea accessories that are exclusively made by African artisans, and from African materials. Each tea blend is carefully hand selected and forms part of a precious collection of 23 teas. Their signature blend, 'Or des Anges' is a blend of rare white tea from Malawi, mixed with 22-carat edible gold petals. The success of YSWARA can be attributed to the ability to produce a luxury brand that is truly African in origin, nature, and tradition. Within a wider context, Swaady Martin-Leke, its founder, explains, 'many African

Figure 17.1 Fiele Chandelier designed by Haldane Martin
(Photo: Inge Prins)

Figure 17.2 YSWARA copper tea canisters

luxury consumers have travelled abroad and want products that reflect their identity. They might want a Chanel watch, but they also want a beautiful couture ankara dress. They have the money to buy Yves Saint Laurent, but they want African designers' (McTernan 2013).

Sustainable Afro Luxe

Another expression of luxury that we can expect to become increasingly prominent is African ethical and sustainable luxury, especially in terms of philanthropy: this generous practice is closely related to the spirit of *Ubuntu*.[6] South African sustainable luxury brands have been exemplary for years. Phinda game reserve opened in 1991 and was the first in South Africa to consider how to empower and uplift the community that was living in the vicinity of the reserve. Ecotourism has become synonymous with a luxury tourism service offering, unique to South Africa. Singita, for example, offers safari lodges and luxury accommodation that strives to strike a balance between tourism, the community, and conservation of nature. Another example is the world's leading diamond company, De Beers. The company has played a significant role in the Kimberly Process, which was introduced to eliminate conflict diamonds from the supply chain. It is reported that all De Beers diamonds are certified conflict-free and are mined and sold in full compliance with national and international law, the Kimberley Process and their Best Practice Principles Assurance Programme (De Beers 2011).

The local sustainable luxury category is slowly growing, with new brands, services, and product categories entering the market. Taunina,[7] for example, is a Cape Town-based luxury brand that employs artists from disadvantaged communities to handcraft unique decorative soft toy collections (Figure 17.3). Each piece is one of a kind, embroidered with appliqué detail, and made from luxurious heritage fabrics from iconic textile houses such as Liberty of London and Sanderson. Taunina has recently launched worldwide with a luxury line of soft toys, presently available for purchase online, and at New York City's premier children's boutique, Bundle.

Figure 17.3 Taunina artists – the creators behind the Taunina teddy bear collectables

Implications for luxury brands

Afro Luxe taps into a growing desire of South Africans to do things their way and express who they are through their lifestyle choices. This has widespread implications for international luxury brand strategies if they are to connect with the South African sentiment and achieve long-term market success.

Display and share success

Understatement and overt simplicity are still only for the minority of luxury consumers. Expressions of flamboyance and bold display tap into the dominant and most widespread attitude of luxury consumers, satisfying their need to exhibit and share success. Enjoying the 'here and now', celebrating ephemeral moments – and making luxury goods and services part of it – is becoming more relevant. South African luxury consumers increasingly desire luxury experiences, which allow for beautiful stories to be shared and told.

Perfect me

Given the diversity of South African luxury consumers and the relativity of luxury as such, what is considered 'luxury' by some may often be considered as 'über-premium' by others; brands need to understand the cultural setting in order to be successful in South Africa. They need to keep in mind the importance of social status in South African society and that luxury functions as a signifying system of social standing and differentiation. Luxury brands need to assist consumers in creating the 'perfect me'.

Exclusivity

South Africans enjoy exclusivity; brands that create the feeling and the experience of exclusivity, for example, through privileges at clubs or public events, are very fashionable. Accordingly, the South African luxury brand LIVEOUTLOUD has created PLAYOUTLOUD. It is a virtual vault application (www.playoutloud.co.za) that offers experiences and luxury products at a fraction of their original value, exclusively to 500 PLAYOUTLOUD players. The vault opens daily, but randomly. Players have the chance to purchase luxury goods at 10–25 per cent of their normal retail value. The treasures have included items such as a new Audi A4 1.8T FSI, selling for R45,000, and a bottle of Veuve Cliquot for R25. The membership fee is R5,000.

Uniqueness

Obviously, uniqueness and rarity are important. People, especially in the upper segment of the South African luxury market desire irreplaceable, handcrafted objects, which are produced in small quantities. A good example is the Hermès Birkin bag; while a Hermès scarf is easily available around the world, one might have to wait have up to six years for the special order Birkin.

