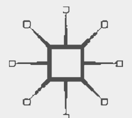
GLOBAL LUXURY

ORGANIZATIONAL CHANGE AND EMERGING MARKETS SINCE THE 1970S

EDITED BY
PIERRE-YVES DONZÉ
RIKA FUJIOKA



Global Luxury

Pierre-Yves Donzé • Rika Fujioka
Editors

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Organizational Change and Emerging Markets since the 1970s

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Preface and Acknowledgements

This book results from several years of joint research on the business history of fashion, apparel and luxury industries by the two editors. We benefitted from the support of several institutions, particularly the CARIS Project (Competitive Advantage of Regions and Industries), funded by the Japanese Society for the Promotion of Science (Grant-in-Aid for Scientific Research (A) 23243055, led by Takafumi Kurosawa, professor at Kyoto University, the DS-LAB Project (Practical science approaches for data mining business applications) at Kansai University, supported by the Japanese Ministry of Education, Culture, Sports, Science and Technology for Strategic Collaboration between Private Universities, and the University of Neuchâtel (Switzerland).

The editors have organized two meetings and gathered numerous scholars from management and business history to discuss the process and challenges of the globalization of the luxury industry since the 1970s. The first took place at the University of Neuchâtel in November 2014 and the second in Kyoto in August 2015, as a session of the World Economic History Congress (WEHC). We thank all the participants to these events for their contribution to lively and fruitful discussions. The editors have then selected some of the papers given at these meetings and invited additional scholars to join the team and contribute with a specific chapter in order to offer a volume that tackles with consistency the major issues related to the globalization of luxury business.

March 2017 Osaka and Rotterdam

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CHAPTER 1

Introduction

Pierre-Yves Donzé and Rika Fujioka

The luxury goods industry has undoubtedly been one of the fastest-growing sectors since the 1970s, and one in which Europe has managed to strengthen its competitiveness within the world market. According to the consulting firm Bain & Company, global sales in the luxury industry (including fashion, jewellery, watches, and cosmetics) shot up from 73 billion euros in 1994 to 253 billion euros in 2015 (Bain & Company 2015).

The second characteristic of this industry is that luxury business is based on relatively new firms, although they hold and manage brands with a history going back to the nineteenth century and even earlier for few of them. In 2013, most of the top 25 largest luxury groups (see Table 1.1) were indeed founded during the 1980s and the 1990s, or are older firms whose growth was based principally on the acquisition of other brands and companies since the 1980s. Hence, one can argue that the luxury business is a new industry, if one considers its organizational structure and largest actors. Yet the contemporary success of luxury goods throughout the world results essentially from their brand identity, which emphasizes both

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Table 1.1 Top 25 largest luxury groups of the world, 2013

Rank	*Company name*	*Most important brands*	*Country (headquarters)*	*Year of foundation*	*FY13 luxury goods sales (US$mil.)*	*FY13 total revenue (US$mil.)*	*FY13 net profit margin (%)*
1	LVMH Moët Hennessy-Louis Vuitton SA	Louis Vuitton, Fendi, Bulgari, Loro Piana, Emilio Pucci, Acqua di Parma, Donna Karan, Loewe, Marc Jacobs, TAG Heuer, Benefit Cosmetics	France	1987	21,761	38,717	13.5
2	Compagnie Financiere Richemont SA	Cartier, Van Cleef & Arpels, Montblanc, Jaeger-LeCoultre, Vacheron Constantin, IWC, Piaget, Chloé	Switzerland	1988	13,429	14,275	19.4
3	The Estée Lauder Companies Inc.	Estée Lauder, M.A.C., Aramis, Clinique, Aveda, Jo Malone	United States	1946	10,969	10,969	11.0
4	Chow Tai Fook Jewellery Group Ltd.	Chow Tai Fook	Hong Kong	1929	9979	9979	9.6
5	Luxottica Group SpA	Ray-Ban, Oakley, Vogue Eyewear, Persol, Oliver Peoples	Italy	1961	9713	9713	7.5
6	The Swatch Group Ltd.	Breguet, Harry Winston, Blancpain, Longines, Omega, Rado, Swatch	Switzerland	1983	8822	9128	22.8
7	Kering SA	Gucci, Bottega Veneta, Saint Laurent, Balenciaga, Brioni, Sergio Rossi, Pomellato, Girard-Perregaux	France	1992	8594	12,948	0.4
8	L'Oréal Luxe	Lancôme, Biotherm, Helena Rubinstein, Urban Decay, Kiehl's	France	1909	7791	7791	14.7

9	Ralph Lauren Co.	Ralph Lauren, Polo Ralph Lauren, Purple Label, Blue Label, Black Label, RLX Ralph Lauren	United States	1967	7450	7450	10.4
10	PVH Corp.	Calvin Klein, Tommy Hilfiger	United States	1881	6200	8186	1.8
11	Shiseido Co. Ltd.	SHISEIDO, clé de peau BEAUTÉ, bareMinerals, NARS, ISSEY MIYAKE, ELIXIR, Benefique	Japan	1872	5404	7659	3.8
12	Rolex SA	Rolex, Tudor	Switzerland	1905	5398	5398	n/a
13	Hermès International SCA	Hermès, John Lobb	France	1837	4975	4975	21.3
14	Coach, Inc.	Coach	United States	1941	4806	4806	16.3
15	Prada Group	Prada, Church's, Car Shoe	Italy	1913	4776	4776	17.8
16	Lao Feng Xiang Co., Ltd.	Lao Feng Xiang	China	1848	4175	5329	2.7
17	Tiffany & Co.	Tiffany & Co., Tiffany	United States	1837	4031	4031	4.5
18	Burberry Group plc	Burberry, Burberry Brit, Burberry London, Burberry Prorsum	United Kingdom	1856	3704	3704	14.3
19	Michael Kors Holdings Limited	Michael Kors, MICHAEL Michael Kors	UK	1981	3311	3311	20.0
20	Hugo Boss AG	BOSS, HUGO, BOSS Green, BOSS Orange	Germany	1924	3231	3231	13.7
21	Coty Inc.	Lancaster, Calvin Klein fragrance; Licensed fragrance brands: Marc Jacobs, Chloé	United States	1904	3186	4552	–1.4
22	Swarovski Crystal Business	Swarovski	Austria	1895	3095	3894	n/a
23	Giorgio Armani SpA	Giorgio Armani, Emporio Armani, Armani, A/X Armani Exchange	Italy	1975	2904	2904	1.1

(*continued*)

Table 1.1 (continued)

Rank	*Company name*	*Most important brands*	*Country (headquarters)*	*Year of foundation*	*FY13 luxury goods sales (US$mil.)*	*FY13 total revenue (US$mil.)*	*FY13 net profit margin (%)*
24	Chow Sang Sang Holdings International Ltd.	Chow Sang Sang	Hong Kong	1948	2571	3242	4.9
25	Luk Fook Holdings (International) Ltd.	Luk Fook	Hong Kong	1991	2420	2477	9.7

Source: Deloitte, *Global Power of Luxury Goods 2015*, Deloitte Touche Tohmatsu Limited, 2015, pp. 14–15. Retrieved from http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cb-global-power-of-luxury-web.pdf (accessed 12 May 2016)
Note: Years of foundation added by the authors

their timeless nature and their embodiment of heritage, craftsmanship, and history. Overcoming the contradiction between the modern organization of luxury companies and the traditional image of their product is one of the key challenges faced by this industry (Donzé and Wubs 2017).

Finally, another major characteristic of the luxury business is its high profitability. In 2013, companies such as Swatch Group, Hermès and Michael Kors had a net profit margin of 20% or more, while nine other enterprises of the top 25 had figure between 10% and 20%. Only one (Coty Inc.) was in deficit that year (see Table 1.1). Consequently, these companies attract the attention of investors and present usually a long-term growth largely superior of other blue chips in worldwide stock exchanges. Such a profitability results from the new management strategy implemented in the 1970s and 1980s which aimed at creating more economic value through building brands and controlling distribution.

1 Understanding the Dynamics of the Luxury Industry

The luxury industry has not always been the big business which it is today. Therefore, it is important to understand the dynamics of this sector in order to have a proper view over the conditions of its historical evolution, the way it was transformed into a fast-growing activity, and the reasons for its present-day success. Scholars in history, business history and management have focused on various aspects and issues of the luxury industry (Donzé and Fujioka 2017). Academic works can be roughly classified into two major fields, each of which adopts a different focus on “luxury”, making it to integrate these two perspectives.

Firstly, there are researches published by management scholars, notably in marketing (e.g. Okonkwo 2007; Chevalier and Mazzalovo 2008; Chevalier and Xiao 2009; Kapferer and Bastien 2009; Tungate 2009; Berghaus et al. 2014). Most of these works provide useful knowledge on luxury companies. They focus on luxury brands and analyze how these brands are built and managed, and how they differ from non-luxury brands. The authors of these works are often commissioned by luxury companies to carry out applied research and train the next generation of managers for these firms. Hence, there is a lack of detachment and critical thinking in these studies. However, they do offer a lot of information about the key issues for these particular businesses. For example, works on consumers’

behaviour emphasized that "luxury" is a subjective concept that depends on individual perception and experience (Wiedmann and Hennigs 2013). In the case of Danziger (2005), she showed that the expansion of consumption relies not only on wealthy persons but on a large range of customers. Other scholars have analyzed the conditions of consumption in specific markets, particularly in China and other emerging countries (Mo et al. 2009; Atwal and Bryson 2014). The process of internationalization and extension (democratization) of sales is linked with the implementation of a new distribution system, characterized by the vertical integration of retail and the development of flagship stores (mono-brand stores) in cities, to touch directly a growing number of young customers. With regard to luxury fashion in London, the first foreign flagship stores were French (YSL 1966 and 1971, Céline 1969 and Hermès 1974), and then they developed steadily after 1975, especially since the late 1980s (Fernie et al. 1997). Moreover, flagship stores are an important way to enter new foreign markets (Moore et al. 2010).

The most important contribution of management scholars to this debate is their discussion of the concept of "luxury". As value-added in this industry comes, in particular, from brand management, it appears necessary to give a precise definition of "luxury", to know what a luxury brand is, and how it should be managed (Kapferer and Bastien 2009; Keller 2009). One common view is that luxury goods have a set of characteristics such as tradition, heritage, high-quality, craft, etc. (e.g., Nueno and Quelch 1998). But these elements arise from the construction of brands and to date have not explained the essence of luxury. Kapferer and Bastien (2009) gave the best, less naïve and most useful definition: luxury brands are defined by their marketing strategy, which differs and is opposite to common marketing rules. They argue that *"what is important is not simply the history, but the myth that can be created around it, the source of the brand's social idealization"* (p. 93). Hence, brand management of luxury goods aims to create a distance from common consumer goods. Its objective is to establish "luxury" as the high-end segment of the market. Luxury is consequently not defined primarily by the intrinsic nature of goods, but by positioning – even if positioning in the top of the market requires then to give specific values to products. Furthermore, these studies left any investigation of the luxury industry out of the picture. They did not consider how luxury companies were specifically organized the departments of the development, the production, and the sales, particularly through M&A or a shift in the business model.

This perspective raises the issue of defining the bottom line for "luxury". It is indeed necessary to differentiate luxury goods from common consumer goods, but such a distinction is rather difficult as the later use also branding to add more value to products. Kapferer and Bastien (2009) stress that *"there is no continuous movement from premium to luxury"* because of very different marketing strategy (p. 42). They argue also that confusion appeared due to trading up of consumer goods since the 1980s, while luxury entry products did not change their positioning. Keller (2009) maintains also that luxury companies, like Armani or Gucci, extended their markets towards premium goods through a process called "vertical extension". Consequently, premium brands of consumer goods and luxury entry products are today based in the same price zone. In order to overcome this mix-up, some scholars introduced the idea that there are several kinds of luxury, all with their own positioning, strategies and management. Allérès (1991) talks about "inaccessible luxury", "intermediary luxury" and "accessible luxury". Yet, the problem with such an assumption is that she is not very clear about the differences between categories and do not explain really what is "luxury". Accessible luxury, for example Louis Vuitton handbags and Omega watches, is today a major target of luxury companies, because this segment provides the highest profits, due to large margins associated with massive sales. Silverstein and Fiske (2008) and Truong et al. (2009) use the concept of "masstige brand" (mass-prestige) to describe these goods.

Secondly, one must mention researches carried out by historians. A striking point while looking at their works is the fact they adopt a very definition of luxury from that adopted by management scholars. For the majority of historians, luxury is not a segment of the market but, rather, the outcome of the birth of consumption society during the eighteenth century in the United Kingdom. It was a new business and a new industry, rather than brands which requires a specific management. While "luxury" used to be associated with wealth, status, and the power of the aristocracy, and criticized for this reason by writers during the seventeenth and eighteenth centuries, the meaning of luxury shifted to the consumption of products that were more than simple necessities (Berg and Eger 2003). A similar perspective is adopted in relation to the United States (Anderson 2012) and Continental Europe (Sougy 2013). Hence, this notion is not linked with the idea of social distinction. Carnevali (2011) demonstrates for example with the production of cheap jewellery for the masses that this phenomenon lasted until the twentieth century.

The problem with these works is their definition of "luxury". Historians show that economic development leads a growing number of population to buy products which are not necessaries (food, clothes, etc.), a phenomenon linked with the emergence of middle classes. Berg (2007) talks about "new consumer products" (p. 7). In France, the development of a manufacturing industry based on specialized small enterprises in Paris during the nineteenth century is analysed as the sign of the rise of a luxury industry (Woronoff 1994, pp. 220 and 332). The growing demand for luxury goods led to the creation of many companies at that time, of which many today's luxury brands (Bergeron 1998). Historical approaches worked very well in understanding this developing process. Hence, the industrialization of luxury goods is a major concern for historians. Verley (2006) introduced the idea of "demi-luxe" (*half-luxury*), stressing that mechanization and mass production led to a decrease of quality. Ferrière le Vayer (2007) has a more pessimistic approach and offers a nostalgic view, emphasizing that the industrialization of French traditional luxury goods gave way to a *"dichotomy between production and creation"* (p. 161).

Consequently, works published by management scholars and historians present a large variety of perspective which makes it possible to consider luxury through numerous angles. However, these two fields considered dialectically have some shortcomings to offer a proper understanding of the dynamics of the luxury industry. A first problem comes from the meaning of luxury and the lack of a shared definition. Among historians in particular, there is very few interest to provide a shared definition of "luxury" as an analytical tool to understand the development of this industry in a long term perspective. We need to clarify if luxury is related to non-necessary goods manufactured since the eighteenth century, and synonymous of consumer goods, or to the high-end segment of markets. A second problem in these works is the absence of continuity between the past and the present. On the one hand, management scholars focus on the present time. Some of them go back to the 1990s but very rarely before. On the other hand, historians are reluctant to analyse the last decades. They concentrate on periods until World War II and do usually not extend their research after 1945. Consequently, the period between the 1970s and the 1990s has been overlooked by scholars. Yet this is during these decades that a deep industrial reorganization occurred in this sector and gave birth to the contemporary luxury industry. There is hence a need to give more attention to that period.

2 The Turning Point of the 1970s–1990s

Focusing on the dynamics of the luxury between the 1970s and the 1990s is necessary to understand the current success of European luxury companies. The three main trends of these decades can be identified as follows: organizational change, emerging markets, and new marketing strategies.

First, the fast-growing demand posed a major challenge for most producers of luxury goods. The European luxury industry consisted essentially of small and medium-sized enterprises (SMEs), owned and managed by families, and organized like crafts. They lacked the financial and marketing resources to meet this growing demand. One answer to this challenge was a structural adaptation, marked by a wave of mergers and acquisitions (M&A) from the 1970s onwards, and peaking in the 1980s. This process led to the consolidation of a few enterprises in France and Switzerland, such as LVMH and the Swatch Group (Bonin 2012; Donzé 2014). The top 25 largest luxury groups of the world in 2013, expressed in Table 1.1, clearly show the importance of the large groups founded during these decades. Many of the most important enterprises were founded in the 1980s (LVMH, Richemont, Swatch Group) and early 1990s (Kering). Even if they hold numerous companies and brands whose roots go back to the nineteenth century or even earlier, their competitive advantage relies on their organizational structure as conglomerates. Their new strategy is based on the verticalization of distribution, the quest for financial profit, the employment of new managers from the global consumer goods industry, and the globalization of brands. Moore and Birtwistle (2005) argue that the integration of Gucci in a huge financial group (the French PPR) supported the rebirth of the company in the second part of the 1990 and its successful move to a "multi-luxury-brand conglomerate", this process being called the "parenting advantage".

Yet, at the same time, a new generation of SMEs were founded or relaunched by fashion creators, especially in Italy and the UK. Remaining independent from large luxury groups was, however, a major challenge, as most SMEs were the target of (hostile) takeovers. In Italy, Colli and Merlo (2007) and Merlo (2012) stressed another way to reorganize the textile and apparel industry towards fashion and brands. In the context of building buyer-driven global value chains, production was mostly transferred abroad, and companies, mostly family-run SMEs, focused on design, branding and distribution. In the UK, Moore and Birtwistle (2004) have emphasized the importance of rebranding and the role of new managers, with a tighter

control on the brand, on manufacturing, and on distribution, since the late 1990s through the case of Burberry. The top-down control of the brand seems to be decisive. Prada followed a similar path in the 1980s (Moore and Doyle 2010). In the case of Chanel in France, Nagasawa and Sugimoto (2010) stressed the importance of the strategy to diversify to accessories and the role of personal designers like Lagerfeld. Even if the company kept independent, it developed the same strategy of verticalization of accessory production since 2002. Consequently, a large number of the top 25 luxury firms which were founded during the nineteenth century or the first part of the twentieth century are former family firms which kept independent but followed the strategy of conglomerates and sometimes built their own group. For example, L'Oréal Luxe, which started as a small hair dye business in France in 1909, actively entered into the luxury business through the acquisition of Lancôme and the perfume business of Guy Laroche in 1965. This extension was made possible by the transformation of L'Oréal into a joint stock company, listed on the Paris stock exchange (1964). It experienced a fast growth during the 1980s, based particularly on the takeover of other companies, including Helena Rubinstein in 1988, and the purchase of many licenses for cosmetics and fragrances such as Ralph Lauren in 1984; Paloma Picasso in 1984; Giorgio Armani in 1988 (Jones 2010). This case shows that companies independent from large groups faced major reorganization during the 1970s–1990s, even if their long-lasting existence gives the impression of continuity.

Second, the expansion of markets, especially the opening of new outlets, was the driving force behind this organizational change. Western Europe and the US became mature markets in the 1970s, and the oil shock strengthened the consumption of luxury goods in these regions. In this context, Asia appeared as the new focus for growth in the luxury market: developments in Japan and Hong Kong between the 1980s and the 1990s, were followed by South Korea after the Seoul Olympics in 1988, then China from the year 2000 (Donzé and Fujioka 2015). Luxury companies found local partners to distribute their products (such as department stores and real estate companies). Looking back at Table 1.1, this explains the presence of companies from Hong Kong (Chow Tai Fook, Chow Sang Sang, and Luk Fook), who based their success on the retail of jewellery, and Swiss watches in the case of Chow Tai Fook, in expanding markets in Asia, principally in China. The expansion of markets also occurred through the so-called 'democratization' of the consumption of luxury goods. Global brands such as Christian Dior and Louis Vuitton started to launch

accessories (such as perfume, watches, and belts) in order to reach a larger range of consumers, and to expand profits. The Italian producer of glasses Luxottica benefitted from this diversification of luxury companies towards accessories. It produces not only under its own brand, but contracted licenses for a large number of luxury brands, such as Bulgari, Chanel, Prada and Versace (Campagnolo and Camuffo 2011).

Third, and finally, while the growth of the economy and democracy of the consumption in the emerging countries are crucial for the expanding the luxury market, luxury companies should attribute their success to strategies, responding to the demands of the international market. Luxury companies have developed their markets and also luxury market stimulates the companies' strategies and cultivates the global brands. Therefore, brands and companies offer two different and additional perspectives to analyze the global luxury industry. In the 1990s luxury companies (both big business and SMEs) implemented a new marketing strategy characterized by the desire to control global brands (Lopes 2007). Adaptation and customization did not disappear completely but these were directly controlled from the brands' European headquarters. Moreover, the dramatic development of these companies as they shifted from a niche market to a mass market (or the 'democratization of luxury'), led to a need for new advertising strategies and the internalization of sales. Bernard Arnault (founder and chairman of LVMH) argued that *"if you control your distribution, you control your image"* (quoted by Atwal and Bryson 2014, p. 166). The issues related to brand management and distribution have been briefly introduced in the section above about works by management scholars. Their implementation should be understood within the broader context of industrial reorganization and the expansion of markets.

3 Content of the Book

This book builds on existing and aforementioned literature in management and history. Its objective is mainly to focus on the last five decades (1970s until today) and to analyze the historical development of the luxury goods industry. The authors of this book follow the definition of luxury provided by management scholars, namely products positioned in the high-end of markets for which companies use particular marketing strategies. Consequently, this book addresses the following three research questions in order to offer a new way of looking at the dynamics of the global luxury industry.

1. *How have industrial organizations changed in a global context since the 1970s?*

During the last five decades, the luxury industry experienced a major industrial reorganization, characterized by the emergence of large multinational companies (MNCs) on the one hand, and the revival of family-owned SMEs on the other. The relation of MNCs and SMEs must be discussed in detail, as the process of growth of MNCs like LVMH relies mostly on the takeover of SMEs. Yet, the process of this industrial mutation has still not been thoroughly analysed by scholars. Hence, the first objective of this research is to shed light on the driving forces that made this industrial change possible. From this perspective, Part I will address the following issues:

How have industrial organizations changed through the actions of entrepreneurs and companies (big business and new SMEs)? What has their relation with craft and tradition (internalization or outsourcing) been? How have they built portfolios of brands? How have they used global value chains and how have they managed a trade-off with regionally or nationally rooted brand identities (such as Made in Italy and Made in France)?

2. *How, why, and since when have luxury companies adapted their products to specific countries?*

Most of the literature on management emphasizes the so-called democratization and globalization of the luxury industry to explain the success of luxury companies in the global market. Yet, it is necessary to examine this 'democratization' and 'globalization' of brands and products, in order to understand how companies became able to establish themselves as mass producers and retailers of luxury goods. Part II will therefore discuss in depth the idea of 'global' brands and markets, and will show how, why, and since when luxury companies adapted their products to specific markets (customization). It will also address the following issues:

What does it mean to 'enter a market' and how has it been done? Who are the local partners? What relations are built with them (such as supplying goods, or creating joint ventures or mergers)? Are mature markets (the USA, Europe, and Japan) still important?

3. *How have luxury companies been able to establish competitive advantage in the industry?*

Luxury is not only a fast-growing industry, but also a very competitive one. The aim of luxury firms to remain competitive and be able to successfully break into new markets must be combined with a marketing strategy to control the image of their brands and the distribution of their goods. The luxury industry is usually seen as the 'natural' outcome of traditional craft knowledge in Europe, but it is important to question this link and to analyse the relation between modern luxury corporations and tradition, craft, and heritage. Another issue for luxury companies is their distribution strategy, which also relates to brand management, as it impacts deeply on brand image. Since the 1990s, the rise of mono-brand and duty-free stores as new sales channels for luxury goods, challenged the traditional relation between the producers and the independent distributors and retailers. Hence, there is also a need to focus on the distribution strategy of luxury companies in relation to their brand strategy, to understand how they were able or unable to verticalize distribution and maintain access to their customers. Part III will review the myth concerning luxury brands and will investigate their strategies for establishing competitive advantage in the industry.