Authenticity

South African consumers are very aspirational and they desire luxury brands which create a sophisticated, status-driven universe filled with dreams, desires, and fantasies. They are drawn to iconic brands with strong brand personality and identity. Staying authentic is key. Brands need to ensure that their brand communication is rooted in something that has real substance and credibility. People pay attention to brand stories that enlighten the brand's exceptional history, either as a consequence of its own origins or because of its association with exceptional people, periods, or places in history. Not only does the brand story add credibility to the iconic identity of the brand, it allows South African luxury consumers to own something beyond consumption, which allows them to express their refinement and expertise when sharing stories about their most prized possessions.

Service delivery

Buying a luxury item is all about the experience and the retail environment is where most acts of persuasion take place. South African consumers place high value on the way they are treated by sales consultants and expect individual service. They enjoy sensual and indulgent retail spaces with a mix of exceptional service and a hint of flamboyance. It is no coincidence that the largest Porsche Centre in the world is located in Johannesburg.

Status credibility

The 'deluxe aspirer' will search for brands with high status credibility – achieved through events and brand associations with the rich and beautiful. It may not be fashionable to mention a celebrity as a key driver in consumer decision-making, but it is a fact that celebrities continue to have enormous impact in South Africa. Khanyi Mbau – South Africa's self-professed Queen of Bling – has written a biography titled *Bitch Please, I'm Khanyi Mbau!* which bears testimony to this. Shortly after the release of the book, it ranked among the top ten bestsellers according to Exclusive Books' national sales figures.

Affordable luxury

Luxury brands that offer bite-sized luxury experiences engage well with South African consumers. Small rewards and premiumization is a big trend in South Africa. The little indulgences often compensate for the bigger sacrifices in life.

Ethical luxury

Ethical and sustainability issues affecting luxury globally are also emerging in South Africa, especially in terms of philanthropy, which help consumers 'flaunt' their high social status. Recently, Patrick Motsepe was the first South African billionaire to join the Giving Pledge. He might just start a trend. While it is rather unlikely that all rich and famous South Africans will follow in his footsteps, issues regarding ethics and sustainable luxury will most certainly become integrated into the collective consciousness of South African luxury consumers.

Luxury – a profusion of meanings

Luxury carries rich and diverse meanings and we find different typologies of luxury consumers in South Africa. The meanings and typologies are embedded in South African culture. Given the emblematic character of South African society, we predict that, in the near future, the need for glitz and glamour will drive the South African luxury market.

For the longer term, we will see the growth of Afro Luxe on both the local and global stage. Its growth is driven by the economic stagnation in the 'mature' markets and by the rise of emerging markets. Not only will emerging market luxury products and services cater for their own growing upper-middle class, they will cater to all markets. This raises local pride and we will see people in emerging markets increasingly celebrating their cultural traditions, heritage, and traditional lifestyles.

Notes

1. The Giving Pledge, launched by Warren Buffett and Bill Gates in 2010, has commitments from 105 billionaires, as of April 2013, each of whom have pledged to give away at least half of their wealth during their lifetime or upon their death.
2. An edited version of the letter can be viewed at http://www.timeslive.co.za/opinion/article733038.ece/Ill-spend-what-I-like
3. The Mfengu are Nguni people. Mfengu speak Xhosa, but do not think of themselves as Xhosa. They are known for beautiful beadwork and carved staffs. Their dress marked a person's home area, ethnic sub-group, age, marital status, and sometimes the number of children one had (Gallery Ezakwantu 2013).
4. 'Cultural cool' product categories that communicate status and achievement are fashion, accessories (hand bags, shoes, jewellery), cars, electronics/information technology/telecoms (e.g. Apple's i-Phone), and expensive alcohol.
5. Wife of billionaire Patrice Motsepe.
6. *Ubuntu* is an African term for caring, sharing, and being in harmony with all of creation. It promotes co-operation between individuals, cultures, and nations.
7. Taunina is an anagram of the African word, 'tau', meaning 'lion', and 'NINA', an acronym for 'No Income, No Assets'. Taunina gives women who were once without income and assets the power to become 'lions of their own destinies'.