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PART I

Organizational Change

CHAPTER 2

The Birth of Luxury Big Business: LVMH, Richemont and Kering

Pierre-Yves Donzé

1 Introduction

Today, large enterprises exercise strong domination of the luxury industry. According to a survey published by the consulting company Deloitte in 2015, 27 companies in this business had luxury goods sales of over two billion USD in 2013, the largest being LVMH with 21.8 billion USD (Deloitte 2015). Besides, although many brands owned and managed by these firms have an old history, some of them going back to the early nineteenth century, the dominance of big businesses in the luxury industry is a recent phenomenon.

Rather than the year of foundation of these companies, the date of their initial public offering (IPO) is a good sign of their transformation into big businesses. For family firms, as was the origin of many luxury companies, going public allowed them to enlarge capital to support their reorganization and expansion into global markets. It expresses a fundamental change in the management of luxury business and in the organizational structure of this industry. The IPO's dates of the 25 largest luxury companies in 2013 (see Table 1.1, p. 2) show clearly that the 1980s were a turning point and that large French luxury groups became the benchmark of the

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industry.[1] Of these 25 firms, only three were not listed in 2016 (Giorgio Armani, Rolex and Swarovski). In 1980, only five companies were already traded in stock exchanges (Chow Sang Sang, Coty, L'Oréal, PHV and Shiseido). In the case of many companies, they needed cash to expand in their domestic markets for some of them (jewelry in Hong Kong for Chow Sang Sang, fashion in the US for PHV, cosmetics in Japan for Shiseido) and on global markets for the cosmetics companies Coty and L'Oréal (Jones 2010). Then, during the 1980s, six new companies entered stock exchanges, among them three general luxury companies which dominate the industry today: LVMH (1987), Richemont (1988) and Groupe Pinault (1988, today: Kering). The remaining three companies were specialized firms (watches for Swatch Group, jewelry for Tiffany and fashion for Hugo Boss). Next, six more companies were listed in the 1990s (Estée Lauder, Hermès, Lao Feng Xiang, Luk Fook, Luxottica and Ralph Lauren) and five after 2000 (Burberry, Chow Tai Fook, Coach, Michael Kors and Prada). All are specialized luxury firms.

Analyzing the reasons for why all these firms decided to enter stock exchanges and the impact of this decision on their growth goes beyond the scope of this chapter. Scholars in management have tackled some of these cases and showed that independent companies followed the development strategy implemented by general luxury groups like LVMH, characterized by the takeover of other companies and the expansion of retail network (Moore and Birtwistle 2004; Moore and Birtwistle 2005; Moore and Doyle 2010). Hence, IPO was often chosen as a way to fund the capital necessary for M&A and the opening of new stores throughout the world. The management of luxury firms was deeply affected by such a change, as financial profits and returns on equity became key objectives (Bonin 2012; Kapferer and Tabatoni 2012).

This chapter argues that the three large diversified luxury groups which dominate the industry today (LVMH, Richemont and Kering) have played a major role in the transformation of luxury business since the 1990s. Their strategy, organization and management practices became a model for smaller specialized companies to follow, whether they were engaged in fashion, cosmetics, watches or jewelry. However, the process of creation of these groups during the 1980s as well as their growth remains rather unclear. Chatriot (2007) and Bonin (2012) offered a general overview of the mutation of French fashion and luxury sector within the general context of "the crisis which shook European and French capitalism in the 1970s and 1980s" (Bonin 2012, p. 114). In addition, Moore and Birtwistle (2005)

have argued that the constitution of groups of firms leads brands to benefit from intra-business group synergies in terms of supplies, financial means and marketing. Furthermore, based on an analysis of the evolution of LVMH's organization from its foundation in 1987 until today, Donzé and Wubs (2017) showed that the centralized management of creativity was the source of its competitive advantage.

This chapter builds on this literature, focusing on the constitution and the evolution of the three luxury conglomerates since the 1980s. It addresses, in particular, the issue of their organization (capital structure, diversification, management) and external growth (M&A), with the objective to emphasize various types of organizational models. The new marketing strategies implemented by these groups are only mentioned incidentally, as they are the subject of other chapters in this book. This research is based on annual reports and reference documents (official financial reports released annually by companies listed at Paris stock exchange) published by the three groups and publicly accessible on their websites. Business newspapers and magazines offered additional information. The chapter consists of four sections, in addition to this introduction. The following sections describe the evolution of each of the three groups; the final sections considers similarities and differences between the development of the groups.

2 Louis Vuitton Moët Hennessy

The French group Louis Vuitton Moët Hennessy (LVMH), which is today the uncontested world's largest luxury company, is the result of the merger in 1987 of two small family companies, who needed more cash to pursue their growth and expansion on global markets (Eveno 1999; Bonin 2012; Donzé and Wubs 2017). The first of these was the leather goods maker Louis Vuitton, a small company which experienced rapid growth in the early 1980s. Gross sales for Louis Vuitton went from 51.7 million euros in 1981 to 213.4 million euros in 1985, thanks to rapidly increased sales in the Asian markets (17% in 1981 and 44% in 1985).[2] In 1986, profits were re-invested in the purchase of Veuve Clicquot, which owned several champagne brands and the company Parfums Givenchy. The second company was Moët Hennessy, a group founded in 1971 through a merger between producers of champagne (Moët & Chandon) and Cognac (Hennessy). Moët & Chandon had previously acquired a number of other champagne makers (Ruinart in 1962, Mercier in 1970) and diversified its activities through the

takeover of the cosmetics company RoC and Parfums Christian Dior (1971).

The 1987 merger aimed to provide cash as well as to rationalize perfume and champagne businesses. This was made possible with the financial support of two French banks (Lazard Frères and Paribas) but the owners of the two companies kept control over LVMH through preferred shares with special voting rights (37% of capital but 55% of votes). Yet, as a result of conflicts between Louis Vuitton and Moët-Hennessy's CEOs, a minority shareholder of LVMH, Bernard Arnault, was able to acquire the shares of Henri Racamier, the CEO of Louis Vuitton, with financial support of the British beverage group Guinness, and to take control of LVMH (Lopes 2007). A few years earlier Arnault had taken control of the textile group Boussac (1984–1985), which in turn had owned the couturier Christian Dior. Arnault had also acquired the department store Bon Marché, the couturier Christian Lacroix, and the leather goods manufacturer Céline in 1987.[3] The intention of these activities was to merge these brands and companies, and to organize a large group in consumer goods and luxury. Hence, in its origins, LVMH was a purely French luxury group. It gathered together companies and brands from champagne, cognac, fashion and perfume. In 1991, 66.8% of its workforce was employed in France.

Up to the mid-1990s, LVMH focused on the reorganization of the company (Donzé and Wubs 2017). In 1994, it made a new agreement with Guinness. The later acquired 34% of Moët-Hennessy and continued to cooperate with LVMH for the worldwide distribution of its beverages. It withdrew from LVMH's capital, and LVMH in turn reduced its stake in Guinness from 24% to 20%. These transactions generated nearly three billion euros cash for LVMH which enabled the group to acquire more companies related to its businesses. A large number of them were not French. It was the first step to the internationalization of LVMH. For example, in fashion, it purchased the Japanese designer Kenzo (1993), the Italian shoemaker Berlutti (1996), the Spanish fashion company Loewe (1996) and took a majority stake in the firm of the New York designer Marc Jacobs (1997). In the area of perfume and cosmetics, LVMH merged with Guerlain (1994). Consequently, the assets of the company were multiplied fourfold during the 1990s (see Fig. 2.1), rising from 4.8 billion euros in 1989 to 20.7 billion in 1999. This expansion did not rely uniquely on the cash provided by the agreement with Guinness and shareholders' equity was in decline during this decade, reaching the bottom figure of 28.9% in 2001. Moreover, although sales grew from 3 billion euros in 1990 to 11.6 billion

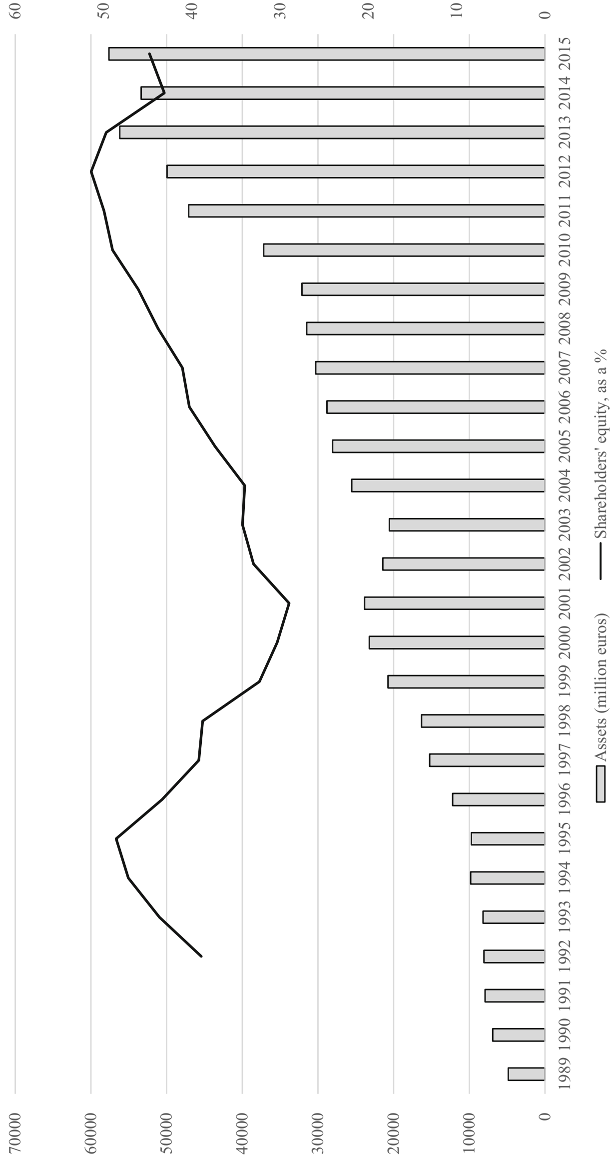

Fig. 2.1 LVMH's assets and shareholders' equity, 1989–2015 (Source: LVMH, annual reports and financial reports for shareholders ("reference documents"))

euros in 2000, the operating income declined from 28.6% of sales to 16.9% during this period.

Consequently, it was necessary to establish a new strategy to ensure the continuation of growth. Arnault decided to focus on luxury industry and to establish the group as a global leader. First, he diversified from unrelated businesses (through sales of the US cosmetics companies Hard Candy and Urban Decay in 2002, of a minority stake in the auction house Phillips, de Pury & Luxembourg in 2003, of a minority stake in Michael Kors in 2003, and of Ebel watches in 2004). LVMH also disposed of Hine cognac (2003) and Canard-Duchêne champagne (2003) in order to focus on its other brands.

At the same time, LVMH continued its expansion through the acquisition of luxury companies in various countries. In fashion, it took over for example Thomas Pink (1999) in the UK, Emilio Pucci (2000) and Fendi (2000) in Italy, and Donna Karan (2001) in the USA. Moreover, it engaged in watches in 1999, through the merger of the Swiss companies Tag Heuer and Zenith, followed by Hublot in 2008. LVMH was already present in jewelry since the purchase of the French company Fred (1995) and it strengthened its position with the acquisition of another French jeweler, Chaumet (1999), the foundation of a joint venture with the South African diamond company De Beers (2001) and the takeover of Bulgari, from Italy (2011).

This series of investments transformed LVMH into a real global luxury company. Accordingly, the share of employees based in France declined constantly throughout this period, reaching 37.4% in 2000 and 18% in 2015. This expansion through M&As is easily visible through the development of assets. They went from 23.2 billion euro in 2000 to 57.6 billion euros in 2015. Yet this growth was possible without losing control of the company. The shareholders' equity shows a general trend of increase, from 30.3% in 2000 to 44.8% in 2015, after a peak at 51.4% in 2012. As for Bernard Arnault, he retained the majority of votes through preferred shares (46.6% of capital and 62.9% of votes in 2015). This successful and independent development was made possible by the growing profitability of LVMH. While gross sales went from 11.6 billion euros in 2000 to 35.7 billion euros in 2015, the operating income grew in the same time from 16.9% of sales to 18.5%, after a peak at 22.2% in 2011.

The purchase of tens of companies throughout the world over the course of two decades presents a major challenge in terms of finance and organization, so that the LVMH group as constituted in 2016 is very different to

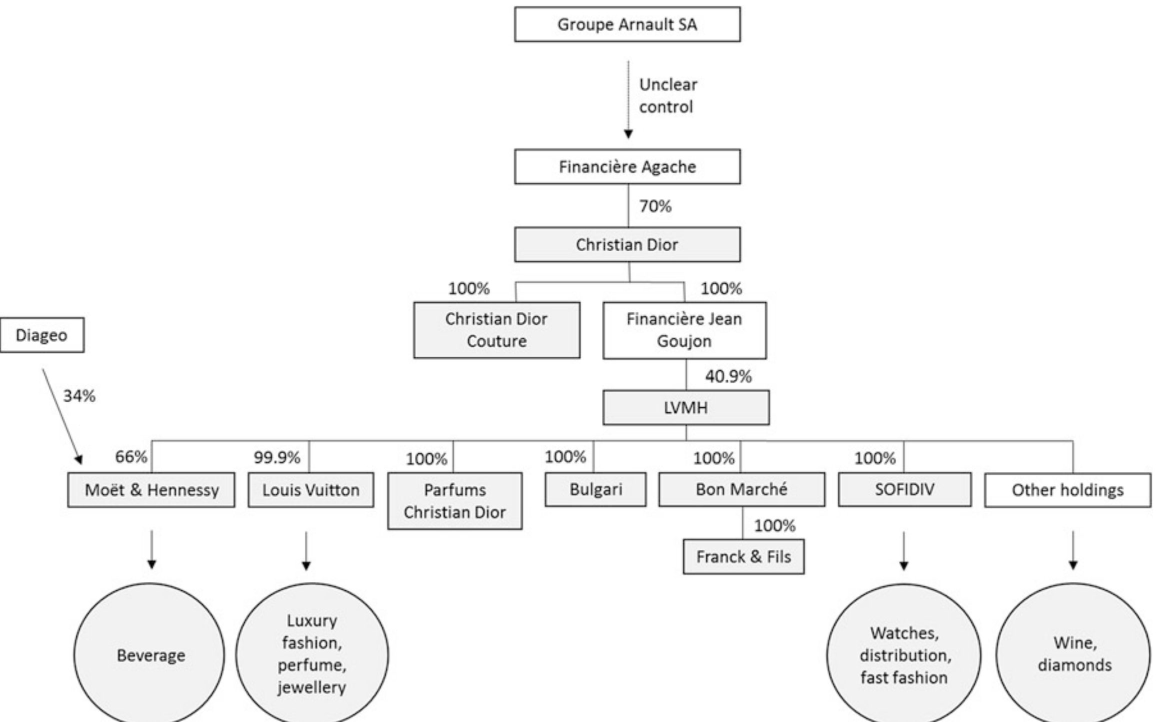

Fig. 2.2 Organization of LVMH in 2015 (Source: Drafted by the author on the basis on LVMH's annual reports and financial reports for shareholders ("reference documents"))

what it was thirty years earlier. The organization chart of the company given in 2016 makes it possible to highlight two points. First, Bernard Arnault was able to keep control of his company thanks to the support of various investors. His control of LVMH is actually very indirect. In 2015, he owned directly only 5.7% of the capital (6.2% of votes) but controlled the largest shareholder, Financière Jean Goujon (40.9% of capital and 56.7% of votes), through various companies. Hence, in each step of the pyramid (Financière Agache, Christian Dior, LVMH), Arnault needs the cooperation of investors who trust him and support his strategy.

Second, with the exception of Christian Dior, all of the operating companies are controlled by LVMH. During the second part of the 1990s, LVMH organized gradually an executive committee to coordinate the activities of its operating companies involved in a same industry. It started with champagne (1995) and was swiftly followed by perfume (1997), and then by other products. This committee, which was made up of 12 members in 2016, had a major impact on the positioning of the various brands and consecutively, on product development. It "defines strategic objectives [and] coordinates their implementation."[4] Headquarters in Paris exert a strict control over the management of all LVMH's brands (Fig. 2.2).

3 Compagnie Financière Richemont

The birth of Compagnie Financière Richemont (hereafter "Richemont") in 1988 was the outcome from the meeting between French entrepreneurs who had took over jewelmaker Cartier and a South African investor, Anton Ruppert (Donzé 2017). Since its foundation in the mid-nineteenth century in Paris, Cartier was a small family firm specialized in the manufacture and the sales of jewelry for wealthy customers. The business model of the company had basically not changed for more than a century and it faced financial difficulties and a decline of profitability during the 1960s. In 1972, French entrepreneur Robert Hocq, an industrialist who had produced Cartier lighters under license since 1968, and the financier Joseph Kanoui purchased the jeweler. They repositioned it as a brand of accessible luxury to recover profitability. Under the operating direction of Alain-Dominique Perrin, the company launched in 1973 the concept *Must de Cartier* and focused on the production of accessories such as lighters and watches. Next, Kanoui bought out Cartier sales companies in the USA and UK, and opened a factory in Switzerland to produce accessories in 1979. The development of Cartier required more capital, however. Their new owners

turned to Anton Rupert, a major entrepreneur and investor in South Africa, who wanted to diversify his assets. He took over Cartier in 1988.

The family Rupert had made its fortune in mining, tobacco, finance, media and luxury. In 1988, the patriarch Anton Rupert, aged 70, decided to found Richemont in order to manage all of his foreign assets. He established the company in Switzerland, in the tax haven canton of Zug. Richemont was listed on the Zurich stock exchange but the Rupert family maintained its control through preferred shares with special voting rights. In 2016, a financial firm controlled by the family (Compagnie Financière Rupert) held 9.1% of equity but 50% of voting rights.

At the time of its foundation, Richemont owned two companies engaged in luxury business (Cartier and Dunhill), which themselves controlled other luxury brands such as Yves-Saint-Laurent (owned by Cartier) or Montblanc and Chloé (owned by Dunhill). The same year, Cartier purchased two Swiss watch companies (Piaget and Baume & Mercier). In 1993, the various luxury companies were gathered within the Vendôme Luxury Group, as a division of Richemont.[5] It acquired new companies from various European countries: the gunmaker Purdey, from United Kingdom (1994), the watch companies Vacheron & Constantin, from Switzerland (1996) and Officine Panerai, from Italy (1996), as well as the leather goods maker Lancel, from France (1996) and the Hong Kong-based fashion company Shanghai Tang (1998). All were small private companies, mostly family owned, who needed more capital to expand. Consequently, the assets of Richemont went from 2.8 billion pounds in 1994 to 5 billion pounds in 1997, with a decline of equity from 74.7% to 66.4%. However, Richemont was still a diversified conglomerate which continued to carry out business in tobacco and in television until the late 1990s. In fiscal year 1997, gross sales amounted at 4.8 billion pounds but luxury sales represented only 31.3% of sales and 25.5% of profits.

In 1999–2005, Richemont operated a strategic change characterized by a more intense focus on luxury. First, the company exited from television business (2000). Second, it sold out the British garment company Hackett (2005). Third, it reduced gradually its engagement in tobacco—this business was transferred in 2008 to a newly founded financial holding company controlled by Ruppert, Reinet Investments. Hence, Richemont became progressively a group specialized in luxury. It transferred its headquarters from the canon of Zug to Geneva, a city closer to Paris and an incubator of talented luxury managers.

Since the 2008 restructuring, the organization of Richemont is quite simple. It consists of a holding company with three divisions which gather the various brands (Jewellery Maisons; Specialist Watchmakers; Other Businesses). The holding controls coordination between brands. It provides them with centralized services (finance, legal, logistics, manufacturing, marketing, real estate, etc.) and regional services throughout the world (after-sales, human resources, logistics, real estate, etc.).

Most of all, this restructuration provided cash to develop further the luxury business through the acquisitions of new companies without opening the capital or relying on banks. Assets had indeed declined from 8.7 billion euros in 2001 to 5.2 billion in 2004, and equity grew up to 95.5% in 2004 (see Fig. 2.3). During this phase of transformation, Richemont took control of the French jeweler Van Cleef and Arpels (1999) and watch companies based in Switzerland, Jaeger-LeCoultre (2000) and IWC Schaffhausen (2000), as well as in Germany, Lange and Söhne (2000). Gross sales were however in stagnation in 2000–2005, with an average of 3.5 billion euros and a low profitability (average operating income of 13.5%).

In the mid-2000s, Richemont strengthened its investments. It purchased several manufacturers of parts and movements for its watch companies, such as the case producer Donzé-Baume (2007). At the same time, it took over Minerva (2006) and Roger Dubuis (2008), two watch companies based in Switzerland. In 2007, it also signed an agreement with Ralph Lauren for the production of watches under license for this brand. Moreover, Richemont engaged actively in luxury fashion, through the acquisition of the Parisian house Azzedine Alaïa (2007) and the US lifestyle brand Peter Millar (2012). Finally, the group acquired the majority of the shares of Net-A-Porter Group, the premier online luxury fashion retailer (2010). It was merged five years later with the Italian company Yoox, engaged in the same business. The control of a global distribution network and the ability to invest massively in retail is a major competitive advantage of luxury groups since their formation (see below). Hence Richemont's investment in online sales fits in line with a long-standing attention for sales. The share of retail in gross sales—that is direct sales through directly owned stores against sales to wholesalers—grew from 29.5% in 1995 to 55.5% in 2016.

These various acquisitions, together with the organic growth of existing subsidiaries, gave way to the fast development of Richemont after the separation with tobacco business. The assets of the group went from 7.7 billion euros in 2010 to more than 20 billion euros in 2015 and 2016. In the course of a few years, Richemont became nearly three times larger.

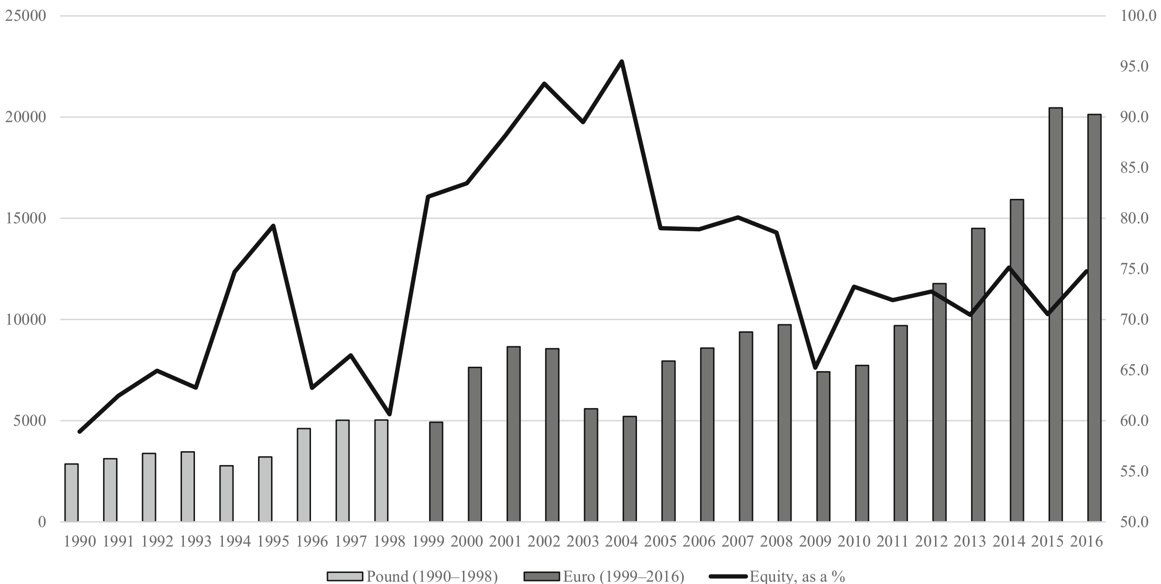

Fig. 2.3 Richemont's assets and shareholders' equity, 1990–2016 (Source: Compagnie Financière Richemont, annual reports, 1990–2016. Note: Fiscal years end in March (2016 = April 2015 to March 2016))

Moreover, this huge expansion was essentially realized without affecting the independence of the group. The shareholders' equity stayed at an average of 72.7% and the share capital was not increased. Most of the cash used for this development came from profits, which were re-invested in the group. Together with sales, which went from 3.7 billion euros in 2005 to 11.1 billion euros in 2016, profits increased very fast. The operating income amounted at 15.3% of sales in 2005 and peaked at an average of 23.8% in 2012–2015, before declining to 18.6% in 2016.

4 Kering

The third general luxury multinational enterprise, Kering, is a French company which was focused on distribution and invested in luxury in 1999 through the acquisition of a stake in the Italian firm Gucci. The roots of Kering go back to a company set up in 1963 in France by François Pinault, which specialized in the international trade of wood and construction materials (Daix 1998). Pinault SA focused mostly on this business during the 1970s and the 1980s. In 1988, it entered the Paris stock exchange in order to get cash to diversify into other fields of trade and distribution. Hence, it took control successively of Compagnie Française d'Afrique occidentale (CFAO), a firm that specialized in the distribution of electrical material and in general trade with Africa (1990), the furniture retailer Conforama (1991) and the group Au Printemps SA, which controlled Printemps department store in Paris, the food retailer Prisunic and the mail order company Redoute (1992). Pinault SA was renamed Pinault-Printemps-Redoute (PPR) in 1994, when it was one of the largest distribution company in France.

However, despite the opening to new investors, the family Pinault kept control over its company through a system of preferred shares with special voting rights. In 1987, before entering the Paris stock exchange, François Pinault organized a financial company, Financière Pinault, controlled completely by the family according to French mass media.[6] This company holds the whole capital of another financial company, Artemis SA, founded in 1992 to manage the various investments of family Pinault.[7] Hence, Artemis is currently the majority shareholder of PPR. In 1998, it held 42.7% of PPR's capital but had 58.5% of voting rights. These proportions stayed broadly similar until the present day (40.9% of capital and 57.4% of voting rights in 2015). Consequently, Pinault was able to attract more cash from investors without losing control over his firm.

During the second part of the 1990s, PPR pursued its development in distribution business, notably with the takeover of the discs and books chain store Fnac (1995), and expanded abroad through various M&As and partnerships. Yet, in 1998, it was still strongly dependent on French (55.8% of sales) and European (21.9%) markets. Profitability increased but was still low: the operating income went from 3.8% of gross sales in 1994 to 5.5% in 1998.

In 1999, PPR entered the luxury business through a 40% stake in the Italian company Gucci for 2.9 billion US dollar (Moore and Birtwistle 2005, p. 257). Gucci was a family firm founded in Florence in 1923, specialized in the manufacture and the sale of luxury leather goods. It experienced rapid international growth in the 1960s and 1970s, and adopted in 1979 a strategic move to the development of a high variety of accessories through license agreements. This strategy, however, damaged the brand image and the company faced financial losses. In 1993, the Gucci family sold its shares to the Bahrain-based equity investment company Investcop, who had also acquired other luxury companies, including the French jeweler Chaumet and the Swiss watchmaker Breguet. The new management, led by the American designer Tom Ford as creative director since 1992, re-focused on the core products of Gucci (leather goods and ready-to-wear) and re-establish Gucci as a luxury brand. The company experienced a brilliant success, with gross sales going from 500 million USD in 1986 to 975 million USD in 1997.[8] Investcorp made an IPO in 1995 that aroused keen interests by investors. PPR was on them, but not the only one. In 1999, LVMH had purchased 34.4% of the capital. Hence, PPR proposed Gucci to increase its capital and to take a 40% stake, while LVMH's new proportion of capital was reduced to 20%. After a long fight in courts, LVMH accepted in 2001 to sell its shares to PPR.

The cash provided by PPR in 1999 was used by Gucci to build an international multi-brand luxury group, through the acquisition of various companies (Moore and Birtwistle 2005): the French couturiers Yves-Saint-Laurent (1999) and Balenciaga (2001), the Italian shoemaker Sergio Rossi (1999), the French jeweler Boucheron (2000), the Swiss watch company Bedat & Co. (2000), the British fashion designers Alexander McQueen (2000) and Stella McCartney (2001), and the Italian leather goods manufacturer Bottega Veneta (2001).

These investments had a deep impact on PPR's balance sheet (see Fig. 2.4). Assets grew from 12.6 billion euros in 1998 to 35 billion euros in 2001, while shareholders' equity dropped from 29.4% to 24.5%. Although

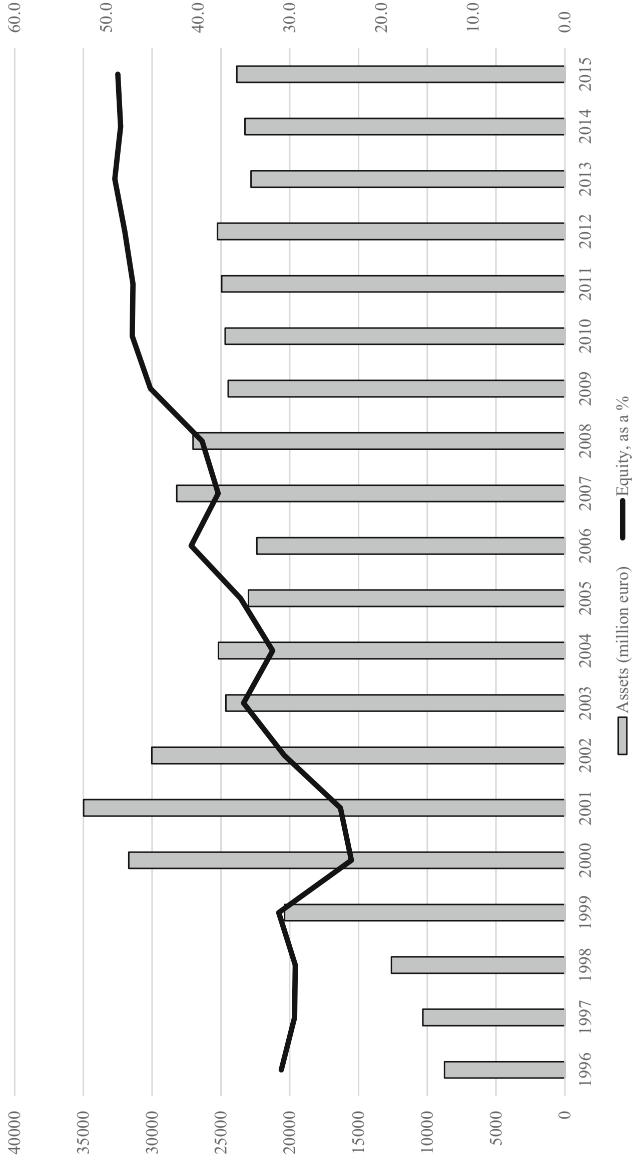

Fig. 2.4 Kering's assets and shareholders' equity, 1996–2015 (Source: Kering, financial reports for shareholders ("reference documents"))

the sales of the luxury division amounted at a mere 9.1% of gross sales, this division showed a very high level of profitability. Its operating income was 15.9% of sales in 2001, while it was only 5.6% for the whole group. Consequently, Pinault decided to restructure his group and to refocus it on luxury. This reorganization presents three main characteristics.

First, PPR disinvested from general distribution. It gradually divested itself of several companies it held throughout the world. For example, it withdrew from wood and materials (2003) and sold the Paris department store Le Printemps (2007). PPR's assets decreased from 35 billion euros in 2001 to 22.4 billion euros in 2006. Disinvestments from distribution continued after 2007, PPR selling Fnac in 2012 and La Redoute in 2014. The share of distribution went from 79% of gross sales in 2006 to 34.1% in 2011.

Second, PPR used the cash provided by disinvestments and profitability of Gucci to invest in a new business in 2007, through taking a 27% stake in the German sportswear company Puma, which was increased to 75% in 2011. Then, the lifestyle division was developed through an M&A strategy, with the takeover of Dobotex International (2009), Brandon (2009), Cobra (2010) and Volcom (2011). Moreover, in 2015, Pinault's group launched a new subsidiary, Kering Eyewear. This division presents rapid growth, with gross sales going from 1.7 billion euros in 2007 to 3.7 billion euros in 2015, but a declining profitability (operating income of 13.7% of sales in 2007 and 2.5% in 2015).

Third, the luxury division was developed through a combination of internal growth and M&As. Internal growth relied essentially on the extension of retail outlets. The number of stores directly owned by the group went from 196 in 2000 (among which 141 Gucci stores) to 1264 stores in 2015 (525 Gucci stores). Emerging countries, mostly China, were key targets of this extension: 200 stores were based in these countries in 2010 and 491 in 2015. With regard to M&As, PPR acquired particularly the Swiss watchmakers Girard Perregaux (23% of capital in 2008 and 50.1% in 2011) and Ulysse Nardin (2014), the Chinese jeweler Weelin (2012) and the British luxury designer Christopher Kane (2013). Moreover, in 2012, it created a joint venture with the Italian fashion e-retailer Yoox to launch platforms to sell online luxury products. At the same time, it sold also subsidiaries not profitable enough, like the Swiss watch company Bédat & Co. (2009) and the Italian shoemaker Serio Rossi (2015). The luxury division presents an impressive development, with gross sales going from 2.5 billion euros in 2001 and 2002 to 4 billion euros in 2010 and 7.9 billion

euros in 2015. Profitability experienced also a rapid increase: the operating income went from 15.8% of gross sales in 2006 to 22.4% in 2010 and peaked at 26% in 2014 before declining to 21.7% in 2015.

The restructuring of PPR and the refocus on luxury had a major impact on the finance of the group. Since the purchase of Puma in 2007, the assets of the group experienced a steadily decrease (28.2 billion euros in 2007 and 23.9 billion euros in 2015) due to disinvestments. Yet shareholders' equity continued to grow. It amounted at 35.4% in 2005, 47.2% in 2010 and 48.7% in 2015. These numbers show that the high profitability of the luxury division made it possible to develop the group and to strengthen its financial independence at the same time. One must also emphasize that the new luxury strategy was implemented by François-Henri Pinault, son of the group's founder, who was appointed CEO and chairman in 2005. The refocus on luxury led also PPR to change its name to Kering in 2013.

5 The Competitive Advantages of Luxury Conglomerates

The three general luxury conglomerates whose development process has been analyzed here above are dominant actors of the global luxury industry. Their importance relies both on their large market shares and on their business model, which was largely implemented by specialized luxury companies. This section discusses the differences and the shared characteristics of these conglomerates, with the objective to shed light on their competitive advantages.

The most important differences between the three group tackled in this chapter are related to their scale and their business portfolio. First, a quick glance at their total assets shows that the size of the luxury conglomerates varies strongly. In fiscal year 2015, they had a value of 57.6 billion euros at LVMH, 20.1 billion euros at Richemont and 23.4 billion at Kering. Hence, LVMH was the uncontested leader in luxury business, with two to three times more assets than its direct competitors. Their workforce in 2015 expresses the same differences, LVMH employing 57,601 persons, Richemont 28,324 and Kering 34,697.

Second, although the three conglomerates hold brands in various fields of luxury, each of them has a specific portfolio of brands. The most diversified is LVMH, with fashion, champagne and spirits, perfume and cosmetics, watches and jewelry, and selective distribution. In comparison,

Richemont is very focused on watches and jewelry (83.8% of sales in fiscal year 2016), with few fashion brands but no drinks and no cosmetics, while Kering is specialized in luxury fashion, with few watch brands, but also no drinks neither cosmetics. Moreover, Kering still have a strong division outside of luxury (Sport & Lifestyle, including Puma, 32% of sales in 2015).

However, these specificities express mostly a different timing in the engagement of these groups in the luxury business. When LVMH was founded, in 1987, the consolidation within Louis Vuitton and Moët-Hennessy already started for more than decade. On the other side, Richemont and Kering adopted later an active strategy of M&A in luxury business, respectively since the mid-1990s and after 2000. This explains their various sizes and brand portfolios.

Yet, in addition to these differences, there are many more similarities between the three groups. First, one must mention the role of entrepreneurship and corporate governance. LVMH (Bernard Arnault), Richemont (Anton Rupert) and Kering (François Pinault) were all built and developed by entrepreneurs who understood the opportunities for European luxury goods on global markets. Their strategy was actually not particularly innovative. It consisted basically in the implementation of the three-pronged investment (production, distribution and organizational capabilities) as defined by Chandler (1990) for US corporations since the last third of the nineteenth century. But, as most of the luxury goods makers in Europe consisted of small family firms which had a limited capital and knowledge, the mass production and the mass distribution of luxuries was something completely new. Yet the entrepreneurs who organized these conglomerates also had to have partnerships with investors and to open the capital of their societies in order to get enough capital for the acquisition of companies and the organization of a global distribution network. All of the conglomerates are controlled by their founders and their family through preferred shares with special voting rights, so that they could open the capital without losing control over their companies. Moreover, in three cases, the second generation of owners and managers entered the business, so that one can argue that these groups became family firms.

Second, these three groups are truly international, mostly European luxury companies. Although two are based in France, the third being in Geneva, Switzerland, hence very close to Paris, there are no French luxury companies. Their external growth through M&A led them to acquire numerous brands throughout Europe (essentially France, Italy, Spain, Switzerland and the UK), together with a few American luxury designer and

fashion brands, and, more recently, some Chinese companies in jewelry, fashion and spirits. The owners and managers of these conglomerates understood that all these European brands shared something similar in terms of identity (timeless know-how, lifestyle, high-quality, crafts, etc.) and that this was a valuable asset on global markets.

Indeed, the internationalization of these groups is their common third characteristic. This issue was not addressed in the sections here above, but the growth of these groups relied fully on their international expansion, particularly in Asia (Donzé and Fujioka 2015). LVMH is a particular case, due to the high dependency of Louis Vuitton on Japan since the early 1980s. In 1995, European markets amounted at 38% and Japan at 23%, so that these two markets had an overall share of 61% of sales. Then, both declined to 35% and 10%, respectively, in 2015, while Asia (without Japan) rose from 15% to 23% and America from 16% to 23% during these two decades. The importance of champagne and spirits, and of cosmetics, for LVMH, that is products better sold in Western countries than in Asia, tend to limit the visibility of the increase in Asia in these figures. Yet the phenomenon is clearer for the two other conglomerates. For Richemont, sales in Asia (including Japan) went from 16% in 1995 to 45% in 2015. As for Kering, the share for this region went from 6% to 36% between 2005 and 2015.

Finance appears as a key resource, and a major competitive advantage, of the conglomerates. It made it possible to build groups through M&A and to offer an expansion on global markets to brands which could not afford it in the context of small and independent family firms. The development of retail, especially through directly owned stores, is an important issue to control sales, brand identity and extension, particularly in emerging markets. Between 2000 and 2014, the number of directly owned stores went from 1286 to 3708 for LVMH, from 444 to 1056 for Richemont, and from 196 to 1186 for Kering.

6 Conclusion

This chapter has shown how the luxury conglomerates LVMH, Richemont and Kering had been founded and developed from the 1980s to the present day. Of course, although they are dominant models in the luxury industry, they present only one particular form of organization. Looking back to Table 1.1, one can maintain that the overwhelming majority of firms are

specialized in one particular product, such as fashion, cosmetics, watches or jewelry.

Yet the importance of the luxury diversified groups relies not only on their size and financial power, but also on the new strategy they implemented and which became a benchmark for all the industry. The mass production of luxury goods, their mass-distribution throughout the world, particularly through mono-brand stores, and the mass-advertisement campaigns aiming at construction a unique identity is a model followed by all specialized firms ranked among the world's 25 largest luxury companies. This requires large amounts of capital, which is the reason why most of them entered stock exchanges around the world.

This chapter focused on the organizational structure of the conglomerates and their evolution until the present day. This is obviously only one side of their success story, the hardware of the luxury industry. Yet it is also necessary to look at the various marketing strategies—the software—which have been adopted since the 1980s to strengthen brands and support their global expansion in a highly competitive environment. This analysis will appear in the following chapters of this book.

Notes

1. IPO dates were gathered on the basis of companies' websites and the series *International Directory of Company Histories*, St. James, published since 1988.
2. Louis Vuitton SA, *Rapports annuels*, 1981–1985.
3. Eurostaf Dafsa, *LVMH*, 1987.
4. LVMH, Reference document, 2012, p. 109.
5. « Vendôme Luxury Group », *International Directory of Company Histories*, Vol. 27. St. James Press, 1999.
6. *Les Echos*, 10 June 1996.
7. http://www.groupeartemis.com (accessed 25 July 2016).
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CHAPTER 3

Italian Luxury Goods Industry on the Move: SMEs and Global Value Chains

Elisabetta Merlo

1 Introduction

Since the end of the twentieth century, dramatic changes in global markets have affected the luxury goods industry on a worldwide scale. These have included, in particular, the growing influence of emerging economies on trade, the concentration of retailing in the hands of few transnational companies, and an increasing number of mergers and acquisitions. Such deep transformations are associated with the emergence of global value chains, which entail an increasing geographical fragmentation of production processes and, even more importantly, the internationalization of service activities owing to the progress made in information and communication technology. Undoubtedly, these characteristics make today's globalization a new phenomenon compared to the process of integration experienced by a growing number of economies in the post-war decades.

Contemporary globalization calls into question the traditional resources of the Italian competitiveness in fashion business and specifically in the field

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of personal luxury goods, which is usually considered to be the 'core of the core' of luxury (Bain and Company 2015). According to the existing literature (Belfanti 2008; Capalbo 2012; Paris 2006; Pinchera 2009; Merlo 2008), Italian fashion achieved an international standing in the 1970s by benefiting from peculiar advantages related to its industrial sector, whose features have been acknowledged as distinctive, country-specific assets within the international arena for a long time. Among them, the close collaboration between industry and fashion designers stands out alongside the widespread presence of industrial districts, meant as socio-territorial entities that are characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area. Generally, firms clustered around industrial districts boast a high level of productive specialization that is often deeply rooted in long-established manufacturing traditions. Specialization prompts the search for both vertical and horizontal linkages between firms. As a result, this kind of industrial agglomeration usually spans the entire pipeline, from the selection of raw materials to product labelling.

By using the data on economic units surveyed in the 2011 industry and services census, the Italian national institute of statistics (ISTAT) identified 141 industrial districts. At the time, they represented about one-fourth of the Italian economic system in terms both of workers and of local units, respectively equal to 24.5% and 24.4% of the total. As far as specialization is concerned, almost half of them produced textiles and clothing, personal goods, leather and footwear (equal to 22.7%, 17% and 12.1% respectively). Bearing in mind that each industrial district consisted on average of 8173 local units and employed 34,663 workers, one must conclude that small and medium-sized enterprises (SMEs) are still the distinctive feature of the Italian industry as a whole as well as of the industries broadly related to fashion and luxury industry.

The same conclusion applies when the focus narrows to the fashion and luxury companies. Giorgio Armani SpA, which in recent years has performed much better than the rest of the Italian companies in the same sector, is a pygmy in terms of revenues, subsidiaries, employees and so on, when compared to LVMH. Such a gap arises from the characteristics of the respective organizational models. LVMH epitomizes the conglomerate of the French luxury industry, bringing together some of the world's most famous fashion names under the same umbrella company. The Italian counterpart, in contrast, pivots on a single, strongly consolidated brand and on its segmentation by collections and product categories.

This chapter analyses the specific organizational features of the Italian luxury industry, in order to explain how the Italian firms adapted to the new globalization since the 1970s and to understand whether the Italian model remains competitive at the beginning of the twenty-first century.

Before starting, a couple of clarifications about the meaning of the concept of luxury are required. As the introduction to this book comprehensively explains, management scholars and historians do not have a shared definition of luxury. The former focused mainly on brands and brand management. Those among the latter who have been interested in providing a definition of luxury stressed the intrinsic nature of goods, and therefore of the industry producing them. Management scholars and historians are both well conscious that luxury is an elusive term in the glossary of economics, a notion that does not exist in itself but only in comparison with something else. Thus, according to Kapferer and Bastien (2009) luxury is defined by brand positioning, a concept that is relative by definition, whereas Berg (2007, p. 7) talks about luxury goods as "new" consumer products in juxtaposition with those existing before the advent of the consumer society.

Here, we adopt the definition more or less explicitly shared by the majority of reports on economic trends and outlooks of luxury business. According to these sources, luxury goods can be thought of as exclusive items, aimed at high net worth individuals, high priced and mostly sold through selective channels. Luxury goods thus cover a wide spectrum of market segments, from traditional ultra-luxury to affordable luxury, and passing through super premium and aspirational luxury. They also cover a wide range of product categories. This study examines the category of luxury goods for personal use (hereafter, luxury goods), which includes designer apparel and footwear, bags and accessories, jewellery, watches, cosmetics, and fragrances. To some extent, the definition of luxury adopted here combines the perspectives of management scholars and historians. This definition, however, does not take into account some issues crucial to our understanding of luxury, such as where its bottom limit must be placed within the market segmentation and whether the luxury industry experienced or not a continuing development in the long run (Kapferer and Gilles 2016).

The chapter is organized as follows. Section 2 outlines the history of the Italian luxury goods industry, with special attention to the major changes occurred since the mid-1950s and to the international context that prompted them. Section 3 focuses on what the history of the Italian luxury

goods industry tells us about the evolution of luxury global value chains. Section 4 provides a snapshot of the Italian luxury goods industry today.

2 From Clothing Industry to Luxury Goods Industry

This section gives a shorty description of the main stages through which the Italian manufacturing sector producing clothing and accessories transformed itself into a fashion industry and then refocused itself on the production of luxury goods.

2.1 The Industrial Foundations of the Italian Clothing Industry, 1950s–1960s

According to fashion historians, the inception of the Italian fashion business dates back to 1951, the year Giovanni Battista Giorgini (1899–1971), the descendant of a noble Florentine family who had previously acted as a buyer of Italian artisan products for some prominent US department stores, convinced a small group of emerging Italian designers to show their work in his villa in Florence to a few international fashion journalists and also to his colleagues among American buyers. The event is traditionally viewed as the official birth of Italian fashion as it launched Italian creativity in clothing production—represented on catwalks by nine haute-couture designers and two boutique collections—to the international markets (Vergani 1992).

At the beginning of the 1950s, newly born Italian fashion still lacked any industrial consistency. Mainly composed of small and tiny manufacturing units, the Italian clothing industry featured an extremely fragmented structure (ISTAT 1954). The same applied to craftsmanship producing accessories with few exceptions, such as today's well-known houses of Ferragamo (shoes) and Gucci (bags), which at the time were well established in the country and had long been active in foreign markets.

At the time, Italy had no experience in clothing manufacturing comparable to that of Germany, the United States, or Great Britain. As a consequence, the Italian apparel industry was developed along the lines of the organizational models of foreign companies—especially the American ones—which were carefully examined and then adapted to local conditions. This entailed large investments in physical capital and technological knowledge, the import of human capital as well as the expansion of marketing and distribution by introducing and developing retail chains (Merlo 2015). The processes of reorganization that reshaped the biggest Italian clothing firms

in those years led them closer to catching up with the most advanced counterparts. At the beginning of the 1970s, there were about a dozen large, vertically integrated companies producing standardized garments in the country (Pent Fornengo 1978, pp. 60–69). Over the course of just two decades, Italy had laid the industrial foundations of its luxury clothing industry.