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18

Going beyond Misconceptions: Avoiding Pitfalls on the Route to Sustainable Growth

Douglas Bryson and Glyn Atwal

Clearly, there is no singular blueprint for international luxury brands to succeed in emerging markets. Each luxury brand and each emerging market context presents its own idiosyncrasies. Since there is no one-size-fits-all approach, managers need to learn important lessons by studying the various emerging luxury brand markets. The experiences vicariously learnt can be used to develop effective contingency strategies as companies enter and expand into emerging and new frontier markets. Beyond the emerging markets covered in this book, new frontier markets in fast-growing economies such as Indonesia, Mexico, Turkey, Nigeria, South Africa, and Malaysia, offer international luxury brands potential sources of highly profitable growth.

Some luxury brands have already ventured into these new frontiers, many others are poised to begin. They are wise to do so as this activity addresses the threat of overdependence, as identified by HSBC (2012, p.2): 'As the luxury sector has become highly dependent on the Chinese consumer, this poses a problem for brand managers and valuations: how much should you pay for companies that are placing most of their eggs in one basket?' In this chapter, we provide an overview of 11 common misconceptions that tend to obstruct international luxury companies from gaining realistic insights into emerging and new frontier markets. Thus, we aim to provide a guide for luxury brand managers to improve their chances of achieving market success, both in existing emerging markets, and the fast-growing new frontier markets.

Misconception 1: It is too early to enter fast-growing emerging markets

Luxury brands such as Louis Vuitton and Prada, which started to invest in China nearly 20 years ago, have reaped the long-term benefits of establishing a high brand profile. Similar findings are evident in India. For example, Hublot is more successful in India than in China, having opted to enter the former first in 2006 (Shi 2013). First-mover advantage has certainly been a key success factor for market success in emerging markets although HSBC (2012, p.2) points out that first-movers such as Louis Vuitton and Omega 'now carry a first-mover *disadvantage* as Chinese consumers tire of logo fashion and seek more differentiated looks'.

However, first-mover advantage is not just about brand awareness and familiarity, but gaining a valuable understanding of complex business practices in culturally challenging environments. In another words, being amongst the first entrants to understand how to do business in an unknown geographical territory or culture. This is demonstrated by Ermenegildo Zegna taking a lead in entering new frontier markets in Africa. It already has a market presence in Africa, with stores in Cairo and Casablanca, and is the first luxury fashion house to open a store in Nigeria. There are also plans to open stores in Angola and Mozambique in 2014 (Rice and Sanderson 2013).

Early market entry also allows luxury brand companies to develop relationships with government officials, bureaucrats, and policy makers; relationships that are essential in many emerging economies. The key players are finite in number and obviously have limited time available to form productive relationships, thus early entrants may potentially saturate these key sources of support. In sum, it is experience, knowhow, and successful networking that gives forward-thinking companies such as Ermenegildo Zegna a real, significant, and sustainable advantage.

Misconception 2: Partners compromise profitability

According to Economist Intelligence Unit (2011) the risks of doing business in emerging and fast-growing markets are declining: 'Across a range of business risks – from inadequate infrastructure to hard-to-interpret laws and difficult-to-navigate bureaucracies – there are fewer uncertainties associated with doing business in most of those markets.' However, the business environment in many emerging markets can still be complex and unpredictable. For example, an increasing number of luxury brands, including Escada, Louis Vuitton, Armani, and Fendi, have exited Argentina following the country's limitations on imports, which were introduced as a measure to protect the country's central bank of foreign currency reserves. It is evident that many forces remain beyond the control or influence of international companies, as evidenced by street protests in Brazil and Turkey, the introduction of anti-corruption legislation in China, or dramatic currency fluctuations in India.

However, luxury brands need to balance risk with opportunity and consider all solutions to manage operational risks. Collaboration with a local partner is a fairly safe route to market that needs to be carefully considered. As argued by Economist Intelligence Unit (2013, p.24), early entry through joint ventures in India 'have brought big advantages for luxury firms, providing better market insight and enabling companies to bypass regulatory hurdles. Using local partners has also helped with brand building, recruitment, pay and rental negotiations, and reducing break-even levels.'

Misconception 3: Wealth is concentrated in metropolitan cities

International luxury brands should also follow the luxury consumer who does not typically appear on the luxury radar. This phenomenon is underlined by a Boston Consulting Group (BCG) study, which reported that 75 per cent of the new affluent consumers with an annual disposable income of US$ 20,000 to US$ 40,000 in China will originate from the lower tier cities by 2020 (Silverstein *et al.* 2012). This trend is also evident within a broader context in Brazil. Recent research, again from BCG (2013), reports that cities with fewer than 500,000 people will account for around two-thirds of incremental consumption. It is also 'grey' income that is contributing to wealth in these regions. It is, for example, not uncommon for a Punjabi Indian farmer to pay in cash for a premium car. Luxury brands need to therefore consider expanding their distribution networks in order to reach out to the under-served consumers, whether they are in Changsha (China), Ludhiana (India), Krasnodar (Russia), or Curitiba (Brazil).

An example of this in practice is the luxury producer of watches, leather goods, jewellery, and writing instruments, Montblanc (Figure 18.1). This brand has achieved a broader reach in India, with six of its 11 stores located outside of Mumbai and New Delhi. Indeed, the emergence of a distribution gap can have significant implications for the bottom line. For instance, as

Figure 18.1 Montblanc Ludovico Sforza – Duke of Milan – 4810 edition

the sales of luxury cars in emerging markets remains robust, distribution networks remain under-developed, and opportunities for potential sales are missed. The opportunity for expansion also exists in China. Morgan Stanley reported that 111 large Chinese cities do not have a premium car dealership (Bloomberg News 2013). However, expansion needs to be well thought out and controlled. Daneshkhu (2013, p.15) observes within the cosmetic sector in China, 'Launching too quickly into cities that do not have exclusive districts and shops, risks damaging the image of the brand, which is not the case for mass-market cosmetics.'

Misconception 4: Local citizenship is a Western phenomenon

In a world of fast-moving and globalized cultures, international luxury brands need to be widely respected as responsible local citizens. Quelch and Jocz (2012, p.192) argue that 'A crucial aspect of being a good local marketer is being a great local citizen in every market.' This is of particular relevance as consumers in emerging markets are increasingly aligning their own personal values with those of the brands they buy. According to a Global Corporate Social Responsibility study conducted by Cone Communications/Echo (2013), consumers in Brazil (76 per cent), China (68 per cent), and India (67 per cent) are 'very likely' to switch brands in favour of those that support a cause, versus France (42 per cent), Germany (52 per cent), and the UK (38 per cent).

This also strikes a chord with the luxury consumer sentiment. A survey amongst 1,100 luxury consumers in China, Hong Kong, and Taiwan found that 68 per cent of respondents agreed that social responsibility of a luxury brand affects consumers' purchase decisions (Albatross Global Solutions and Ruder Finn Asia 2010). This highlights the need for luxury brands to develop a local citizenship strategy that provides substance at a local level. For example, since 2004 the Zegna Foundation has supported the 'Panda Corridor' project to protect pandas in the Qinling mountain region in Central China. A separate initiative was the launch of the project, ZegnaArt Public, which supports local contemporary art through a combination of the commissioning of a public works of art, and a residency programme. ZegnaArt Public was launched in India in 2013, and is to be extended to Turkey and Brazil in 2014.

Misconception 5: The luxury consumer is homogeneous

It is essential that international luxury brands acknowledge that the luxury consumer in emerging markets is not homogeneous, and myriad segments are more likely to be the norm. As Atwal and Jain (2012, pp.203–204) observed, in India, 'New entrants into the world of luxury will start valuing the acquisition of luxury brands as a way to climb the social hierarchy, while the current consumers will slowly move up the ladder as they increasingly appreciate luxury for its internal benefits and craftsmanship'. Brands that attempt to appeal to a target that is too broad, such as the aspirational middle-class consumer, as well as the discerning luxury consumer, will likely struggle to be relevant to both segments.

Luxury companies need to therefore consider developing a brand portfolio strategy to target narrower consumer segments. For example, Prada's more affordable diffusion brand Miu Miu is able to appeal to a younger and more contemporary fashion-conscious target.[1] This dual strategy is already an increasingly common practice within the apparel sector. Elsewhere, within the luxury drinks sector, Diageo has launched Rowson's Reserve, a brand of Indian grain whisky that is combined with Scotch, and aged locally in American oak barrels. This is an affordable premium brand with aspirational appeal for Indian luxury consumers who are not quite able to afford Diageo's higher-end products, such as Johnnie Walker, or Talisker.