2.2 *From Clothing Industry to Fashion Industry (1970s)*

Such an impressive result was achieved just on the eve of the oil shock (1973) that pushed the clothing industry into a world recession. For the leading manufacturing countries, the way out of this crisis was delocalization. The United States moved production to Central America, France to North Africa, and Germany to Eastern Europe. The Italian clothing industry experienced a similar restructuring process. Here, however, delocalization was a process of decentralization on a domestic scale, as it occurred within the country. This was forced on them because Italy had no satellite economic areas but it could count on the widespread presence of domestic SMEs, many of which were agglomerated in industrial districts. These conditions made it possible to exploit the advantages of large-scale production without giving up the flexibility peculiar to small firms, which was essential to promptly adapt to the changing trends of fashion.

As the recovery from the recession of the 1970s was achieved primarily by downsizing and decentralizing production, the Italian clothing industry emerged from the crisis completely transformed (Pent Fornengo 1992). A new structure, dominated by SMEs, allowed the Italian clothing industry to manage complex manufacturing processes through networked production units which were deeply rooted in different local cultures and traditions all centred on labour, skill and product (Frey et al. 1979).

The end of the era of standardized, classic clothing and the advent of the consumption of clothing in a wide and ever-changing variety of styles and colours thus found the Italian clothing industry ready to exploit the ability of SMEs to respond rapidly changes in final demand. In those years, partnerships with fashion designers flourished and allowed the Italian companies to become so influential as to create new trends in taste and consumption.

As a result, the crisis boomed in the 1970s paved the way to the transformation of the Italian clothing industry into fashion industry and

shaped the industrial organization that still characterizes the Italian luxury goods industry.

2.3 *From Fashion Industry to Luxury Industry, 1980s–1990s*

The last decades of the twentieth century saw the repositioning of Italian fashion from affordable *haute couture* to luxury ready-to-wear and the subsequent reorientation towards luxury goods. The most evident sign of the transition was the advent of a fashion system—intended as 'a system of institutions, organizations, groups, producers, events and practices, all of which contribute to the making of fashion, which is different from dress or clothing' (Kawamura 2005, p. 48) —centred on the city of Milan. The new fashion hub soon gained increasing international recognition at the expense of Rome and Florence, which, in previous years, had brought Italy to the attention of the international market as the producer of *haute couture* that was cheaper than the French one.

The emergence of brands, which dates back to the beginning of the 1980s, has been of paramount importance in fuelling such a repositioning and is crucial to understand the way the Italian companies responded to the challenge of globalization.

The emergence of brands led to the development of two main organizational models. The first one included industrial companies devoted to building their own powerful brands—often, brand name and founder's name coincided—as distinctive and crucial assets to penetrate the market and preserve the corporate heritage. Usually, those companies had a decades-long history, possessed an extensive knowledge that was deeply rooted in the industrial sector—textile, leather, or footwear, where the founder had started his career—entered the clothing business, pursued a brand extension strategy, and invested in retailing and distribution in an effort to get closer to the final consumer.

Ermenegildo Zegna's company (Cedrola and Silchenko 2016) perfectly fits this kind of organizational model. The origins of the company are deeply rooted in the wool district of Biella, Piedmont, where Ermenegildo Zegna began his activities in 1910. Aware of the technological backwardness of the Italian wool industry, the founder moved his first steps into the business by emulating the British. The shortage and low quality of the raw material supplied by the Italian breeders pushed him to travel around the world in search of the best wool, thus laying the foundations for the vertical integration of the productive process that still characterizes the company. In the

1960s, the second generation took the control of the firm. Being strongly committed to the paternal heritage of distinctiveness in high-quality fabrics, Zegna's descendants launched the first Zegna men's suit line, which was made with the finest wool. In the 1980s the name of Zegna was used to brand knitwear, sportswear and accessories. At the same time, to fully exploit foreign markets, the Zegna brand was introduced to some of the biggest department stores and retailers. Yet the retailing strategy soon changed with the development of a network of stores directly owned by the company and of an innovative retail format that consisted in branding stores the same as products. In order to enforce the company's image among an exclusive international clientele, Zegna retail stores were opened in Paris, Milan, and London (from the 1980s onwards), along with New York, Lisbon, Vienna, Shanghai, and Barcelona (from the 1990s). The number of brands increased in parallel with the company's international expansion: Zegna Soft, Zegna Sport and the youth-oriented ZZegna brand were launched in 1992, 1998, and 2004, respectively. The joint venture ZeFer with Ferragamo was formed in 2002 to mark a line of footwear and leather accessories with the Zegna brand.

At the end of the 1990s, Ermenegildo Zegna's company produced more than two million meters of fabric, more than 350,000 finished suits and two million pieces of other apparel articles—shirts, ties, and sportswear. In the same period, the company had up to 5000 employees and sales amounted to 661 million euros ($828 million). Its presence in foreign markets had grown to a total of 135 retail stores owned by the company and 245 in-store boutiques. In accordance with the company's strongly export-oriented strategy, just about 15% of the sales were achieved in Italy; the company's largest markets were Europe and North America, followed by the fast-growing Chinese economy.

The second organizational model emerged with the companies established by today well-known fashion designers such as Giorgio Armani, Valentino Garavani, Franco Moschino, or Gianni Versace. All of them initially benefited from the support of industrial partners that produced and marketed their fashion collections in foreign markets, thus growing as licensees for manufacturing companies.

The case of Giorgio Armani company (Merlo 2011) perfectly fits this form of organizational model. In 1978 Armani signed a licensing agreement with Gruppo Finanziario Tessile (GFT), which was at the time one of the biggest clothing firms in Italy. The agreement required Armani to work as consultant for fashion collections exclusively for GFT; the company, in turn,

would only produce and market the collections labelled with the fashion designer's name. The agreement allowed the industrial partner to entry in new markets and in new market sectors, as well as to achieve saturation of manufacturing, of distribution capacity, and of fixed costs. As far as the fashion consultant is concerned, the resources provided by GFT in terms of management, organization, production, and distribution enabled Armani to impose himself as the most renowned Italian fashion designer in the USA. Furthermore, the agreement generated a constant flow of royalties, which allowed him to become independent from his industrial partner within just a few years. In the 1980s Armani introduced the Emporio Armani logo, which branded a clothing line spanning from evening dress to jeans. Considerably more expensive were his ready-to-wear collections, Giorgio Armani *Le Collezioni* and *Mani*, both of which were launched in 1979 to be sold in American and Canadian luxury department stores. The range of products branded with his name extended to accessories like socks, ties, shoes, bags, and belts as well as fragrances licensed by L'Oréal. Eyewear was licensed in 1988. Brand extension went hand in hand with the exploitation of foreign markets, where Armani opened his own flagship stores in the 1990s. At the time, Armani resigned from the license agreement.

The two organizational models described so far have some strong similarities. Firstly, the solid industrial foundations, which allowed both of them to rely on proven knowledge in product and process innovation. Secondly, the companies that adopted them soon moved from mono- to multi-(mostly in-house) brand companies; in this way, they were able to fulfil multiple, complementary tasks such as strengthening their know-how in product sectors related to the core business, reaching customers with different purchasing power, and obtaining financial resources by exploiting synergies with profitable product sectors—typically, perfumery and cosmetics.

One of the main differences between the two models relates to the concept of luxury and with its direct consequences on the companies' business opportunities. For companies such as Zegna, luxury has a corporate heritage—a distinctive mix of long-standing history, family ties, local milieu, knowledge and skills—that makes the product unique and exclusive to those consumers who fully appreciate its quality and can afford to pay for it. The value of corporate heritage grants high revenues in niche markets, but it also generally limits the companies' brand extension. For companies lacking a corporate heritage, luxury is rather the outcome of the designer's imaginative charisma. In this case, brands and marketing play a crucial role

in transforming such an evanescent asset into a desirable symbol of exclusiveness. When the epoch of designer-based clothing brands reached its maturity, accessories acquired a central role in this strategy and ensured enormous margin profits.

Small-sized items—often made with cheap materials—are affordable to a wide public and are perceived as a luxury complement to fashion clothing. Even more than is the case with apparel, accessories are also markers that visibly anchor consumers to a certain group or lifestyle. In addition, as the brand or logo is always displayed on them, accessories are easier to recognize and harder to imitate by competing brands. Such advantages transformed accessories into powerful means to broaden the companies' customer reach beyond the wealthy few with minimal or no risk of brand debasement.

In synthesis, the 1980s and 1990s were crucial years for the reorientation of the Italian fashion industry towards the luxury goods industry. In this period, Italian companies entered the luxury business by managing their brands as the means to differentiate their fashion collections, to enter the high-end segment of the market in a wide range of product categories, and to expand within the international market.

3 Italian SMEs and Global Value Chains

In light of the analysis carried out so far, we can now focus on the way in which the Italian luxury goods industry reacted to the evolution of the global luxury value chains. The history of the Italian luxury goods industry shows that, although a relatively recent phenomenon, the emergence of global luxury value chains can be historicized (Donzé and Fujioka 2015; Donzé 2015) similarly to what has been done for the study of global value chains in general (Gereffi 2014). More precisely, the evolution of the global luxury value chains has passed through three main stages.

The first one dates back to the 1980s, when the advantages boasted by the Italian clothing industry—manufacturing skills and low wages—became inadequate to face the fierce competition of less developed countries. In the aftermath of the structural change occurred in those years, the Italian fashion industry progressively transformed itself into a luxury goods industry, with a major focus on rent-seeking activities such as design and branding. Since then, intangible assets became crucial to compete successfully within the expanding value chains. In this context, Italian luxury goods companies leveraged their reputation for tradition, heritage, and quality,

which today still underpin the cachet of "Made in Italy" as a powerful and distinctive branding tool around the world. Looking at this first stage, thus, we can say that the 1980s coincided with the emergence of top brands as the most influential players within the global value chains.

The shift of the business focus from design and branding to marketing, and the consequent increase in investments for the opening of flagship stores in the core of the most elegant shopping districts, signalled the beginning of the second stage in the evolution of the global luxury value chains that ripened in the 1990s. In those years, world-famous Italian fashion designers chose New York to embark on such a pioneering retailing strategy. Among them, Giorgio Armani opened his *Giorgio Armani* and *Emporio Armani* 16,000 square feet flagship stores on Madison Avenue in 1996, followed by Prada, Valentino, Etro, and Moschino. In the same year, Gianni Versace selected the Fifth Avenue as location for his 28,000 square feet boutique (Merlo 2012). Although impressive, the annual projections assessed by the managing directors of the new stores—ranging from $15 million at the new *Valentino* boutique to $37 million at the *Armani* stores—were considered "not unrealistic" (Socha and Kaplan 1996; Edelson 1996).

The retailing strategy adopted by the Italian companies in the 1990s provides us with further insights into the evolution of global luxury value chains. In the previous decade, these companies had benefited from the enlargement of the international market by advertising their brands abroad and exploiting the opportunities offered by their retailing partners. From the 1990s onwards, the methods of marketing Italian fashion commodities changed considerably. The flagship store became the means to strengthen the company's image and to enforce brand recognition. Significantly, the US department stores reacted to the opening of designers' boutiques with contrasting opinions and forecasts. Some talked about cannibalization; others welcomed the new competitors as stimulating challengers. However, they were all well aware that some type of retailing revolution was under way. Such reactions denoted that the Italian companies did not limit themselves to improve their marketing functions but were changing their functional position within the global value chain.

Diversification in retailing had different aims depending on the organizational model the company had adopted. For those companies—like Zegna—that boasted an industrial DNA, it was a crucial step to fully accomplish the process of vertical integration. Contrastingly, for those companies—like Giorgio Armani—that had grown by collaborating with industrial firms, diversification in retailing was aimed at repositioning within

the global value chain. To a greater or lesser extent, all companies outsourced production—generally, of low-quality items—in the search for lower labour costs or more favourable fiscal conditions. To sum up, the second stage in the evolution of luxury global value chains coincided with the period in which retail and distribution were integrated throughout the value chain.

The few existing figures about luxury goods companies' revenues confirm that today a large share of profits derives from services related to distribution. This is the case for Armani's company. According to the *Relazione sulla gestione del gruppo* (Report on operations) attached to the 2013 consolidated balance sheet, revenues arising from distribution, which was operated mainly through shops owned by the company itself, amounted to 92.4% of the total. Although such an extremely high percentage is presumably an exception among the Italian luxury companies, it can be interpreted as the sign that the stage began in the mid-1990s has now reached its maturity.

It is no coincidence that Armani was the first Italian luxury goods company to implement digital marketing: the requirements of the increasingly digitally-savvy and time-sensitive luxury consumer opened a new stage in the evolution of the luxury global value chains.

If we look at the evolution of the global luxury value chains between the 1980s and the 2010s, it emerges that the Italian luxury goods companies, especially the biggest ones, have increasingly exploited economies of scale and scope in activities such as distribution, marketing, and branding across traditionally separated industrial sectors (shoes, leather accessories, clothing, eyewear), as well as across industrial and service sectors (for example, the hospitality industry). Incidentally, this means that a new methodological approach is needed when investigating the evolution of luxury global value chains; an approach that is no longer based on conventional industrial classifications but rather on functional relationships that have become increasingly complex and integrated over time. Furthermore, Italian luxury goods companies have exploited a characteristic of global luxury value chains that make them quite different from the generality of buyer-driven chains, especially for what concerns governance. For sure, increasing buyer concentration is today affecting global value chains without exception. However, as far as luxury global value chains are concerned, this trend is particularly evident within developed countries and it is more related to the emergence of powerful luxury brands than to brands addressed to the mass market (Gereffi 1999). Therefore, one must conclude that intangible assets

are still of paramount importance when explaining the evolutionary dynamics of the luxury global value chains as well as the concentration of the luxury market in the hands of a few big players. Apparently, intangible assets seem to give top luxury goods companies an insurmountable advantage. However, controlling these resources in the global market requires massive financial investment, a fact that casts long shadows over the future of Italian SMEs within the luxury global value chains.

A closer look to the Italian luxury goods industry today allows us to improve our understanding of the main changes that affected the Italian companies as well as of the challenges they face.

4 Italian Luxury Goods Industry Today

At the beginning of the twenty-first century the evolution of Italian luxury goods companies has resulted in an increased variety of business strategies, reflecting the extent to which companies pursued vertical integration, brand extension, brand creation and brand acquisition.

Table 3.1 lists the Italian companies ranked in the top 100 luxury goods companies on the basis of publicly available data of the fiscal year 2013.

With 29 companies ranked in the top 100, Italy has nearly double the number of those from the USA (15) and is the leading country in terms of number of luxury goods companies. The biggest Italian company, Luxottica—a group engaged in the design, manufacture, and distribution of sunglasses and prescription frames, is also the only one to be listed among the top 10. With luxury good sales equal to $9713 million, Luxottica comes fifth, behind the French LVMH ($21,761 million), the Swiss Richemont ($13,429 million), the American Estée Lauder ($10,969 million), and the Hong-Kong-based jeweller Chow Tai Fook ($9979 million). The Swatch Group, Kering (formerly PPR—Printemp-Pinault-Redoute), L'Oréal, Ralph Lauren, and the PVH Corporation, which leverages a portfolio of brands including Calvin Klein, Tommy Hilfiger, Van Heusen, Izod, Arrow, and Speed follow.

Goods sales totalled by the top 10 luxury companies ($104,707 million) amount almost to half of the top 100 goods sales ($214,231 million). Italy (which accounts for 16.5% of 2013 global sales) is the largest seller after France (23.2%) and the USA (20.5%). With a revenue of $1222 million each, Italian luxury goods companies are smaller on average than the top 100($2142 million).

Table 3.2 provides more detailed information about the Italian companies ranked in the top 100 luxury goods companies.

Table 3.1 Top luxury goods Italian companies, fiscal year 2013

Luxury goods sales rank FY13	*Company name*	*Luxury goods sales (US$mil)*	*Total revenue (US$mil)*	*Luxury goods sales growth (%)*
5	Luxottica Group	9713	9713	3.2
15	Prada Group	4776	4776	8.8
23	Giorgio Armani	2904	2904	4.5
26	OTB	2061	2061	4.8
32	Max Mara Fashion Group	1712	1712	−0.4
33	Ermenegildo Zegna	1687	1687	0.7
34	Salvatore Ferragamo	1657	1671	9.0
36	Safilo Group	1490	1490	−4.6
38	Tod’s	1306	1306	−0.2
39	Dolce & Gabbana	1273	1273	0.5
47	Moncler	0,771	0,771	18.7
50	Valentino Fashion Group	0,733	0,733	26.0
52	Gianni Versace	0,636	0,636	17.2
62	De Rigo	0,477	0,477	−2.5
65	Brunello Cucinelli	0,428	0,428	14.6
67	Gefin	0,402	0,402	−3.2
70	Liu.Jo	0,369	0,369	1.9
72	Aeffe	0,333	0,333	−1.2
76	Euroitalia	0,303	0,303	20.7
77	Furla	0,303	0,303	7.0
80	Marcolin	0,282	0,282	−0.8
82	Fashion Box	0,271	0,271	−6.6
83	Roberto Cavalli	0,267	0,267	9.3
87	Canali	0,256	0,256	−0.6
89	Twin Set	0,236	0,257	22.8
95	Dama	0,208	0,210	−3.0
96	Finos	0,205	0,211	−8.7
97	Damiani	0,193	0,193	4.8
98	Forall Confezioni	0,177	0,177	11.6
Total		35,49	35,47	
Top 10		104,707	129,157	
Top 100		214,231	247,624	

Source: Deloitte (2015). Fiscal year 2013 encompasses companies’ fiscal years ended through June 2014

Table 3.2 Top luxury goods Italian companies, overview 2014

Company name	*Founding date*	*Founder(s)*	*Ownership*	*Main product (s)*	*Main in-house proprietary brand name(s)*	*Main license brand names*
Luxottica Group	1961	Leonardo Del Vecchio	Public	Eyewear	Arnette, Eye Safety Systems, K&L, Luxottica, Mosley Tribes, Oakley, Oliver Peoples, Persol, Ray-Ban, Revo, Sferoflex, Vogue	Burberry, Polo Ralph Lauren, Stella McCartney, Tiffany, Versace, Vogue, Miu Miu, Tory Burch, Donna Karan
Prada Group	1913	Mario Prada	Public	Leather goods.	Prada, Miu Miu, Car Shoe, Marchesi 1824, Church's	
Giorgio Armani	1975	Giorgio Armani and Sergio Galeotti	Private	Clothing	Giorgio Armani, Armani Collezioni, Emporio Armani, Armani Jeans, Armani Junior, Armani Exchange A|X	
OTB	1978	Renzo Rosso	Private	Clothing	Diesel, Diesel Black Gold. Marni	John Galliano, DSquared2, Just Cavalli, Marc Jacobs, Maison Margiela, Viktor & Rolf, Vivienne Westwood
Max Mara Fashion Group	1951	Achille Maramotti	Private	Women's clothing	Max Mara, Marina Rinaldi, Sportmax, Penny Black, Marella	
Ermenegildo Zegna	1910	Ermenegildo Zegna	Private	Textile (wool) and menswear clothing	Ermenegildo Zegna, Zegna Soft, Zegna Sport, Z. Zegna, Agnona	
Salvatore Ferragamo	1927	Salvatore Ferragamo	Public	Footwear	Salvatore Ferragamo	

Safilo Group	1934	Guglielmo Tabacchi	Public	Eyewear	Safilo, Carrera, Polaroid, Smith Optics, Oxydo	Alexander McQueen, Banana Republic, Bottega Veneta, Hugo Boss, Celine, Dior, Jimmy Choo
Tod's	1900s	Filippo Della Valle	Public	Footwear	Tods, Hogan, Fay, Roger Vivier	
Dolce & Gabbana	1985	Domenico Dolce and Stefano Gabbana	Private	Clothing	Dolce & Gabbana, D&G Dolce & Gabbana, D&G Junior	
Moncler*	1952	René Ramillon	Public	Sportswear	Moncler	
Valentino** Fashion Group	1959	Valentino Garavani	Private	Clothing.	Valentino, Valentino Garavani, Valentino Roma, R.E.D	Hugo Boss, Baldessarini, Malboro Classics, M Missoni, Uomolebole, Principe
Gianni Versace	1976	Gianni Versace	Private	Clothing	Versace	
De Rigo	1978	Ennio e Wal-ter De Rigo	Private	Eyewear	Police, Lozza, Sting, Lozza Sartoriale	Blumarine, CH, Carolina herrera New York, Chopard, Escada, Fila, Furla, Lanvin, Loewe, Momodesign, Zadig&Voltaire, Trussardi, Mille Miglia, Nina Ricci, Dunhill
Brunello Cucinelli	1978	Brunello Cucinelli	Public	Knitwear	Brunello Cucinelli	
Gefin	1968	Gerolamo Etro	Private	Clothing	Etro	
Liu.Jo	1995	Vannis e Marco Marchi	Private	Knitwear	Liu.Jo	

(*continued*)

Table 3.2 (continued)

Company name	*Founding date*	*Founder(s)*	*Ownership*	*Main product (s)*	*Main in-house proprietary brand name(s)*	*Main license brand names*
Aeffe	1980	Alberta Ferretti	Public	Clothing	Alberta Ferretti, Moschino, Pollini	Jean Paul Gaultier, Blugirl, Authier
Euroitalia	1978	Giovanni Sgariboldi	Private	Perfumes, cosmetics.		Versace, Moschino, Naj Oleari, John Richmond, Missoni
Furla	1927	Aldo e Margherita Furlanetto	Private	Leather goods.	Furla	
Marcolin	1961	Giovanni Marcolin Coffen	Public	Eyewear	Marcolin, National, Savvy, Viva, Web Eyewear	Balenciaga, Bongo, Candie's, Catherine Deneuve, Diesel Shades, DSquared2 Eyewear, Emilio Pucci, Ermenegildo Zegna, Gant, Guess, Harley-Davidson, Just Cavalli Eye-wear, Kenneth Cole New York, Kenneth Cole Reaction, Marciano, Montblanc Eyewear, Ram-page, Roberto Cavalli Eye-wear, Skechers, Swarovski, Timberland, Tod's Eyewear, Tom Ford Eyewear
Fashion Box	1981	Claudio Buziol	Private	Clothing	Replay, Relay&Sons, We Are Replay, Red Seal, White Seal	
Roberto Cavalli	1970	Roberto Cavalli	Private	Clothing	Just Cavalli, Cavalli Couture, RC	

Canali	1934	Eugenio Canali	Private	Menswear	Canali 1934
Twin Set***	1990	Tiziano Sgarbi e Simona Barbieri	Private	Knitwear	Twin Set – Simona Barbieri, Erika Cavallini, Liviana Conti
Dama	1976	Gian Ludovico Dini	Private	Clothing	Paul and Shark Yachting
Finos	1980		Private	Leather goods	Trussardi, Tru Trussardi, Tru Trussardi Junior, Trussardi Jeans, Ludicious
Damiani	1924	Enrico Grassi Damiani	Private	Jewelry	Damiani
Forall Confezioni	1970		Private	Menswear	Pal Zileri, Lab-Pal Zileri, Pal Zileri Concept, Pal Zileri Sartoriale, Marco Azzali

Source: Amadeus Database. * French company acquired by the Italian entrepreneur Remo Ruffini in 2003 and currently headquartered in Italy
** Company taken over by Qatari Mayhoola for Investments in 2012. *** Company taken over by the U.S. private equity group Carlyle in 2017.

The information provided by Table 3.2 relates to ownership, products, and brands.