Misconception 6: Global values are uniform

International luxury brands should respect and be sensitive to indigenous cultural norms and values. This is set against the backdrop of a resurgence of local pride in many emerging markets. This is of course relevant for all brands, but perhaps is of greater significance within the luxury sector given the strong emotions and higher expectations associated with luxury brands. Examples abound in which luxury brands have been affected by extreme negative consumer sentiment. In India, Montblanc had to deal with widespread public criticism following the launch of a limited edition pen engraved with the image of Mahatma Gandhi in 2009. Critics claimed that the pen, with a retail price of US$ 24,000, was contrary to the values and beliefs of Gandhi. Similarly, there was a consumer backlash by Chinese consumers against Christian Dior in 2008. The cause was comments made by the brand's ambassador, Sharon Stone, whose public discourse implied that the Sichuan earthquake may have been 'karma' for China's policies regarding Tibet. Despite growing consumerism in emerging markets, international luxury brands need to be aware that the associations of positive virtue remain an important attribute of the brand's image.

Misconception 7: There is one national market

International luxury brands need to recognize that regional differences should be thoroughly explored in the conceptualization of national marketing strategies. This is particularly the case in countries with diverse geographies. Consumers' behaviour often differs in subtle, but important ways. For instance, a McKinsey study found that Chinese buyers living in the coastal cities of Hangzhou and Wenzhou focus on the expectation that a premium car must reflect their social status and lifestyle needs. In contrast, premium car buyers in the less developed inland cities of Taiyuan and Xi'a, both located in North China's Shanxi province, 'need the reassurance of a strong brand and good reputation, and therefore rely heavily on word-of-mouth and the in-store experience when deciding which model to buy' (Sha *et al*. 2013, p.10).

Regional differences in consumer behaviour were also observed in India. Puddick and Menon (2012, p.52) report that 'conspicuous consumption in northern consumers is epitomized in the colloquial expression of "Show Sha". These individuals are more likely to use lavish possessions, such as jewellery and cars, to demonstrate what they have. By contrast, their southern counterparts are more understated.' De facto national regional differences oblige luxury brand managers to address the existence and precise nature of distinct market clusters, and their various motivations and behaviours, in order to successfully identify marketing strategies that are best adapted to the intended target demographic.

Misconception 8: Information technology is lagging behind

As many emerging markets leapfrog trends, information technology needs to be at the forefront of any luxury brand strategy. The rationale is three-fold. First, information technology is increasingly available and democratic. For example, in Indonesia, Internet access is rising at an annual rate of 20 per cent, and 100 million Indonesians will be connected by 2016 (Budiman *et al*. 2013). Second, online activity is extraordinarily high. *The Economist* (2013, p.10) reports that 'Far more people are online to shop, play games, search, watch videos and use social media in China than in any other country.' Indeed, the phenomenal growth in online activity in Brazil was captured by a headline in the *Wall Street Journal*, which read, 'Brazil: The Social Media Capital of the Universe' (WSJ 2013). Third, information technology is able to fulfil important needs specific to conditions in emerging markets. This may be the need to buy a luxury item because retail infrastructure is under-developed in the smaller cities in India; it may also be about the social need to interact, as evidenced by the popularity of social networking in Latin America. The bottom line is that technology can make a difference in emerging markets. However, content remains an important success factor. In L2's 'Digital IQ Index®: Brazil Russia India' report, Dolce & Gabbana ranked third out of more than 100 brands for digital competency in Russia. Cox (2012) points out that Dolce & Gabbana's success can be attributed to a highly engaged localized social presence via local platforms such as VK.com and Twitter.ru – Dolce & Gabbana has in fact the largest VK community of any luxury brand.

Misconception 9: A global luxury brand must be invariable

Global luxury brands are inclined to sell their global products to the high end of the local market. Although we acknowledge that international luxury brands need to ensure consistency across borders, there is also a need to identify so-called locally driven triggers that will evoke a reaction that is locally relevant, having positive results. In India, a local trigger could be Bollywood, which has been successfully leveraged by international luxury brands such as Audi and Hublot. In Brazil, this could be about the availability of credit, as more than 70 per cent of luxury product sales are settled with credit card instalments (Mazza and Stul 2012). As Arlidge (2012) remarked, 'Talk to many women shoppers in São Paulo and they will, privately, tell you the instalments are not just about spreading the cost. It's about hiding the true cost from their husbands.'