As far as ownership is concerned, the Italian luxury landscape is dominated by small and medium, stand-alone, privately-owned and, for the most part, long-established companies. The company's size is not only a matter of revenues and number of employees; it is also influenced by the fact that many of these enterprises are family-owned and, fully or in part, family-run. The same applies to those companies (such as Loro Piana, Fendi, Emilio Pucci, Acqua di Parma, and Bulgari acquired by LVMH and Gucci, Bottega Veneta, and Brioni bought by Kering) that have been partially or totally taken over by foreign competitors aimed at gaining access to niche markets and at strengthening their positions in particularly strategic categories of personal luxury goods. These companies—which are not listed in Table 3.2 because they are no longer Italian—are representative of the crucial role played by M&A activity in increasing the economic concentration within the global value chains as well as in expanding businesses horizontally through the acquisition of targeted niche brands.

A "pocket multinational", Bulgari, is a good case in point. The company was established in Rome at the end of the nineteenth century by the Greek silversmith Sotirio Bulgari, who taught his sons—Giorgio and Costantino—the art of engraving. Giorgio became the creative genius of the house with an expert knowledge of stones and jewellery-making techniques. Originally focused on the domestic market, the company began to expand internationally in the 1970s. In the mid-1990s diversification and brand extension took place with the launch of the first textile collection and of a range of leather accessories and luxury eyewear collections. The following decade saw the company entering the global value chain. In 2000 Bulgari signed an agreement with The Hour Glass, a Singapore-based company, with the aim to acquire Gerald Genta S.A., Daniel Roth S.A., and Manufacture de Haute Horlogerie S.A. Then, in 2004, Bulgari and the Leviev Group, a producer of cut diamonds, signed a joint venture agreement to establish a company in Switzerland. The following step was the acquisition of a 50% stake in Cadrans Design—a Swiss company specialized in the creation and production of dials for precision and high-end watches—in 2005. In the same year, Bulgari launched the Sapphire Flower collection of jewellery, the Eau Parfumée Summer collection, and the Assioma watch. In 2005, Bulgari also acquired the Italian leather goods company Pacini (renamed Bulgari Accessori S.r.l.) and Prestige d'Or, a company producing metal straps for watches. In 2007, the company acquired Finger—a Swiss company that

produced sophisticated cases for watches—and Leschot, which specialized in watchmaking machinery. In 2009, Bulgari launched its first in-house produced watch, the "Sotirio Bulgari Tourbillon Quantième Perpétuel", and announced that the Gerald Genta and Daniel Roth watch collections would be sold under the Bulgari brand. Following these acquisitions, Bulgari faced the problem of financing the international expansion of the distribution network. In 2008, new Bulgari stores were opened in Paris, France, Doha, Atlanta and Melbourne. In 2011, the group signed a strategic partnership with Hengdeli Holdings Limited, a retail company of high-end watches through multi-brand watch stores located in mainland China. Shortly after, Bulgari was acquired by LVMH, which at the time did not have a high-end jewellery brand in its portfolio. The company had become an easy prey for more powerful holdings in the aftermath of the 2008–2009 economic downturn, whose effects had been worsened by the increase in the price of gold and gems (Kapferer and Tabatoni 2013).

With regard to product categories, Table 3.2 point to a fragmentation that further complicates the organizational assets of Italian luxury goods industry. Of course, production has a direct influence in determining the size and scope of a company. In the case of Italy, the variety of production is so vast that giving some measure of such complexity through few examples is not an easy task. In general terms, we can say that the Italian luxury goods industry mostly consists of vertically integrated companies whose activity spans the entire pipeline, from designing, to manufacturing and retailing—both directly and through wholesalers.

Among them, Luxottica provides us with an example of the use of global value chain by a "Made in Italy" firm. Established in 1961 as a small workshop based in the eyewear district of Agordo (Veneto), Luxottica is today the only Italian firm listed among the top 10 luxury goods companies. The group operates six production facilities in Italy, three wholly-owned factories in China, one in Brazil, one sports and performance eyewear production facility in the USA, and another production facility in India—which only serves the local market. Although Luxottica has globalized its supply chain, its business model continues to be vertically integrated. The company runs production at a large scale in directly owned plants. As foreign firms do not always conform to standards in terms of product quality and technology, over 50% of its production is manufactured in Italy. With regard to the downstream of the supply chain, the group's wholesale distribution network encompasses more than 130 countries across five continents and has nearly 50 commercial subsidiaries providing direct

operations in key markets. The wholesale distribution is also supported by 100 independent distributors in other markets (Marketline 2016). Luxottica's world leadership in eyewear manufacturing and retailing largely relies on production under license for other brands, which is a key to access the global market.

To some extent, the case of Luxottica is representative of smaller Italian firms ranked among the top 100 luxury goods companies operating in the same sector, such as Safilo, Marcolin, and De Rigo. However, the Italian luxury goods industry also includes companies that are still entirely based in the industrial district where they made their first steps. Among them are jeweller Damiani and menswear producers Forall and Canali, whose factories mainly use high-quality fabrics produced by other Italian companies (Cerruti, Zegna, LoroPiana). Other companies, such as the Valentino Fashion Group (owned by the Qatari Mayhoola for Investments since 2012) and Prada, have vertically integrated to preserve valuable artisanal expertise and to bring them in-house. In 2014, Valentino acquired two suppliers for its accessories division: Pelletterie Sant'Agostino, a manufacturer of bags based in the Italian leather industrial district; and Pescini, a maker of brass components. In order to secure a steady and high-quality supply, Prada joined a growing list of Italian and foreign leather goods manufacturers that have incorporated leather production plant. At the same time, Prada's collections—which range from bags and shoes to clothes for men and women—are also manufactured in China, Vietnam, Turkey and Romania. In synthesis, vertical integration is the best strategy to ensure the levels of quality and service that are needed for luxury products. Outsourcing is fundamental to the production of clothing and accessories for the lowest segments of the luxury market; foreign suppliers, however, may be also chosen on the basis of their competence, or as a means to consolidate the company's presence in foreign markets—such as China.

A closer look at Table 3.2 shows that industrial districts are also of crucial importance to understand the features and the evolution of the Italian luxury goods industry in recent times (Rabellotti 2007). Industrial districts were not immune to the severe crisis experienced by developed economies with the advent of the "post-industrial" age. With production declining in importance, many of them fell into decay. The surviving districts have witnessed the epoch-making change from manufacturing conceived as the bulk of the production process in which raw materials are transformed into physical products to manufacturing considered as part of a much wider

value chain that include complementary, pre-production and post-production activities.

Among value creating activities, branding is certainly paramount. Again, Table 3.2 provides us with a snapshot of the variety of brand strategies that coexist within the Italian luxury goods industry. Ferragamo is a typical example of company leveraging a single brand—Salvatore Ferragamo—that is specifically addressed to niche markets and to consumers searching for exclusivity. In contrast, Armani, Versace, and Prada provide examples of in-house brands launched under the company's brand umbrella with the twofold aim of enlarging the portfolio of brands and of strengthening brand identity. Most of the Italian luxury goods companies leverage a brand portfolio that is mainly composed of in-house brands; acquired brands are a minority.

Despite all the complexities noted above, our analysis shows that the two organizational models that emerged in the 1980s and 1990s yielded substantially different results. The industrial companies that worked toward building their own powerful brands generally succeeded in consolidating and enlarging their niche positions in the international market. On the contrary, most of those industrial firms that, like the above-mentioned Gruppo Finanziario Tessile, grew as licensees for emerging fashion designers eventually declined. The transformation of the role of manufacturing within the expanding value chains caught them financially unprepared and organizationally unable to promptly react to the change.

On the eve of the twenty-first century, the names of those fashion designers who benefited from the support of industrial partners were on the lips of millions of fashion consumers and, above all, were branded on wide-ranging collections of luxury goods. The founders of this new generation of Italian luxury goods companies are now struggling to keep their position in the face of evolving global value chains.

5 Conclusion

This chapter aimed to explain why Italian luxury business has adopted a specific industrial organization and how Italian firms have responded to the challenges of globalization. From the industrial foundation in the 1950s to the emergence of brands in the late twentieth century, family ownership and licensing have emerged as distinctive features of the successful strategy of global expansion implemented by Italian luxury companies. Now, the main

questions concern the future: is the Italian model still competitive? What challenges await in the new millennium?

According to Euromonitor International, a global market research company, the number of affluent households is expected to grow over the period 2015–2030. Although North America will continue to have the highest number of wealthy households, Asia Pacific is still expected to see the fastest increase despite the region's economic slowdown, posting a growth of 113% over the period 2015–2030. Australasia and North America will follow Asia Pacific in terms of growth, posting increases of 86% and 80% respectively over the period 2015–2030 (Euromonitor 2016).

The key implication for luxury is that the strongest growth in the number and wealth of the world's highest earners will occur in emerging countries, even though the bulk of this segment of consumers will remain concentrated in developed countries. In the long term, however, this concentration is likely to gradually shift away from North America, Western Europe and Japan.

The expected growth of the luxury goods global market will presumably offer new opportunities of expansion to Italian SMEs (OECD 2007). Reaching international markets, however, can be a difficult step for Italian SMEs in the future. To achieve the critical mass necessary to remain competitive within the global value chains, they are expected to face major challenges in terms of management and finance. Not surprisingly, in recent years Italian luxury goods companies have become a hunting ground for acquisitions. An increasing number of them are now the object of interest to equity funds, which in some cases act as hostile predators. Pursuing product excellence, strengthening brand value through an intensive exploitation of corporate heritage, and massively investing in new channels of distribution might no longer suffice to stay competitive in the rapidly evolving global value chains of luxury.

The limits of Italian capitalism make us quite sceptical about the future of the Italian luxury goods companies. The majority of them are family businesses, and disputes among founders' descendants have been proven to have ruinous effects on companies. Heirs and heiresses are often unwilling or unable to manage such complex enterprises. Frictions between descendants and externally hired managers can cause problems of governance. Because of their small size and private ownership, Italian luxury companies are undercapitalized. In constant need of cash injection, at the same time they are hesitant about going public. While struggling against economic turbulence, they ventured into financial investments that seriously

threatened their survival. Furthermore, many Italian entrepreneurs have an unrivalled ability to develop luxury brands as well as an unparalleled reluctance to team up with their peers. As a result, the Italian luxury goods companies, and particularly those highly specialized in global market niches, have been targeted by foreign groups.

The future of the Italian luxury companies depends upon the way the luxury sector will consolidate. The exploitation of synergies and of scale advantages is an issue of vital importance in the luxury sector. As a consequence, we can expect that consolidation will continue to be driven by strong M&A activity and that Italy—where privately-owned luxury brands endowed with great economic potential are still abundant—will continue to be regarded as the best hunting field.

Another challenge comes from the fact that the focus of luxury industry has moved from the upstream to the downstream of the value chain. Though distribution has superseded production as the major source of profits, enlarging the number of flagship, directly-owned stores, particularly in the fast-growing countries, requires huge investments in terms of financial and managerial resources. Only the most successful Italian companies have generated enough cash flow to finance their expansion. Among them are Luxottica and Armani. The lesson from the former is that Italian luxury goods companies should take increasing advantage from the production under license. This business model, particularly when applied to accessories, enhances both the experience in brand management and the manufacturing skills that are deeply rooted in the history of the Italian luxury goods industry. The latter provides the best example of how to increase luxury brand extension without suffering any loss of prestige. Both companies rely on a combination of in-house production and outsourcing. This production model is not only the rule among the largest Italian companies; it has been adopted also by those brands that —like Zegna and Prada—insist on the preciousness of raw materials and on the inestimable value of craftsmanship.

The evolution of the luxury global market will require the Italian luxury goods companies to further exploit areas of comparative advantage while outsourcing operations to suppliers chosen on the basis of competence. Such evolution will have a major impact on the agglomerations of firms that were crucial to the Italian competitiveness in the past. With production declining in importance, many of them have undergone such a deep transformation as to be no longer recognizable as industrial districts. To a different extent and in different ways, the firms operating in the surviving

districts exploited the opportunities that the expanding global value chains offered to them along with the benefits provided by the local value chains.

The ongoing transformation of the Italian industrial districts should be continuously assessed, as they are an excellent observatory for understanding the evolution of luxury global value chains.

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CHAPTER 4

Luxury Brand Outsiders: Understanding the Success of British and American Luxury Brands

Stephen A. Doyle and Christopher M. Moore

1 Introduction

British and, to a lesser extent, American luxury brands have played an important, if somewhat marginal, role in the international luxury fashion and accessories sector for some considerable time. Often these brands are long-established leaders in their field and their excellence readily acknowledged, for example Burberry was established in 1856, while Tiffany & Co. was founded even earlier, in 1837. Despite the long history of luxury brands such as these, it is certainly the case that consideration of the trading features and characteristics of British and American brands has largely been absent from the literature. Instead, the focus has been principally confined to the history and market development of French luxury brands, the reason for which is explored in more depth below.

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However, it is not the lack of researcher attention with respect to British and American brands that is the principal motivation for their consideration in this chapter (although we would acknowledge the value in their gaining deeper researcher attention). We would much rather argue that British and American luxury fashion and accessory brands are definitively different, by virtue of their origins, their ownership characteristics and their function. These brands are also fundamentally different in terms of how they define and approach the development of a luxury company.

Perhaps most significantly, we would argue that there is a new force of business innovation and growth within the British and American luxury sector that outpaces the numbers being created in other important luxury markets. This has resulted in the emergence of a new generation of luxury fashion and accessories brands that represent a new view of the purpose and scope of luxury which in turn serves to further strengthen and deepen the difference between British and American luxury fashion brands in general from those luxury fashion brands that emanate from Italy and France, in particular.

In order to begin a debate with respect to the value of considering luxury brands on the basis of their place or origin and principal trading activity (in this case Britain and the USA), as well as to provide an opportunity for an exploration of understanding with respect to emergent generation of luxury fashion brands, this chapter will not be focused upon the provisions of new theoretical reflections or indeed, a new conceptual development. Instead, it will follow the tradition of business history research that instead intends to stimulate and support research interest in an area by identifying and exploring defining features and differentiating characteristics. As such, the aim of this chapter will be to identify the defining features and differentiating characteristics of luxury and fashion brands from Britain and the USA.

2 Starting First from Paris

Even the most perfunctory review of the literature on luxury fashion businesses soon identifies that the majority of studies and brand cases that have been written are focused upon French companies. This apparent researcher preoccupation with French firms is understandable and perhaps inevitable given that France dominates the landscape of luxury fashion and accessories, in terms of both market share and the breadth of international market participation (Deloitte 2014). While there are many "soft power" factors that may explain the dominance of France within the luxury fashion sector (such as those related to culture, the haute couture tradition and even that

of national identity), other, "hard power" forces more readily explain the successful expansion and the ever-deepening control by the French in the sector. The most important of these forces is undeniably that which emerges as a result of the financial strength (which is consolidated and enhanced) by the aggressive brand acquisition strategies of the world's two leading luxury brand conglomerates—namely LVMH and Kering (Doyle and Moore 2015). Between them, the two French-family owned, and Paris-based luxury brand groups own 24 of the world's leading luxury fashion and accessories brands. (This figure does not include the watches and jewellery brands that each group owns and controls).

An important consequence of the brand consolidation strategies adopted by both LVMH and Kering has been the reduction in the market significance of other previously pre-eminent countries in this sector—most significant of which is Italy. It is also acknowledged here that both conglomerates were active in acquiring leading British luxury brands over the past twenty years—such as Stella McCartney and Alexander McQueen. Both of these brands were initially acquired by the Gucci Group and are now part of the Kering group. Likewise, the British shirt-maker brand, Thomas Pink, and the British luxury footwear designer, Nicholas Kirkwood, have both been acquired by LVMH.

With the assimilation of many important and quintessentially Italian luxury brands, most notably Gucci, Fendi, Pucci and Loro Piana, into French conglomerate control (e.g. Kering), Italian direct ownership of luxury fashion and accessory brands has diminished in the past two decades. While the Italian-owned Prada, Dolce & Gabbana and Armani businesses do still retain a degree of creative and economic influence and importance within the category, none has the scale to match the collective strength of the French conglomerates or the "first in class" positioning of the family-controlled and French-owned luxury fashion and accessory houses of Chanel and Hermes.

While acknowledging the pre-eminence (and, to some extent, the justification) of the focus upon French-owned companies by previous researchers, it is not the purpose of this chapter to add to that armory. Instead, the focus here will be upon the American and British luxury fashion sectors. But before shifting attention, there is value in considering the work of Djelic and Ainamo (1999). In their account of the future direction of organizational structure evolvement in the luxury business sector, they suggested that the craft-based, narrow-client couture based model of the typical French luxury house would continue to give way to a broadening of

product and market participation through either the creation of an "outsourcing strategy" or from the adoption of what they describe as "an umbrella holding".

As the term implies, outsourcing involves the disaggregation of what were (or could be) internal processes to external partners (Gilley and Rasheed 2000) with a view to exploiting the power of the brand derived from the opportunities of an enhance product scope and scale. As a prediction, it could be argued that Djelic and Ainamo's assertion about the future relevance and prevalence of outsourcing within the French luxury sector was inevitably going to be of limited value. By the time of publication of their work in 1999, brands such as Dior had been already outsourcing their perfume, accessories and some ready-to-wear ranges for many years. Indeed others, such as Pierre Cardin, had been outsourcing for so long, and to such an extent, that they were prohibited from using the luxury term by France's lead luxury body, the Chambre Syndicale de la Haute Couture.

However, their view of outsourcing does have significant predictive value for two reasons. Firstly, it highlighted the importance for French luxury firms to extend the scale and scope of their brand and merchandising strategies in order to maximize market opportunity and so secure significant income growth. Secondly, it emphasized the importance of controlling the outsourcing process so as to maintain and protect the integrity and value of the luxury brand. For what their work does foretell is that French luxury brands would pioneer the development of intra-group outsourcing achieved through the protective environment of the luxury brand conglomerate.

In many respects the identification of the opportunities and challenges of outsourcing within the luxury sector provides a vital clue to understanding the importance of the "umbrella holding" structure that was recognized as a distinctive and (predicted to become an even more defining feature) of and within the French luxury sector. Expressed simply, the "umbrella holding" structure is concerned with developing a diversified range that results in the extension of market coverage, but at the same time provides the benefit of management control delivered from a single brand perspective. Within the context of explaining and evaluating the strategic value of conglomerate formation in the nascent LVMH, Djelic and Ainamo predicted that the most important outcome would be development of a new, internally flexible network. This network would progress to rationalize inputs and maximize the values of outputs in such areas as marketing, distribution and production within multi-brand luxury conglomerates.

Subsequent work by Moore and Birtwistle (2006) which examined the function and value-creating activity of luxury brand conglomerates through the lens of the Goold, Campbell and Alexander (1995) Parent Advantage Model, clearly demonstrates the shift towards the internalization of "outsourcing" to within conglomerate groups. In these studies, which focused upon brands within the Kering Group, there was extensive evidence of resource, specialist expertise and leadership skills pooling between and among brands. Perhaps, most significantly, there was a widespread abandonment of third part license agreements in areas such as product development, marketing and distribution, in favour of internal agreements to facilitate cross brand product development, raw materials selection and production support.

Mindful of the extent of French-ownership control and dominance within the luxury fashion and accessories sector, it is reasonable to propose that the prevalent features of this particular grouping inevitably represent at least one strand of approach to business organization and management within the sector.

Having compiled an in-depth case-study database of the business characteristics and trading strategies of the leading 29 French luxury fashion and accessory businesses (Table 4.1), we have identified a number of common features which represent a prioritization in terms of resource allocation. This database was developed from a variety of sources including the annual reports of leading French luxury groups, company press releases, corporate websites and information about luxury brands that are members of Le Comite Colbert. In addition, other publically available resources were included, such as from industry analyst reports and business information databases.

Three particular features appear definitive at the present time. Firstly, while many of these businesses may now offer a diffused range across a number of product categories, their tendency is to operate only as a single brand. The development of separate diffusion brands is avoided.

Secondly, external, third party involvement in activities such as brand and product licensing is restricted to specialist areas only (such as perfumes, cosmetics and sunglasses) and is done in collaboration with recognized external specialists. And as was identified earlier, those brands that operate within a conglomerate are likely to draw, wherever possible, upon intra-group resources to source these specialist product requirements.

Thirdly, and perhaps most defining of all, French luxury fashion and accessory brands appear committed to retailing as their principal distribution channel. Their online participation excludes the sales of their runway,

Table 4.1 French-owned luxury brand database

Brand name	*Name of conglomerate (if appropriate)*	*Fashion*	*Accessories*
Louis Vuitton	LVMH	Yes	Yes
Fendi	LVMH	Yes	Yes
Bulgari	LVMH		Yes
Loro Piana	LVMH	Yes	Yes
Emilio Pucci	LVMH	Yes	Yes
Donna Karan	LVMH owned at time of the study	Yes	Yes
Loewe	LVMH	Yes	Yes
Marc Jacobs	LVMH	Yes	Yes
Celine	LVMH	Yes	Yes
Berluti	LVMH	Yes	Yes
Christian Dior	LVMH	Yes	Yes
Givenchy	LVMH	Yes	Yes
Kenzo	LVMH	Yes	Yes
Moynat	LVMH		Yes
Rimowa	LVMH		Yes
Edun	LVMH	Yes	Yes
Thomas Pink	LVMH	Yes	Yes
Chanel	Chanel	Yes	Yes
Gucci	Kering	Yes	Yes
Bottega Veneta	Kering	Yes	Yes
Saint Laurent	Kering	Yes	Yes
Balenciaga	Kering	Yes	Yes
Brioni	Kering	Yes	Yes
Hermès	Hermès	Yes	Yes
John Lobb	Hermès		Yes
Christian Dior Couture	Christian Dior	Yes	Yes
Longchamps	Longchamps SAS		Yes
La Pliage	Longchamps SAS		Yes
Lanvin		Yes	Yes

iconic or exclusive ranges and is instead restricted to their cheaper, entry-level, high-volume products.

By focusing upon the typical features of French luxury fashion and accessories brands, we have sought to delineate some of the established and expected features of brands that operate within this sector of the luxury market. This therefore provides us with a context for considering whether and how luxury fashion brands from America and Britain may be distinctive and different.

3 The Transatlantic Bond

America and Britain share a long connection that is both based upon, and supported by a shared history, a common language and shared bonds derived from similarities in religion, culture and their respective legal systems. Notwithstanding the other dimensions that link the two nations, it is important to note the significance of America and the UK in terms of their consumption of luxury goods, as well as their mutual economic connectedness at this point.

With respect to luxury good consumption, both America and the UK are important markets. Bain and Company (2016), in their reporting of the 2015 global rankings for luxury goods consumption identified that America, followed by Japan, China, Italy, France and UK were the six top countries as measured by total consumer spend. Two other important features about America and the UK were highlighted in the Bain report. Firstly, with a consumer spend of €78.6 billion, in 2015, the American market outperformed the combined totals of Japan, China, Italy and France all together by €6.1 billion. Secondly, in terms of year-on-year growth in the period 2014–15, America had the highest growth rate of 20%, followed by China with 17% and the UK with 16%.

The Walpole 2016 report on The Americas, identified that America and Britain share the world's largest FDI relationship, which is valued at over $1.1 trillion. Furthermore, the report recognizes that America is Britain's largest export market and is valued at $65 billion, while in Europe, the UK is America's largest export market and is worth $55 billion. In addition, Walpole (2015) indicates that almost a quarter of UK luxury production is consumed domestically, the remainder destined for international markets while Forbes (2016) highlights the increasing importance of a domestic market focus and economic insularity as a result of the 2016 USA's Presidential Elections in a market that already represents a key aspect of, for example, Ralph Lauren's global activities (Ralph Lauren Corporation 2016).

Given the global importance of the American and British markets in terms of their share of luxury goods consumption and the recent exceptional consumption growth rates that each market has been able to produce, it would be reasonable to expect that luxury brands from America and Britain would be favourably represented in the academic literature. However, based upon our extensive review of the luxury business literature, derived from a variety of online academic database sources (including Proquest, EBBSCO,

Emerald, Science Direct, Google Scholar), we have identified that American and British brands have received limited researcher attention. Given their sheer number, it is perhaps to be expected that French luxury businesses have received the most coverage, (we could find consideration of 26) followed by Italian, (14) Japanese, (8) Swiss, (7), Chinese (7) and then Flemish/Belgian luxury brands (4). American (4) and then British luxury (3) brands follow on this list.

4 An American and British Luxury Fashion and Accessory Brand Database

Within this context, the remainder of this chapter will propose a contribution to the understanding of luxury fashion brands and it will seek to do so in two ways. Firstly, it will delineate five dimensions that we believe define American and British luxury fashion and accessory brands. Secondly, derived from a comparison of these dimensions with those of French luxury brands, we will identify whether and how American and British luxury brands are distinctive and different from the luxury fashion brand mainstream.

Evidence for this study is derived and developed from an extensive database of American and British luxury fashion and accessory brands. Brands were identified for inclusion on their membership of national luxury lead bodies, established industry membership lists (such as from the Council of American Fashion Designers and the British Fashion Council), and from lists provided by leading luxury analyst firms. To be included in the database, they had to be under American or British ownership and with their head quarters within either market.

The database that we established was comprised of 40 American and 36 British brands. Database content was constructed from a variety of sources, including internal corporate documentation, company annual reports, investor reviews and corporate PR/marketing materials. As part of the database access agreement between the researchers and two of the analyst firms (one based in London, the other in New York), it was a requirement that identifying details of the brands on the list would not be disclosed in the publication process. There were two reasons for this non-disclosure requirement. Firstly, the company lists had been developed for commercial reasons; specifically to advise and direct prospective investors of new opportunities within the luxury sector. Secondly, some of the

Table 4.2 Details of the executive interviews

Country of origin	*Location of interview*	*Date*	*Role in company*	*Product/market segment*
Britain	London	9/12/15	Founder	Hat maker
Britain	London	9/12/15	CEO	Fashion/accessories
Britain	Edinburgh	11/12/15	Founder	Cashmere accessories
Britain	London	12/12/15	CEO	Leather goods
America	New York	19/4/16	Founder	Lingerie
America	New York	19/4/16	CMO	Leather goods
America	New York	20/4/16	Founder	Sports/leisure
America	New York	20/4/16	CEO	Womenswear
America	New York	21/4/16	CMO	Stationery
America	New York	22/4/16	Founder	Athleisure
America	New York	22/4/16	Founder	Athleisure
Britain	London	26/4/16	Owner	Fashion/accessories
Britain	London	26/4/16	Owner	Leather goods
Britain	London	27/4/16	Founder	Country pursuits
Britain	South Wales	29/4/16	Founder	Accessories
Britain	Manchester	3/5/16	Owner	Leather goods
America	San Francisco	10/5/16	Founder	Sports/performance
America	San Francisco	10/5/16	Owner	Outerwear
America	Los Angeles	12/5/16	Founder	Childrens clothing
America	Los Angeles	13/5/16	CMO	Sports
America	Chicago	16/5/16	Founder	Leathergoods
America	New York	18/5/16	CMO	Sportshoes
America	New York	18/5/16	Owner	Menswear only
Britain	North East	22/5/16	Founder	Outerwear

companies were in the process of securing external funding and or were in the process of being acquired and so were subject to market non-disclosure orders.

When possible, the data were supplemented, verified and supported by executive interviews with senior management representatives from 24 of these luxury companies. For reasons of commercial sensitivity, the identities of the various participants will not be disclosed here.

Table 4.2, while careful to maintain anonymity, provides details of the 24 luxury brands that were interviewed as part of the study. It is important to note that in most cases it was the founder of the luxury brand that was interviewed, who was often accompanied by a family member, principal

investor and/or the person responsible for the day-to-day management of the brand.

4.1 The Five Dimensions of American/British Luxury

From a careful analysis of the organizational characteristics, the brand strategies and the business models of the 76 American and British luxury brands, we are able to identify five dimensions that clearly defined and connect this luxury brand set.

1. Entrepreneurial Luxury
2. Tech Transfer
3. Multi-channel, digitally advanced
4. Casual luxury: athleisure, sport and country
5. Product specialization and accessible luxury.

Entrepreneurial Luxury
Clearly, particularly within a British market context, there is a small number of luxury fashion and accessory brands that have been long established, some for many decades, and for a small few, for more than a century. However, in most cases, these longer-established businesses are no longer British or American owned and their Head Offices are no longer located in the originating markets. There are some important exceptions, however.

These exceptions constitute an elite group of globally-recognized British and American brands that include Ralph Lauren, Burberry, Coach, Calvin Klein, Michael Kors and Tommy Hilfiger. This group sits separately from their respective national peers and they do so not just for reasons of their longevity. Each has shifted from private individual ownership, to a stock-market listing. Some others, such as Calvin Klein and Tommy Hilfiger, have been acquired to be part of the larger PVH conglomerate (PVH 2016, http://www.pvh.com/). Conglomerate ownership, is, however, atypical within both national markets and, in fact, there is no British-owned luxury conglomerate.

An analysis of the founding characteristics of the luxury fashion and accessory companies included in our British and American database, identifies four important features. Firstly, we note that the majority (47), have been established for less than thirty years. Secondly, of these 47 companies, 41 of them were created by women. Thirdly, these companies tend to remain in private ownership—typically that of the brand founder. Finally,

financial support for the establishment of the brand was provided by personal means or from known-investors. Some 7 of the 47 had reverted to professional private equity investors for initial set-up and development funding.

Beyond these defining features of this new generation of luxury brands, the research also identified some further distinctions. Looking at the longest-established luxury fashion and accessories brands, these were all found to be manufacturers or product makers, with specialisms in areas such as tailoring, leatherwork or knitting. Each had subsequently developed and evolved into firstly a luxury product maker for other businesses and then a luxury business and brand in their own right.

In contrast, only 5 of the 47 “new generation” of luxury business had a manufacturing background or capability. Instead, while some in this group had skills in design and product development, the majority (29/42) has no design or manufacturing experience or direct capability. Instead, these brand founders had prior experience in business (in such functions as marketing, retailing and finance) or had diverted from a different career path entirely. Drawing from the secondary source materials (such as media interviews and internal communications/promotional materials), this group of luxury brand founders described themselves to entrepreneurs, innovators, market disruptors and agitators.

In terms of explaining their reasons for establishing a new luxury brand, these were explained in relation to three important factors. Firstly and significantly (and perhaps linked to the fact that the majority of the new business founders were women), an important reason was the desire to seize the growth opportunities associated with the increase in the female luxury goods market. Proposing that British (and to a lesser extent), American luxury brands had traditionally been created and developed in order to satisfy the luxury interests and needs of male consumers, and as such, had remained largely focused upon men’s luxury product categories (such as tailoring, shoes and ties and accessories), the new generation of luxury fashion entrepreneurs identified that women, not only had become the principal driver of luxury fashion and accessories brand consumption), their requirements from luxury brand providers were distinctly different from those of men. It is beyond the scope of this discussion to delineate the nature of these differences, but it is possible to identify that these differences were related to the “fashionability” of products, as well as an interest in luxury product categories extending beyond formal wearing

settings to include areas such as lingerie, casualwear and non-precious jewellery.

The emergence of new and engaged female luxury consumers provided new and significant market opportunities that their new venture could perhaps profitably exploit. As women themselves, this group has gone on record to claim that they had a clear sensibility with respect to the needs and interests of female luxury consumers. Regardless of the accuracy of their claims, it is certainly clear that the entrepreneurial instincts of this new generation of luxury business innovator appears to be different from their more traditional predecessors.

This market-insight, consumer-led view of luxury brand business development was, they argued, distinctly different from that of traditional luxury brands, which instead tended to be derived from an internal, manufacturing capability-led view and assessment of market opportunity.

Ease of market access and the removal of significant market entry barriers through the advent and advances in digital selling technologies was identified as the second important motivation for the development of a new luxury fashion and accessories brand. Executives who were interviewed in the study recognized that the traditional, retail stores and wholesale model for luxury brand distribution had served as a major market entry barrier for new brands. However, the progress of digital distribution now made it possible for luxury aspirants to globally communicate, sell and build brand loyalty much more cheaply and effectively.

The third reason for establishing a luxury business was inextricably linked to the first two that have dimensions identified here. The increase in demand for luxury fashion and accessory brands, coupled with the significant reduction in market entry barriers, now made it possible for entrepreneurs to secure significant financial returns from the sector, at modest risk and with manageable investment requirements.

As has been identified earlier, qualitative research was also undertaken in order to support the development of this study. When asked to explain their perspective on the differences between the established and new generation of American and British luxury fashion brands, one managing director for a luxury brand that was first established before 1920 made the following observation:

The new generation of luxury brands begin from the starting point of identifying a market opportunity; normally an opportunity to generate significant revenue. It is much more about being opportunistic. They then build a brand first in order

to meet that demand. Whereas, for the longer established brands, just like us, we started with expertise in making, in producing and through time, we built a business and finally a brand.

From the perspective of the new generation of luxury fashion brands, the chairman of one British business that was established in 1990, stated:

The newer luxury brands are much more likely to find their roots in the imagination of an entrepreneur who begins with a brand idea, but has little or no assets in the form of product creation and production. The difference is significant and to our mind is either about being entrepreneur-led or production led.

Tech Transfer

Arguably, every generation of new businesses seeks to take advantage of technological innovation. The application afforded by new technological advances may serve to reduce particular resource requirements, eliminate certain accrued costs or create new opportunities in product and/or service delivery. This new generation of luxury entrepreneurs is no different then in terms of the general application of that principle.

However, where they do appear to be different is with respect to the starting point for their technological innovation. Traditionally, innovation in the British and American luxury goods sectors emanated, first and foremost, from an intimate understanding of the product development, creation and distribution processes. These were typically established luxury business owners or managers who identified some weakness or flaw in the luxury supply chain and they sought to apply technological advances to either mitigate or resolve the problem that they faced.

In contrast, our study found that the new generation of luxury innovator had a very different starting point. Typically, they had some knowledge of (and in some instances, significant expertise in) the use and value of a particular technology but within a different business sector. Their idea, and subsequently their motivation, was to find an application for the particular technology within the luxury sphere. Consequently, only a very few were motivated to utilize a new technology in order to resolve an existent luxury supply chain problem or issue.

Instead, their motivation was to identify routes and methodologies whereby technological capabilities could be transferred to the luxury fashion

sector in ways that would create new business opportunities where none have previously existed to any significant extent.

Three types of tech transfer were identified and these transfers typically served as the foundation upon which a new luxury venture was created and developed.

The first related to the transfer of materials technology innovations from non-luxury product areas into both traditional and newly developed luxury product categories. Through the adoption of lateral-thinking methods, some of the new luxury pioneers had identified possible applications for technology innovations from such diverse areas as automotive design, professional-grade performance sportswear and the military within the luxury sphere. As such some of this new generation of British and Luxury brand founders believed that they could both disrupt and enhance the luxury sector through the use of technology in order to make luxury brands more, interesting, usefully relevant and attractive to a new and discerning consumer category.

Our study identified that tech-transfer opportunities had served as the primary motivation for establishing a luxury brand for many of the luxury entrepreneurs that we have previously identified. The range of tech-transfer innovations varied in terms of the degree of their complexity and the level of their creative innovation. This list is not exhaustive but in order to illustrate, our study found developments such as the application of UVA technologies to swimwear in order to protect wearers from sun damage and the integration of temperature-controlling fabrics and LED technologies to couture gowns. Fitness monitoring, achieved through the application of wearable technologies integrated into accessories and garments, was the most frequent but perhaps the more predictable development.

While it may seem that the key advances in wearable technology have been restricted to mass-market American brands, such as Levi's with their Project Jacquard collaboration with Google (Arthur 2016), British and American luxury brands entrepreneurs have also brought innovation to the clothing market. For example, British luxury brand EMEL + ARIS has sought to create luxury life-enhancing "wearable technology" through their development of outerwear that incorporates a lightweight polymer that acts as an intelligent heat-warming technology for their garments. As a further example, in November 2015 the luxury London department store Selfridges commissioned British luxury start-up The Unseen to develop a line of luxury accessories that change in colour in response to environmental factors such as air pressure, body temperature change and sunlight strength.

The second type of tech transfer that served to underpin new brand development was in the area of customization and personalization. While it was acknowledged that these forms of adaptations have long been available within the luxury sector, the extent of their accessibility is limited to higher end of the luxury market. Consequently, leaders from some of the new generation of luxury brands explained how they had been motivated to integrate high levels of customization and standardization to a wider cross-section of the luxury fashion and accessories sector.

In some instances, the technology capability that was transferred originated from the jeans and sportswear sectors. And so, some of the brands included in our study had built a luxury business upon the development of high-end jeans customization, as manifest by the ability to select and determine personal cut, fabric and colour choice. Likewise, some had transferred technologies used within the sports and performance shoes sector to allow for personal selection and input for the design and creation of luxury footwear.

Multi-Channel, Digitally Advanced

Reflecting the opportunistic and entrepreneurial spirit of the new luxury brands, a refocusing upon channel emerged as a distinguishing feature across the sample. Digital, both as a distribution means and a communication/brand building strategy (Prabhakar 2010) emerged as highly significant. Recognizing the high costs of the traditional routes to market, in particular store-based retailing (Moore et al. 2010; Chevalier and Gutsatz 2012), coupled with access challenges to the established multi-brand retailers, these entrepreneurs have utilized more cost-effective (and less geographically bound) approaches to channel selection and management. Additional benefits, beyond cost, were identified as retention of control and the ability to reach a more forward-thinking customer-seeking newness rather than the establishment. Importantly, this approach enables critical mass leading to brand recognition and acceptance, which may lead, in turn, to adoption by some channel gatekeepers. Contributors also stressed the importance of pure-play pioneers such as British originated Net-a-Porter with respect to the digital commercialization of luxury fashion retailing.

Within this consideration, the majority of these brands identified themselves as digitally advanced and in so being, were in alignment with their prospective consumers for whom the idea of consuming luxury through digital channels was viewed as an extension of their natural consumption patterns rather than a behaviour adjustment. The extended reach allowed

these entrepreneurs and their brands to engage with consumers on the basis of three key features. Firstly, they recognized the fundamental desire for luxury products and experiences coupled with an ability to pay for it. Secondly, they mapped out and tapped into a shift in key consumption and search behaviours that characterizes and unifies this group, but which may be disparate in other characteristics. Finally, they recognized that in the context of luxury fashion, the construct of the *cognoscento* holds true and that in the contemporary marketplace there remain consumers who seek to differentiate themselves through the early identification and adoption of new brands, new products, new experiences and new channels. Thus, this group of entrepreneurs capitalized upon the spaces in the market that opened up through the intensified availability of the established brands.

Moreover, for a significant number of American and British brands, digital represents an integral component of the luxury experience and is presented as part of the overall consumption package. For some brands, this is manifest in their store and service strategies and in essence serves to elevate the brand. For others, and in particular nascent brands, digital strategies can not only introduce the brand and its products to the consumer but be used as a means of elevating the consumer through, for example, 'tutorials'.

While retention of distribution, message and product control was recognized as a particular benefit of multi-channel and digital advancement, it was acknowledged that ownership and management of the platforms themselves was not, in all cases, essential. New brands highlighted the advantages of using 'marketplace' platforms that through their breadth of offer and product refresh rates, provided consumers with single site/single platform motivation. This was described by one entrepreneur as 'the power of more". The view was that, where greater expertise exists elsewhere there is value in leveraging it.

Casual Luxury: Athleisure, Sport and Country

Forbes (2015) highlighted the emergence of athleisure as a key trend within the fashion sectors driven by a combination of fitness consciousness consumers and comfort driven consumers, with the *New York Times* (25 March 2016) suggesting that this market is worth an approximate $97 billion. Athleisure represents a 'crossover' category aimed at satisfying the need for high-quality, refined and aesthetically strong sportswear coupled with a desire for smart, comfortable, casualwear. The conceptual flexibility of this category is reflected in not only its styling but also through the development

and use of high-end, luxury fibres and fabrics more commonly associated with the luxury fashion sector (for example, technical cashmere).

Casual luxury, within the context of the American and British luxury, may be considered a dichotomous concept with American brands drawing strongly upon a heritage of sportswear (evidenced not least in their advertising campaigns) and British brands drawing strongly upon a heritage of country living. This reflects Kapferer and Bastien's (2009) emphasis on the importance of geographical roots and the importance of heritage (Fionda and Moore 2009). While, this may be an oversimplification in the context of contemporary lives, there is an underlying credibility and indeed the transference of an aristocratic aesthetic and aspiration is a feature of the influence of British luxury and in particular British tailoring upon the American luxury fashion sector.

Reference has already been made in this chapter to the gender shifts with respect to the providers and customers of luxury with women leveraging significantly more influence in both categories. This has, in the context of British brands resulted in a reconsideration of the importance of tailoring for work and for 'play' and while men's tailoring remains an important feature of the British luxury proposition, a softening of dress code expectations in the workplace has resulted in opportunities for brands to explore what may be considered acceptable for both men and women. British and American luxury brands, demonstrating entrepreneurial flair and market awareness, have capitalized upon this shift and have evolved an offer that could be described as less event-led and more everyday than their French counterparts.

We also see, especially with respect to younger consumers, a greater emphasis upon non-work-related and/or outdoor experiences and this requires and appropriate clothing. Indicative of this movement in the UK, for example, is the rapid growth of urban and extra-urban cycling. Bloomberg (2015) highlighted the growth of cycling in London and linked to this, the growth in independent, artisan bicycle builders making bespoke bikes with prices rising to circa £10,000. Interestingly, while the growth in consumption and creation continues, Ricca and Robbins (2012) proposition that rarity is a key pillar of luxury, supply cannot yet meet the demand.

This is but one example of the emergence of sport, fitness and well-being as a luxury pursuit. Commensurate with this, we see also a demand for luxury sportswear and outdoor pursuit clothing that delivers something beyond the basic, where looking good becomes an extension of feeling good. What should also be recognized, in the case of cycling, is that many of the

journeys made by bike in cities are commuter journeys and the demand for clothing that works both on and off the bike becomes evident. This may be an extension of a wider phenomenon as more young aspirants pursue careers outside of the established professions and, consequently, the formal approach to business dressing is gradually eroded. The merger between comfort and style become increasingly important to the extent that trainers (or sneakers) are considered appropriate footwear in the workplace. One luxury entrepreneur identified this as “a ready willingness to optimize the zeitgeist of the moment and to recognize niche luxury opportunities”.

Athleisure, casual and outdoor luxury fashion has seen the emergence of a number of dedicated brands, most significantly in the USA, as well as the establishment of range extensions within established brands. One characteristic of these extensions is that they tend to offer a more accessible entry point to luxury fashion, sitting a price points lower than the core range. Associated with them also is greater user convenience derived from strong functional performance. This reflects, in particular, a trait of American luxury in its willingness to extend its customer reach hierarchy and athleisure may be seen as a means of attracting younger customers (*New York Times* 2016). This will be discussed in more detail in the following section.

Product Specialization and Accessible Luxury

Our research has identified that the new generation of British and American luxury fashion brands have diverted significantly from their predecessors in terms of their approach to product development and range management. Previously, American brands in particular, quickly sought to extend their range coverage to incorporate a wide and diverse range of goods and services, often at a rapid pace. Often achieved through the adoption of product licensing agreements, they would seek to work with external partners in order to extend their range across multiple product categories, and especially perfumes, small leather goods and sunglasses. Furthermore, they would develop a range of sub and diffusion brands that would ensure maximum market coverage and an extensive range of revenue channels.

In contrast, our study has identified that this generation of businesses, has tended to focus upon a specific product type or category and has, thereafter, tended to remain focused upon that category through time. Two reasons for remaining focused were identified. Firstly, a particular product or category focus was believed to be a powerful means of indicating expertise credibility, quality and dependability. Features which are inevitably essential for a newly established, and perhaps lesser-known luxury brand.

Secondly, because so many of the new generation of luxury companies reply significantly upon digital selling channels, a highly focused product or category offering significantly enabled "cut-through" in terms of securing brand identification, recognition and then purchase. This is best illustrated in the observation of a managing director of one such company that participated in our study:

> *As a digitally reliant business, we do not have the luxury of a shop window to tell our story. Instead, we need to tell our story efficiently and effectively through a focus upon one product category. The essence of success is to be known for something. To be famous for selling one product category. For that reason we have strictly controlled our exposure. We have focused our intent to excelling in one area – shoes.*

It was interesting to note that a number of the American research participants were of the view that there was an established tradition that luxury brands from the USA were much less elitist than their French counterparts in terms of product type, situational use and pricing levels.

In contrast, the tradition of British luxury brands has been much more elitist in terms of accessibility and consumer group connection. Typically, these brands have been more readily associated with specific ways of life—such as those associated with royal and aristocratic living. Their product coverage has tended to match the lifestyle needs and interests of a privileged few.

Looking more broadly and beyond these established traditions, an analysis of the market positioning and product category participation levels of British and American brands, it becomes clear that there is a willingness to adopt an accessible luxury positioning.

The desire to adopt an accessible luxury brand positioning was explained in terms of three dimensions. The first was philosophical in nature and was relevant to the very nature and scope of luxury itself. Based upon the views expressed by participants in our study, a majority (especially those that had been launched in the past twenty years), were of the view that elitist and inaccessible luxury was incompatible with contemporary consumer thinking. Advances in technology made global knowledge of a luxury brand both more possible and available. This is best reflected in the comment of the founder of a British luxury accessories brand.

Of course, personal economics means that luxury brands and products can never be made available for everyone to consume. But is also feels immoral and unacceptable to deliberately make a brand completely inaccessible to only a very privileged few. We feel that we are compelled to make our products accessible to a discerning but not necessarily, a very rich, consumer.

Secondly, it was recognized that an elite positioning would inevitably restrict the degree to which younger consumers could readily engage and consume the brand. Rejecting the view that an accessible propositioning would dilute the allure and credibility of the brands' luxury position, this formula was believed to offer more lucrative income streams.

Thirdly (and perhaps most tellingly), there was also the view that an elite, inaccessible price positioning was not credible from a product true-value perspective. Recognizing that their luxury brands' products did not necessarily utilize ultra-superior raw materials, nor were the processes associated with the development and manufacture of their products consistently complex or especially unusual, many argued that it was not credible to maintain an ultra high price proposition. One explanation provided by a research participant with respect to this latter point is provided below:

We are not like Cartier. We don't use highly precious stones. That is a rare approach. Our form of luxury is concerned with enabling as many people as possible to enjoy our brand and to do so because we make it within reach to them. Our materials are good. But not so expensive, that it limits the opportunities of people who want them.

5 Final Thoughts

The purpose of this study and the sharing of the result is not to formulate abstracted and theoretical accounts of the business models of American and British luxury fashion and accessory brands. Much rather, the intended value and purpose was to shift the debate away from a fixed focus upon French brands and to instead offer a wider perspective upon developments within the global luxury fashion sector.

We believe that there are three important insights about luxury fashion that arise as a result of this study. Firstly, we recognize the transformative effect of digital technology that has enabled the participation of new, smaller-scale participants to credibly operate within the sector. Secondly, we note that luxury has become an area that increasingly attracts the energy

and the investment of entrepreneurs. Thirdly, and perhaps most significantly, British and American luxury fashion brands offer a differentiated and more expansive view of just what luxury fashion currently means and what it possibly could be in the future. By comparison, it may be argued that the French luxury brands, for example, within a more tradition bound and regimented system. Furthermore, the lack of conglomeration as a strategic response of (from a parent perspective) has necessitated a differing approach to luxury brand generation and competition.