Academics and practitioners have often raised questions about whether international companies should innovate or adapt when entering emerging markets. Our viewpoint is that they are inseparable. Within the luxury domain, international luxury companies need to adapt in order to innovate, and innovate in order to adapt. For example, the BMW 7 series automobile was adapted to include rear seating for the Chinese market, where the preference to be chauffeured is strong. This simple example demonstrates how luxury brands are able to address both a need for local adaptation while maintaining the global approach for their brand.

Misconception 10: Global talent comes from the luxury company's country of origin

It seems obvious that international luxury companies need to ensure that management and staff in situ have the necessary skills and competencies to operate effectively. However, local 'new hires' are an often underestimated talent pool. As Das (1993) maintains, if local managers believe a product is theirs, then local consumers will believe it too. This assertion points to a critical connection that needs to be crafted between the luxury company's headquarters and their local management and staff. In practical terms, it implies that local managers are solicited for their local expertise and are given the opportunities needed to become experts in the brands they manage. It also implies that expatriate managers are immersed in the local market environment. For example, Das (1993) advises that expatriated managers should be given a local 'mentor'. Further to this, anecdotal evidence suggests that these ideas are also applicable to top international executives, based in local markets, who should actively facilitate the transfer of strategic knowledge horizontally in both directions, as well as vertically within their region. To do that effectively takes skills that most people are not born with; they need to be consciously developed.

Luxury companies also need to attract, retain, and coach local talent to manage the luxury brand through its next stages of development. This may not be news to most top managers, or graduates from an international business degree programme. Yet, somehow this does not seem to get reliably applied. According to a recent survey by Luxury Connect, approximately 15 per cent of firm owners and top managers based within the luxury sector in India are not satisfied with their personnel, while another 54 per cent find their staff only 'somewhat satisfactory' (Rathore 2012). Putting this in perspective, this totals to 69 per cent of managers and staff who are considered to be mediocre or worse. This seems to be in step with consumers' experiences in China, where salespeople are described as 'unhelpful, intimidating and rude' (Cavender and Rein 2009, p.38). Thus, 'soft' strategies, local knowledge, and people skills should not be overlooked as a critical success factor in ensuring that luxury brand strategies in emerging markets are executed effectively.

Misconception 11: Emerging markets are opportunities that provide quick and easy profits

Luxury brands need to adopt a longer-term approach in meeting return on investment and profit targets. Significant cost items on the balance sheet are not limited to gradually rising labour and media costs, but also include the costs associated with opening of flagship stores located in prime retail locations. It is reported that flagship stores in China can cost up to US$ 40 million. A recent example from 2010 is Ermenegildo Zegna, who spent US$ 34 million on a store in Shanghai (Mesco 2013).

For major luxury companies, the opening of a flagship store is an important investment needed to showcase the brand when entering a new market, and this should not be compromised, if at all possible. Likewise, high rents in megacities, from Mumbai to Shanghai, and from Moscow to São Paulo, will also extend the timeline for when international luxury brands will be able to report positive financial results. Experiences from China have demonstrated that investment and commitment over the long term are the keys to achieving long-term profitability. Regarding India, the opinion of the Economist Intelligence Unit (2013, p.26) is that, 'Given the small size of the Indian market, it is a marathon rather than a sprint, but the big profits will eventually come.'

Conclusions

The rewards of success in high-growth emerging markets are potentially huge, and as luxury companies continue to expand their global reach, they will need to continually assess if their current strategy is delivering competitive advantage. This also requires that misconceptions need to be addressed at all levels within the organization. Innovative solutions will need to be fashioned that can turn business challenges into market strengths. This also means walking a fine line between luxury brands' desired global image and emerging markets' idiosyncrasies. In sum, 'companies must retain their core business propositions even as they adapt their business models. If they make shifts that are too radical, these firms will lose their advantage of global scale and global branding' (Khanna *et al*. 2005, p.73). This is a delicate balancing act that will continue to challenge even the most successful international luxury companies, yet it is essential that it is done effectively in order to secure sustainable growth in existing, emerging, and new frontier markets.

Note

1. Miu Miu has stores in Turkey, Russia, Morocco, Brazil, China, Malaysia, Mexico, and South Korea.

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