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CHAPTER 5

Champagne, Between Terroir and Luxury, 1945–2014

Yves Tesson

1 Introduction

Whether or not champagne belongs to the luxury category is a matter of debate, with some preferring the use of the term 'prestige product'. Generally, luxury products are those that give producers high profit margins. This is not the case with champagne, however, as its cost price can be very high due to the locations of vines in northern regions, the fact that the grapes are picked by hand, multiple cellar operations, and long storage periods.

If champagne truly belongs to the luxury sphere, given its uses and connotations, there is opposition within the Champagne region itself between those who consider the wine a 'terroir' product and those who see it as a 'luxury' product. The former focus primarily on champagne's agricultural aspect, local know-how, and the region's geological and meteorological specificity, while the latter see first and foremost its relationship to the brand world.

This opposition deepened in the period from 1945 to 2014. This chapter analyses the causes of this rift while outlining what one might call the 'geopolitics of champagne', in both regional and international terms. Three major shifts characterize this period, during which production in

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the Champagne region went from 22 million bottles in 1947 to more than 300 million: the emergence of winegrowers' champagne processors (unlike mere winegrowers' deliverers who sell their grapes to champagne houses), the birth or consolidation of groups, and the restructuring of distribution networks. At the same time, champagne, which was initially an export product until the First World War (with more than 70% of production being sent abroad in 1913–1914), bore the new interwar trend by becoming a product mainly intended for the domestic market (52% of bottles marketed in 2015).

This apparent paradox stems from two movements: a democratization of champagne paralleling that of luxury products in general (Daumas and Ferrière le Vayer 2007), which made them affordable for the French middle classes, and the emancipation of winegrowers from the trading world (champagne houses), which helped moderate the role of that sector. As the houses belonging to the Union des Maisons de Champagne still account for 60.8% of marketed bottles by volume and even 68.4% by value of champagne's total turnover, the change in the sector did not mark a complete transformation.[1]

How should we understand this phenomenon? One could argue that there are two types of champagne today: champagne from the *maisons*, a luxury and primarily international product that conveys the appellation's prestige; and a winegrower's champagne, a terroir product that indirectly benefits from the awareness created by those champagne houses, but mainly targets the domestic market. The question is thus whether the new relationship reflected in this duality is an antagonistic or a symbiotic one.

2 The Constraints of the AOC: Local Consequences of Supply Competition in Response to Global Demand Growth

The specificity of the Champagne wine-growing area lies in its two-entity structure. The first entity corresponds to small winegrowers, which own around 90% of the area's land. The second is traders, who own only 10% of the estates and buy most of their grapes from winegrowers, make wine, assemble the different *crus* (specific geographical areas of the vineyard), and 'champagnize' them before marketing the finished products under their own brands (Veuve Clicquot and Bollinger, for example). Until the Second World War, this relationship between traders and winegrowers was an

unequal one. Winegrowers formed an atomized world opposite a far more concentrated trading sector. Consequently, they struggled to uphold their rights and suffered from both fraud (supplies from outside Champagne) and trader-set pricing schemes. The lack of resources for winemaking and storage, by extension, complicated negotiations further as any unsold grapes at the picking stage were instantly lost (Barbier 1986).

For many years, the trading sector did not seek to acquire enough vineyards to become self-sufficient. That enabled traders to use winegrowers as an adjustment variable, leaving them to cope with market fluctuations on their own. Vineyard-owning houses would thus buy in during times of high demand, but would only use the grapes of their own vines during crisis periods, leaving winegrowers to manage the surpluses (Tesson 2013).

However, the two sides developed a deeper solidarity due to a stronger awareness of their interdependence amidst struggles with phylloxera (an American insect that threatened to destroy the whole vineyard at the end of the nineteenth century), the ravages of the First World War (during which the Champagne region was on the frontlines), the 1929 crash which caused massive overproduction crisis, and German lootings during the occupation. A strong interprofessional organization emerged in the 1930s. The trading sector agreed to tie a minimum price for grapes to the right to the controlled appellation of origin '*champagne*' (*Appellation d'origine controlée*, AOC, is a collective brand attributed to wines coming from a specific region and conforming to specific regulations). The winegrowers agreed to abide by strict regulations on production conditions governing vine pruning and grape pressing. These measures contributed to both quality improvements and the quantity reductions while giving the AOC greater homogeneity and, as a result, legitimacy (Diart 2010).

Every year, the representatives of the interprofession—through what would become the Interprofessional Champagne Wine Committee (CIVC)—also set a maximum yield per hectare beyond which wines would lose their right to the AOC. This helped prevent overproduction and, as a result, any risk of a drop in champagne prices or damage to its luxury image. During the Second World War, when the amount of stocks taken by the Wehrmacht could have ruined some firms, a system for dividing up grapes between traders was organized on the basis of shipments in previous years. The switch was then made from a minimum price to a set price. Insofar as the grape shortage remained after the war, the allocation system stayed in place until 1990.

Finally, in order to guarantee that winegrowers would always have items to sell—if not grapes, then at least wine to sell to traders—despite unpredictable weather conditions, the interprofessional organization could grant Champagne AOC status to wines that were downgraded during years of overproduction. This system evolved and was later formalized as a '*réserve qualitative*' (qualitative reserve). While no longer able to reintegrate downgraded wines, the interprofessional organization could simply allow winegrowers to block, beyond the authorized yield ceiling, a determined quantity of quality wines with AOC status in certain years, as it saw fit. Winegrowers could then lift these restrictions when they failed to reach the authorized yield ceiling.

Market trends turned around in the aftermath of the Second World War, with the overproduction of the 1930s giving way to shortages as demand boomed in the post-war glory years. Champagne houses (traders), which up to that time had held a virtual monopoly on shipments, faced severe grape supply difficulties. This shortage arose from two factors.

First, winegrowers refused to reduce restrictions on vine-planting rights for fear of falling grape prices.[2] Second, the boom in champagne production by the winegrowers themselves now represented significant competition. The share of champagne marketed by winegrowers rose from 12% in 1950 to 38% in 1971.[3] During the post-war glory years, the success of these winegrowers stemmed partly from a favourable fiscal framework that taxed income from the sale of grapes but not bottles. Finally, winegrowers' champagne benefited extensively from the automotive revolution, which led city-dwellers to visit the countryside and buy their champagne directly from producers.[4]

The development of cooperatives also exacerbated the grape shortage. The first cooperatives took shape in the interwar period, initially just to reduce the winegrowers' reliance on traders by creating new storage resources. At this point, they produced wine, but stopped short of 'champagnization'. Not all traders were opposed to this (Piard 1937), and even the trading sector agreed in the aftermath of the war to subsidize the organization of cooperatives through the CIVC.[5]

Many traders doubted that cooperatives could move into making champagne and marketing the finished products, considering that doing so required costly facilities and advanced technical skills. With regard to trading activity, the houses' sales networks had formed over several generations; frequent modifications were thus impossible. Asking farmers to become

salespeople and turn into refined ambassadors of this luxury product, likewise, was unthinkable (Piard 1937).

Moreover, cooperatives may have seemed useful to the trade as a whole as they represented a way of limiting the fluctuations in grape prices that put both traders and winegrowers in similarly uncertain positions in terms of cash visibility. In addition, major brands did not want to see declines in grape prices, which would drive trade in minor bottles sold at cheap, fizzy-wine prices and tarnish champagne's luxury image. The growth of cooperatives also served to guarantee a stable source of supply for trading thanks to the cooperatives' storage resources (Piard 1937). Finally, the cooperatives had modern upscale presses that facilitated an overall improvement in wine quality compared with the small individual presses that were used by some winegrowers. Even though these investments were vital to growth in production, the champagne houses could never have funded these new facilities themselves.[6]

In the 1960s and 1970s, however, a second trend was at work in the cooperative sector and putting an end to the champagne houses' support. Partly in response to the emergence of groups in champagne houses, the cooperatives formed unions that now wanted to champagnize wine. For winegrowers, these cooperative unions made it possible to achieve economies of scale; they funded the use of personnel as skilled in wine care as the champagne houses' human resources, which not only increased storage capacities but also improved quality, adjusted assemblages over a much wider range of *crus* and, finally, brought together the financial resources for marketing champagne under collective brands.[7]

That is how the *Centre Vinicole de la Champagne* was born in the wake of the 1970 harvest, after the winegrowers' union SGV (*Syndicat general des vignerons*) reported huge losses from poor wine storage following high picking yields. SGV calculated that the losses alone would have been enough to fund the requisite new facilities.[8]

However, the cooperative movement suffered from growing competition surrounding processing champagne by winegrowers; still, without the input of the cooperatives, this activity actually would not have emerged in many cases. For winegrowers, working with a cooperative constitutes a transitional stage that starts an emancipation process, particularly through the opportunity to market their own brands when the cooperative redistributes the wine it has champagnized to its members. Once this first part of the commercial learning curve is complete, it is easy for winegrowers to go

further and uncouple themselves completely from cooperatives to carry out their own champagne-processing tasks.[9]

At the same time, cooperatives only got partly on board with the marketing of their own champagne. To add more value, they often settled for developing more services for the champagne houses—in some cases, in fact, they went as far as delivering finished products. The *Centre Vinicole de la Champagne* may have briefly considered acquiring an internationally renowned house with a powerful distribution network (Champagne Lanson), but it soon gave up on the project.[10]

One could interpret this development as co-operators (the winegrower members of a cooperative) having an inferiority complex with respect to the trading sector, which always intimidated the winegrowers by emphasizing the complexity of marketing. The former directors of SGV voiced the cooperatives' fear of having to recruit competent outside staff and the need to stay between winegrowers, even if it meant restricting themselves to areas that they had already mastered. However, they pointed out that this was a missed opportunity. The purchase of a major house would, of course, have represented a substantial investment, but the rampant inflation of the 1970s would have enabled the cooperatives to pay off the loans quickly.[11]

The cooperatives did succeed, though, in positioning themselves in a sector that the champagne houses had partly neglected for fear of impairing their image: mass retail.[12] The Nicolas Feuillatte brand, which belongs to *Centre Vinicole de la Champagne*, embodies a certain success, ranking third in champagne sales in 2015 behind Moët & Chandon and Veuve Clicquot.[13] Unlike small independent winegrowers, the big cooperatives have sufficient negotiating power in their dealings with supermarkets. Cooperatives represent even stiffer competition for the champagne houses as they benefit from tax advantages.[14]

The first effect of this grape supply difficulty was to push the houses and winegrowers to increase their yields, thanks to progress in chemistry. In the period between the early 1950s and the early 1970s, there was a doubling of yields. This growth, however, remained insufficient.[15]

The trading sector responded by accepting the setting up of an interprofessional contract (1959). For several years, this guaranteed both grape prices, now index-linked to bottle prices, and grape purchases by traders under a reciprocal commitment system and banking pool. Winegrowers still bearing the painful memories of overproduction during the 1930s could view the future with more confidence and agree to an

increase in planting rights more easily. They also realized that restricting the development of trading would be harmful in the long run.[16]

If winegrowers sell their own bottles, they actually benefit indirectly from the international public relations policy and marketing set up by traders. Without the brands pulling the appellation, winegrowers would never be able to add as much value to their champagne sales. Winegrowers have also succeeded in conquering the domestic market but are virtually non-existent internationally.[17]

In an attempt counter champagne processing by winegrowers, the champagne houses also set up a communication policy designed to distinguish between major houses' champagne and winegrowers' champagne. The distinctive feature of real champagne is that it represents an assemblage. Winegrowers often only make their champagne from the few patches of land they hold. By drawing from a much wider palette, traders achieve consistent quality by skilfully rebalancing their products. This strategy was partly jeopardized by the policy of some champagne houses to develop special vintage champagnes from a specific plot, or *clos*: some of their greatest wines became *monocrus*.[18]

In parallel, a debate emerged between the 'industrial option' put forward by traders, who focused on following demand, and the 'agricultural option' claimed by winegrowers, who emphasized producing in accordance with the AOC's capacities.[19] During this period, the trading sector began a policy of democratising luxury, based on the creation of '*cuvées spéciales*'[20] alongside non-vintage Brut, believing that they could popularize consumption without risking champagne's image as a luxury product. On the other hand, winegrowers saw no sense in trying to compete with fizzy wines, as it was imperative that champagne stay out of the competition without trying to win significant shares on a market where champagne volumes would always be derisory.[21]

It is striking to note that both parties were convinced that they had won this debate. Traders determined that they had obtained an increase in production yields and planted surface area thanks to their market research, confirming that champagne could still enjoy great demand. They presented these studies to the winegrowers with what the traders believed to be the desired impact.[22]

The winegrowers, on the other hand, saw themselves refusing to bow to the demand pressures from traders and avoiding the same fate as Cognac, where the winegrowers' lack of control over vine planting made them adversely dependent on trading. Under this view, the Champagne

winegrowing sector smoothly navigated the crisis of the 1970s by controlling its plantation areas.[23]

Winegrowers are not actually opposed to increases in production, provided that such changes do not entail a rise in the number of producers and that the growth benefits winegrowers exclusively. If winegrowers granted new plantations, they asked for the new plots to be reserved for the smallest winegrowers—excluding the houses as much as possible.[24] Consequently, the planted winegrowing area more than tripled over the years from 1945 to 2015.[25]

However, the interprofessional organization's regulations formed a precarious balance that threatened the product's very quality. The allocation of grapes prevented traders from having enough room to manoeuvre in their assemblages by limiting their choices of *crus*. The CIVC often had to name both buyers and sellers. Set prices and guaranteed purchases hardly encouraged winegrowers to strive for production quality that did not increase their profits.[26]

Finally, the champagne houses' supply competition tended to engender practices that went against the traditional principles of champagne making. A market began to develop for wine on racks, with winegrowers selling nearly finished bottles to traders, who would simply affix their labels without the brands contributing in any way to a specific winemaking process. This was a highly desirable market as it allowed champagne houses to work around the allocation system, which only applied to grapes. Indeed, one could argue that the prior sales-based quota allocation system was particularly unfair and limited the emergence of new traders. Any fast-growing new house, as well as any house that wanted to develop its markets, came up against this barrier. For these types of houses, buying rack wines was in some cases the only solution.[27]

These various factors, in addition to pressure from Brussels, led to the abandonment of the system in the early 1990s and a return to a certain form of liberalism. Only the yield-regulation system and individual contracts remained. However, the yield-setting framework enabled the interprofessional organization to keep controlling prices indirectly by factoring in inventory levels. Brussels, which regulates the interprofessional organization under specific rules, set a limit to the effect that the organization would not be able to seek to create a shortage. What constitutes a shortage is still undefined, however.[28]

The 'rack wine' strategy is not just a product of the interprofessional contract and the allocation system, however. That is why the rack wines still

exist despite the end of the grapes market organization, albeit to a very marginal extent. Buying rack wines is also a precautionary measure that some houses adopt when they secure new market shares. Given the need to store the wine at least three years before selling it, the sale of an additional bottle implies the addition of three new bottles to the cellar, assuming the market holds out—a significant and risky investment. While this is only an occasional phenomenon, the house still ends up with an amount of unsold stock. On the other hand, buying rack wine lowers the risk as the bottles can be sold immediately. In some cases, then, houses wait for a sales increase to develop over several years before expanding their production capacity.[29]

Finally, when traders filed a motion in 2000 for the abolition of rack wines, they faced opposition from two sides. The cooperatives, first of all, viewed rack wines as a way of adding more value.[30] On the other hand, winegrowers keep their stocks to prepare for retirement and succession and also benefit from an advantageous tax framework by spreading out their earnings.[31] At last, if the winegrower sells his champagne under his own brand, it is a security. Indeed, if he fails to develop his brand, he will still be able to sell his stocks this way.

3 The Birth of Groups and the Ongoing International Development of Champagne Houses

Constant growth in demand has led to the reorganization of champagne houses, marked by a wave of concentration and internationalization. These family firms mostly developed through self-funding, a financial strategy that began to show its limitations in the early 1960s. Insofar as the sale of any additional bottle surpassing the previous year total entailed bringing in three new bottles to anticipate new demand, self-funding was obviously insufficient if the houses wanted to keep up with the champagne market's growth.

Two solutions were therefore open to them. They could borrow, but that was a major risk—and the root cause of many bankruptcies that occurred in the early 1990s. There is a dangerous time lag (usually lasting three years) between the moment when traders buy grapes to turn into wine and the time when that wine hits the market. If prices of both grapes and bottles collapse between these two points because of an overproduction crisis on the champagne market, traders may have to sell their wines at a much lower price compared with the costs of building up their stocks three years prior.[32]

Another way of funding that growth is to go public. A listing movement began in the 1960s (with Moët & Chandon in 1962 and Veuve Clicquot in 1963) and has continued up to today. These stock market introductions have fostered the formation of groups and the arrival of new players, sometimes from outside Champagne (Louis Vuitton, Seagram, Pernod-Ricard, and Cointreau, for example).

Furthermore, the limited nature of the 'Champagne' appellation accelerated the emergence of these groups. To the extent that traders cannot simply increase their supplies as much as they would like, the only way to grow their businesses is often via the acquisition of other champagne houses. The brand management strategy will decide on whether the company wants to keep the corresponding name or not. For example, Veuve Clicquot bought Canard Duchêne in 1978 and kept the brand as it was a good fit: Canard Duchêne was a more democratic brand, distributed in supermarkets with a solid standing in the domestic market, whereas Veuve Clicquot was positioned as a more upscale brand, distributed in restaurants and wine stores primarily overseas. However, Veuve Clicquot sold off Canard in 2004 after the parent firm joined the LVMH group in 1987 as it was in competition with the Mercier brand (Declerck 2004).

The production limit set by the AOC also increasingly led traders to build up vineyards outside France, capitalizing on their brand awareness. For instance, Moët & Chandon pioneered this approach in Mendoza, Argentina, in the late 1950s before moving on to California in 1973, and, most recently, has established vineyards in Australia, India, and China. Other houses, like Louis Roederer and G.H. Mumm, have followed suit.

This use by champagne houses of their brands to sell wines from vineyards outside the Champagne region initially raised a number of questions and met with considerable opposition from winegrowers. They saw it as an indirect misuse of the Champagne Appellation's reputation—especially considering that those brands were built on the prestige of the word champagne.[33]

The houses replied that winegrowers, by limiting planting rights, left them no choice. It was the only remaining alternative for their brands' development. They also emphasized that it was actually the brands who had built the appellation's prestige, not the other way around, and that the brands belonged to them *ipso jure*.

In addition, the system did no harm to the AOC. The houses first aimed for markets where champagne had little chance of establishing itself, given customs duties. According to a champagne house manager, answering to

winegrowers' accusations in 1962: 'Today, the customers that have made a brand's reputation travel extensively and want to find the brand they value wherever they go. This universal presence is therefore a condition of truly international status for a brand.'[34] A consumer of Moët & Chandon will be glad to find some M. Chandon in Argentina. Conversely, an Argentinean customer who is used to the M. Chandon brand in Argentina is likely to consume Moët & Chandon champagne when he or she travels abroad. At the outset, there were no plans to use these brands outside the countries with prohibitive customs duties to avoid competing with the champagne brand of the same name. Finally, by transferring their know-how abroad in this way, champagne firms asserted their technical superiority. They literally became the international kings of sparkle. 'Whatever the case, because it maintains the prestige of French know-how in a country where it ran the risk of being forgotten, the brand concession, when limited in this way, far from harming our region, serves its best interests.'[35]

Similarly, the houses always positioned these products on a lower price range. Champagne kept its own competition under control in this way. Finally, scholars have suggested that the expansion of fizzy wines and the taste for sparkling beverages could only be profitable to champagne in the long run. Anyone who starts taking an interest in sparkling wine would, the theory holds, always end up going up range out of curiosity (Lockshin 2011).[36]

In addition, few countries with no wine-growing areas in their respective territories are actually wine importers. Vineyards first have to develop in a given country to develop a taste for wines among the general population and thus foster imports. In the United States, the involvement of major champagne brands in the development of Californian vineyards, far from creating competition, was conducive to American imports as it created a previously non-existent wine culture. England and Japan are, however, notable exceptions.[37]

Better still, the establishment of these bases helped to defend the appellation as the new sparkling wines were the only ones among American sparkling wines not to use the term 'champagne'. 'Thanks to Chandon, then Mumm, then Piper, then us (Roederer), the word champagne vanished from Americans' minds', said J.C. Rouzaud, former president of Louis Roederer. 'If there's still some champagne today, it's at three dollars a bottle. No one can mix up a 3-dollar champagne with others that are at 20 dollars and so on. We were the first to make sparkling wine without calling it champagne.'[38]

Finally, champagne brands began to diversify into other products such as Cognac (the Moët & Chandon and Hennessy merger) and perfumes, with the acquisitions of Perfumes Christian Dior by Moët & Chandon (1968) and Givenchy by Veuve Clicquot (1981). On each occasion, these choices offered different growth opportunities from champagne, particularly in the absence of production constraints. In the case of perfume, the market is much more competitive than that of champagne, which benefits from the relative protection of the AOC. Without the constraints resulting from supply restrictions, however, the perfume sector offers greater growth opportunities. Champagne, thanks to its substantial tied-up inventory, offers the guarantees that banks require for the loans requisite to the costly marketing of perfume brands.[39] The impact of co-branding should not be underestimated: Bringing such brands together lets each of them bathe in the other's prestige. Finally, the movement of company executives between divisions breaks up their routines and maintains their creativity while also fostering skill transfers. In that respect, the contribution of Louis Vuitton's packaging to Veuve Clicquot Ponsardin merits a mention.

One last advantage emerging from this group-formation process is lower distribution costs. Instead of prospecting and setting up distribution networks for single brands, companies can achieve economies of scale by working for a full range. This often makes it possible to move from independent agencies to subsidiary agencies. This change is a major turning point for the champagne houses as it lets them control their marketing policies more directly and make them more consistent internationally (Refait 1998).

The best example is MHD, LVMH's powerful distribution subsidiary (Refait 1998). Distribution is the main difficulty for family-owned champagne houses, whose prices vary according to the importing country—and whose image can vary widely as a result. Champagne targets an elite customer base of frequent travellers on whom these discrepancies, once noticed, could have a negative effect. Furthermore, a heterogeneous marketing policy tends to lead to a loss of control over distribution and to the creation of parallel networks (Dusautoir and Charters 2011).

4 The 1990s and 2000s: When Champagne Became a Wine Again

The period from 1990 to 2014 was an eventful one. As the process of liberalization changed the organization of the grape market, multiple reconfigurations pushed champagne into an identity crisis.

The LVMH group (created in 1987), which already owned Moët & Chandon, Dom Pérignon, Ruinart, Mercier, and Veuve Clicquot, continued its expansion in 1991 by acquiring Lanson and Pommery, then the property of BSN (Boussois-Souchon-Neuvesel). LVMH sold Lanson a few months later and did the same with Pommery in 2002, keeping almost all the vineyards. The group later repeated the operation with Champagne de Venoge. In 1999, LVMH finally bought Krug from the Remy Cointreau group and, this time, kept the highly prestigious brand (Declerck 2004).

Outside of LVMH's acquisitions, many of the reconfigurations that occurred during the period in question are related to the ending of the interprofessional contract, which, until 1990, tended to diminish competition amongst champagne houses. This initially led to a hike in grape prices; the houses proceeded to go into debt to acquire the necessary stocks. The first Gulf War then broke out, leading to a collapse in prices and the swift devaluation of that inventory. The phenomenon weakened some houses, which in some cases succumbed to takeovers—Deutz, for example, was acquired by Roederer (Declerck 2004).

New players emerged in this context, building small empires with some of the prestigious brands that LVMH had not purchased or kept. This was the case for Paul-François Vranken. A Belgian national, he began his career as a financial controller for Bass beers, with the added responsibility of the Belgian distribution of Castellane champagne. He enjoyed great success, being one of the first to bank on the emerging mass retail sector. As he was paid by commission, he built up enough starting capital to buy some vines and some wines to launch his own champagne in 1975—the Vranken brand was born. Drawing on his initial experience, he benefited from a massive initial order from the Casino chain.[40]

In its early days, Vranken's company suffered from a downmarket image as a result of its relations with mass retail. He thus began to flesh out his portfolio with prestigious names. He bought the Charles Laffite cognac brand to use it in champagne (to the displeasure of a Bordeaux-based competitor). In 1985, Vranken created the Demoiselle brand, aiming for a segment that few brands targeted: an upscale champagne priced at a more

intermediate point, presented in a bottle with a specific design like a *cuvée spé ciale*, and channelled through mass retail. He took advantage of the early-1990s crisis to acquire a great number of houses, albeit mostly of secondary status (Lallemant and Bissinger, for example). In 1996, he finally moved into the 'big leagues' by taking over Heidsieck Monopole, which he acquired from Seagram. The biggest development occurred in 2002, when Vranken purchased LVMH's Pommery—an internationally renowned brand that would provide outlets and whose Victorian buildings in Reims are some of the region's tourist attractions.[41]

The Lanson BCC group is another example. Formed by former broker Bruno Paillard, the company holds a well-matched brand portfolio: Philipponnat for selective distribution (upmarket restaurants), De Venoge at wine stores, Tsarine in mass retail, Boizel (a brand of proximity sold directly to consumers by mail order), and Lanson, a cross-sector brand available in all segments.[42] However, the weakness of the Lanson BCC group and other new organizations lies in their high debt levels (Declerck 2004).

Lanson BCC and Vranken Pommery, which ship around 20 million bottles each annually, are battling for second place among Champagne groups[43] behind LVMH's 62.7 million bottles (2015).[44] Next in the rankings are the Laurent-Perrier group[45] and Mumm-Perrier Jouët, a property of Pernod Ricard group.[46]

One interesting point to note is that, just as was the case during the eighteenth and nineteenth centuries, the important new champagne houses did not originate among the winegrower community but rather developed from the trade—many of them originating through the efforts of former wine brokers (Bruno Paillard and Alain Thienot, for instance). Apparently, players still find it easier to go to the vineyard from the trade than vice versa. Indeed, buying vineyards and wines is less complicated than creating a network and a brand.

Amidst this upheaval, some old family houses with large vineyards and low debts still hold out; Pol Roger, Bollinger, and Louis Roederer are three examples. In 2005, the Taittinger family-operated Taittinger Group was bought by Starwood, an American pension fund. One year later, however, Pierre Emmanuel Taittinger bought the family champagne house back with the support of Crédit Agricole. He has not taken back the Société du Louvre, which owned hotel chains and palaces.

Brand transfers from one group to another, often at short intervals and at the cost of pulling some vineyards to pieces, probably fomented an identity

crisis for champagne. However, champagne emerged stronger from these events. Whereas it had started turning into a mere festive drink, it became a fully-fledged wine again and firmed up its roots in the 'terroir'. The public witnessed the emergence of the 'cellar master' (winemaker) figure. The 'chef de cave' used to be an obscure technician, but now has to combine oenological expertise with the charisma of a globetrotting professional communicator. This trend is strengthened by the constraints arising from France's Evin law, which imposes communication that is strictly product-focused.

This game-changer for the champagne identity is also evident in the houses' choices of distribution channels. Some, like Roederer, broke from the habits of major champagne houses by joining forces with spirit brands. They preferred bringing in agencies specializing in exclusive wine distribution to refocus their communication on the product.[47]

This is a complex challenge as champagne, which, above all, forms an industry, as it proudly claimed in the nineteenth century, sometimes tries to pass itself off as a craft. This entails the risk of forgetting that, far from shutting itself away in a tradition, champagne has always been capable of innovation.

Rack wines also came under mounting criticism.[48] It was envisaged to review the rules of Syndicat de Grandes Marques, the champagne houses' trade union bringing together the most prestigious ones. Membership would now be subject to a number of quality requirements, such as a fermenting cellar capacity that proves the house is able to handle the volumes it sells without buying in rack wine, a substantial grape supply compared with clear wine supplies, a high supply percentage in the *grands crus* and *premiers crus*, a high sale price, and a high percentage of export sales.[49]

Upon reflection, however, it became clear that this exclusionary rationale was likely to harm champagne and the solidarity between brands. The opposite direction prevailed with the closure of the Syndicat de Grandes Marques, after which the broader-based Union des Maisons de Champagne became the sole representative of the trading sector. This did not prevent the Union from urging all of its members to clean up their practices. The strategy proved effective as the various houses raised each other's game—a more constructive approach that blacklisting.

The final aspect of this identity crisis was the fear that the emergence of groups would lead to a lack of a standout in the consumer's mind for brands under the same umbrella. However, groups take special care to leave each of

their houses with as much autonomy as possible (every house has kept its cellar master, sales team, and grape supply networks). The disappearance of the founding families from the management structures was offset by the care taken to preserve their respective histories and archives in the hopes of maintaining the 'house spirit'. Paradoxically, many of the houses belonging to groups know how to highlight their histories better than family-owned houses, which often take this aspect for granted and underestimate its value.

Finally, the period was also when new markets in Asia and Russia emerged while the saturated domestic market weakened somewhat due to economic gloom. This situation has given champagne houses back some of their export-capacity clout in the interprofessional relations with winegrowers, for whom processing champagne is no longer such an obvious alternative. As a result, figures show that winegrowers' shares of sales have fallen since 1970 (dropping to 19.5% in 2015).[50]

It seems obvious that winegrower-processors' champagne continues to be, in many cases, the wine 'for the brother-in-law'—a cheap champagne used up at weddings and with workers' committees. This makes it a less worthwhile outlet given the high price of grapes (Dupont 2016).

Still, players like Anselme Sélosse or Eric Rodez are showing that this positioning may be starting to change. The new generation, which is better trained than the previous one thanks in no small part to incentivization actions by the winegrowers' syndicate (the young winegrowers' group and obligatory internships abroad, for example), could offer more modern responses—provided, however, that the old guard avoids stifling its initiatives and that inheritances do not fragment capital.[51]

At an initial stage, these winegrowers' specific strategies view international markets less as an outlet than as a way to raise awareness of their brands. Access to external markets is extremely costly for them and requires difficult time investments, while they are often alone on their vineyards and have to manage production unaided. In terms of image, though, being able to say that various major restaurants in foreign countries serve their offerings is a major advantage that enables them to justify higher prices on the domestic market.[52]

These winegrowers, however, lack access to duty-free zones—an essential international shop window for luxury brands—as they are unable to provide high enough volumes and margins are too low. Similarly, without a specific, prestigious history like the old brands, the winegrowers' communication mainly focuses on their know-how. However, they do have one strategic advantage over some groups: authenticity. Where others 'communicate',

those winegrowers personally embody their wines, just like the major traders of the nineteenth century who carried the names of their own brands.[53]

Two conceptions of 'luxury' thus live alongside each other without necessarily being incompatible. Champagne houses promote a champagne of consistent, standardized quality around brands that work as effective benchmarks for a wide customer base. The new generation of winegrower champagne processors claims to be campaigning against standardized taste and reintroducing randomness and originality; they also target more selective audiences and niche markets, having a great success with the 'bobos' (bohemian bourgeois). They are also the first to promote biodynamics (cultural practices which would take account of cosmic forces).

The above is merely a rough portrait of the champagne sector, however. In particular, there are family houses which occupy intermediate positions. Moreover, the differences often lies less in the way the wines are made and more in how the firms communicate. Several major champagne houses, including Roederer, played a pioneering role in biodynamics or sustainable winegrowing, but they felt less of a need, probably because of more brand-focused strategies, to spotlight it. This may also be because 'organic' wines initially had a poor reputation among consumers.

Overall, the Champagne winegrowing region is very unlikely to win a larger market share as it has pushed its production capacities to the maximum. The only way for the region to grow economically is by adding more value. This was the goal of the region's application for UNESCO heritage status, for example, which indirectly enshrined the champagne name—at an international level—as the product of a specific region. The heritage distinction also serves to reconcile different facets of the champagne's identity. After initially focusing on the area's landscape, the application later redrew its focus with equal emphasis on the former industrial aspect of champagne, which gives the product its originality, and on the importance of 'industrial heritage'. Instead of 'fossilizing' Champagne in its traditions and history, then, the status presents Champagne first as a land of innovations. Finally, the UNESCO heritage certification should help to raise winegrowers' awareness of the aesthetic care that they should exhibit for their farms and vineyards, which are not just utilitarian production spaces but also contribute to the 'landscape'. Insofar as they market champagne and receive a share of customer visits, they are encouraged in this way to set up a reception area in phase with champagne's luxury image.[54]

5 Conclusion

The Champagne winegrowing region was built on a system that enables production profits to be shared out fairly and production to be regulated strictly. This framework is probably what has allowed Champagne to enjoy controlled growth since 1945 without production exceeding the growing demand. By keeping the product rare, the sector prevented excessive democratization that would have harmed its luxury image.

In Champagne, balance is the key. On one side, the champagne houses carry the products' reputation internationally and prospect new markets constantly; on the other, winegrowers, closer to the land, curb the fervour of the trading sector, whose occasional tendency to let demand dictate strategy is a danger. As defenders of the terroir, winegrowers prevent the champagne cluster from dissolving amidst globalization.

One potential fear has been that winegrowers would step out of their scope, go into processing champagne and, in so doing, harm champagne's luxury image by bringing down the art of living that surrounds it. In reality, however, this practice has slowed down thanks to champagne houses' strategy that keeps grape prices high. Only the most daring and, by extension, the most creative winegrowers now consider venturing into selling their own champagne, mostly on niche markets. As for the cooperatives, while some of them, contrary to traders' predictions, have focused on developing their brands, they still target the mass retail sector and have difficulties to expand their international networks.

An important point to note here is the particular role of the AOC in champagne. By limiting production expansion capacity, it encouraged houses to diversify their activities and fostered the formation of major groups, giving champagne the benefit of multiple synergies and helping reduce distribution costs. Consequently, LVMH appears to be the undisputed leader of champagne. The group is a powerful locomotive with a size and competitiveness that aligns with international competition, which earns it the respect and appreciation the entire profession.

Another feature of this AOC is the fact that professionals wish to maintain it as a quality regulation instrument and limit any collective communication, which is one of the keys to champagne's international success compared with other French AOCs. Other appellations base their promotion on complex rankings of *crus* that are impenetrable to consumers, while champagne advertising occurs via the presence of clearly identifiable brands, providing simple benchmarks for foreign customers.

NOTES

1. Statistics of the Union des Maisons de Champagne (UMC).
2. UMC, *Rapport sur l'activité de l'Union en 1958*, presented by Christian Heidsieck, February 1959.
3. UMC, R 2/7, 'La situation du commerce des vins de Champagne, bilans et perspectives d'avenir', report of J-M. Ducellier, 1972.
4. Villa Bissinger, Interview of Jean Nollevalle by Yves Chauvé, 29 May 2000.
5. UMC, *Rapport sur l'activité de l'USCVC en 1954.*
6. Villa Bissinger, Interview of a former champagne house president by Yves Chauvé, 19 June 2001.
7. SGV, 908, James Blaques, *1974–1984, Une decennie au SGV* (interview).
8. Ibid.
9. Ibid.
10. Ibid.
11. Ibid.
12. Villa Bissinger, Interview of a former champagne house president by Yves Chauvé, 19 June 2001.
13. H. Bect, 'Nicolas Feuillatte, le baron du champagne', *BFM Business*, 13 August 2014.
14. UMC, *Rapport sur l'activité de l'Union en 1958*, February 1959.
15. UMC, R 2/7, 'La situation du commerce des vins de Champagne, bilans et perspectives d'avenir', Report of J-M. Ducellier, 1972.
16. SGV, Memo of Jean Nollevalle, 'La société interprofessionnelle'.
17. Ibid.
18. UMC, Q 14/5/ and BB 25/5.
19. UMC, R 2/7, 'La situation du commerce des vins de Champagne, bilans et perspectives d'avenir', Report of J-M. Ducellier, 1972.
20. A 'cuvée spéciale' is a champagne, often a vintage, which is created by blending the best wines of the champagne house and sold in a bottle with a specific design, usually making reference to ancient bottles. The most famous one is Dom Perignon, which is a creation of Moët & Chandon.
21. SGV, 908, James Blaques, *1974–1984, Une decennie au SGV* (interview).
22. Villa Bissinger, Entretien avec Claude Taittinger, Yves Chauvé, 18 June 2003.
23. SGV, 908, James Blaques, *1974–1984, Une decennie au SGV* (interview).
24. UMC BB 1/4, *Rapport sur l'activité de l'USCVC en 1956*, 20 February 1957.
25. Statistics of the UMC.
26. UMC, R 2/7, 'La situation du commerce des vins de Champagne, bilans et perspectives d'avenir', Report of J-M. Ducellier, 1972.
27. 'Vins sur lattes: le négoce dit stop', *L'Union*, 27 February 2003.

28. Interview of Ghislain de Montgolfier, former president of Bollinger, by Y. Tesson, 2015.
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PART II

Markets

CHAPTER 6

Christian Dior-New York: French Fashion in the Luxury US Market

Véronique Pouillard

1 Introduction: Was There No Luxury in the US?

Today the US dominates all other markets as far as luxury expenditures are concerned. As shown in the 2015 results published by specialized consultancy firm Bain, the US is the largest market for the purchase of personal luxury goods, reaching 78.6 billion euros for that year. This sum is higher than the combined total of the next four countries (Japan 20.1, China 17.9, Italy 17.3, and France 17.1). One of the explanations for this state of affairs is the status of New York as a fashion capital. New York is the city where most personal luxury goods are sold in the world, with a sum of 27 billion euros sold in 2015. The USA has become, over recent years, the largest luxury market in the world, and is still ahead of the Asian countries (D'Arpizio et al. 2015, pp. 2, 9–10, 11).

The rise of the USA to the top of luxury markets is, however, far from obvious if we consider the history of the luxury industries. For a long time, the dominant idea was that luxury was a European, rather than an American specialty. Following in the footsteps of a couple of famous scholarly works stating that there was no socialism in the USA, one might be tempted to state that there was no luxury in the country either (Sombart 1976; Lipset

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and Marks 2000). Luxury groups LVMH, Kering, or Richemont have their origins in Europe. Conversely, their closest US equivalent, Coach, has branded itself as "affordable luxury" from its inception in 1941.[1]

Scholars like Marlis Schweitzer have reminded us of the nineteenth-century roots of an American fashion national sentiment, but also explained that the biggest obstacle to the rise of American fashions was the reluctance of Americans to abandon Paris' style direction (Schweitzer 2008, pp. 130–149). This view aligns with the analysis that American creativity, in the high arts as well, slowly found its independence from European art (Guilbaut 2006; Troy 2003).

This chapter explores the implementation and the development of luxury in the USA, starting with the case of Christian Dior-New York. The main sources used in this chapter are the archives of the House of Dior, and especially the documents kept in the "Christian Dior-New York" files. The French haute couture house founded an American subsidiary in 1948, which soon became a major purveyor of luxury goods. The transnational dynamics of the luxury business played an important role in the development of the luxury industries in the USA (Hancock et al. 2014; Okonkwo 2007). For this reason, the choice has been made here to focus on one transnational case, the development of the French-originated luxury firm Christian Dior in the USA throughout the 1970s and 1980s, which is contextualized in the wider history of luxury in the USA.

Building up from the case of Dior-New York, this chapter examines how the American branch of a French luxury group developed competitive strategies in the luxury sector in the US. How did Dior strategize its offer, communication, and sales in the USA? How did the firm's strategies evolve in time of decline of the traditional Paris haute couture craftsmanship? What were the challenges awaiting a luxury multinational in the USA?

2 French Luxury and US Fashion Before the 1970s

2.1 *From Copycat to Originator?*

The state of fashion and luxury innovation in the USA needs, at the institutional level, to be contextualized in the legal frameworks in which fashion developed in France and in the USA. The French intellectual property rights protected fashion and design innovation, that were assimilated to the high arts (Stewart 2005, pp. 112, 128). In the USA, the condition of the fashion workers was overall comparatively better, with

high numbers of unionized workers and higher salaries than in France during the interwar period (Green 1997, pp. 52–65, 120–121). Design, however, did not receive the same protection in the USA, where the Congress repeatedly denied the inclusion of fashion designs in the copyright law, on the grounds that America was a fashion democracy. From the point of view of the legislator, France was much more protective of high fashion entrepreneurs (Green 1997, p. 120). In consequence, French fashion entrepreneurs ceaselessly complained that the unauthorized copying of their products was rampant in America. A closer examination reveals that copying was present on both sides of the Atlantic and that copyists started their work close to their sources, in Paris.

In more recent decades, China, Taiwan, and other Asian producers have played the role of imitators with regard to the Western production of fashionable and luxury items. But as the emergence of ever new waves of creative talent shows, the history of the luxury business is more complex. New entrants have stabilized their position on the global markets thanks to their astute use of the existing structures of the fashion system, as Yuniya Kawamura has shown for the case of the emergence of innovative Japanese fashion designers in the last quarter of the twentieth century (Kawamura 2004).

2.2 *The Birth of the US Fashion Industry*

Further context is to be found in the situation of the fashion industries in the USA. The New York garment district consisted of small and medium-sized enterprises (SMEs), of which few were public (Goldstein et al. 2012; Amerian 2016, pp. 100–108). Among the early luxury and creative fashion entrepreneurs, Hattie Carnegie, Lily Daché, Maurice Rentner and Nettie Rosenstein, had their own exclusive design ateliers and high-end shops (Daves 1967, pp. 10–15). They thrived alongside the prestigious New York department stores like Bergdorf Goodman, Bloomingdale's, and Lord and Taylor. While some of the earlier names of New York luxury fashion may no longer be familiar to the greater audience, Maurice Rentner for example was succeeded by Bill Blass, showing that creative firms could last and find successors in a context of great business volatility.

Retailers were one step ahead in the USA. While the department store retail form had roots on both sides of the Atlantic, during the interwar period it gained prominence for the retail of luxury goods in the USA, with landmarks like Bergdorf Goodman, Bloomingdales, and Lord & Taylor in

New York, Neiman Marcus in Dallas, I. Magnin in San Francisco. The US department stores carried items under diverse brand names. Oftentimes manufacturers did not put their own labels on the clothes. While department stores were essential to the retail of luxury, their brands could not be connected with the place of production. French fashion houses pursued a different strategy, offering goods they created under their own roof, bearing their own brand name. Or so it was expected, as some operations were carried out in manufacturing plants in the outskirts of Paris, such as the blending of perfumes, packaging, embroidery, etc. In the mid-twentieth century, experts agreed that the weak point of the US fashion industrialists and retailers, including in the most luxurious lines, was branding.[2] Experts noted that the New York homegrown entrepreneurs struggled to build luxury brands, while New York had Madison Avenue—the world's center of the advertising industry. In high luxury, the USA had Coach, but no equivalent to Hermès. Talent and demand for luxury both existed in the USA, but US luxury industrialists still had to achieve the renown that Paris had built for itself.

A surge of pride developed in the US fashion industries during World War II. While Paris was isolated from most of its international markets, New York encouraged the creation of a reserve of talents and an interest for American-made original design (Marcketti and Parsons 2006; Marcketti 2010). The institutional side was fostered by the actions of New York mayors Fiorello La Guardia, and Robert Wagner during the postwar period. These efforts developed into the opening of the Fashion Institute of Technology in 1944 and the institution of the New York Fashion Week, which became an official event supported by the mayor in 1956. New York museums also started the more regular staging of fashion exhibitions more regularly. Further institutionalization developed in American luxury fashion with the creation of several prestigious awards that crowned high-end designers, notably the Neiman Marcus awards, created in 1938, and the Coty award, announced in 1942. The latter was specifically awarded to designers established in the USA, while the first one indifferently distinguished European and American designers and entrepreneurs.

2.3 Dior's Implementation in the USA

Europeans played a key role in implementing luxury on the US markets. The pioneer of this movement during the postwar period had been Christian Dior. Textile industrialist Marcel Boussac had founded the firm in 1946 as the new haute couture laboratory, and he gave Christian Dior free rein to

design the couture collections. Boussac had from the onset formed the project to venture on the American market, and he had started in 1948, with the opening of a Christian Dior wholesale couture branch in New York. This branch did not sell Dior haute couture creations, rather, Dior himself designed a special high-end ready-to-wear line with the American consumer in mind (Jones and Pouillard 2009, pp. 1–24). His goal was to expand in New York as well as in the rest of the USA and in the most prosperous parts of Central and South America, an agenda that the firm accomplished over the course of one decade.[3]

The strategies of licensing at Dior have been studied by Tomoko Okawa, who demonstrated what the strengths and weaknesses of this business model were for luxury fashion entrepreneurs (Okawa 2007, p. 107). Other scholars have contributed to our knowledge of the beginnings of the expansion of Dior, notably Alexandra Palmer, who wrote an authoritative book on the international commerce and worldwide expansion of the firm; Farid Chenoune, who wrote a comprehensive study of Dior's life and collections; and Adelheid Rasche, who researched Dior's costume jewelry licensing to the firm Grosse in Pforzheim, Germany (Palmer 2009; Chenoune 2007; Rasche 2007, p. 35). The firm made extensive licensing agreements in order to exploit the original Dior brand.

When Christian Dior opened a branch in New York in 1948, the move was hardly novel. Several Paris couturiers had ventured on the other side of the Atlantic. But most had been unsuccessful in launching couture houses in New York. Founding a perfume branch was usually a better operation, longer-lasting, and more rewarding. The large investments made by Boussac in the New York house of Dior are a key factor in understanding why Dior succeeded where other couturiers had failed in both the short and longer term. Christian Dior-New York also developed its own strategies, in which the input of Dior's general manager Jacques Rouët, and of American lawyer and executive director in New York Ellen Engel, played a large role. Christian Dior-New York salons reproduced the codes of Dior Paris, but the fashions sold and retailed in the US were different from the haute couture designs shown in Paris.

Licensed lines added to wholesale couture. All were part of the powerful business model set up by the Dior firm to conquer foreign markets. The development of Dior licenses was not proper to the American market, but here again, Christian Dior and his management staff had the American client in mind. The historical overview of Christian Dior-New York kept in the firms' archive mentions that "Mr. Rouët realized the enormous

strength and appeal of the Dior name in the American market and worked to have top quality fashion products available at affordable prices to a wide range of consumers."[4] This rested upon the unique combination of Dior's design creativity, Rouët's management vision, and Boussac's investments. In the 1950s, no other couturier benefitted from as much cash flow and management support as Dior did.

Christian Dior remained at the top of the house, that had now become a global business, until his premature death in 1957. The firm kept the name of Christian Dior, which had, over a ten-year span, become a household name and a valuable brand (Bomsel 2010; Kapferer 2008). Yves Matthieu Saint-Laurent, who had been an assistant to Dior, succeeded him, then in the 1960s Marc Bohan took over the design of Dior's women's lines, to which he added the design of a new men's line in 1970. Bohan had prior experience working with American manufacturers and, from 1958, had designed Dior's ready-to-wear for the London branch (Okawa 2007, p. 93). In addition, one person was assigned to the direction of design in Dior-New York, a position held successively by Hubert Latimer, Guy Douvier, Gaston Berthelot, and, in the period of time studied more in depth in this chapter, Dominic Toubeix. During the 1960s, the Boussac group was unable to renew strategically. The decline pursued throughout the 1970s until the group was bought by group Agache-Willot in 1978 for 700 million francs. Losses continued to accumulate until the bankruptcy three years later. Head of the Férinel holding Bernard Arnault acquired the group in 1984 and on this foundation developed the world's first luxury group. Those years coincided with a deep reorganization and modernization of Dior's US licenses (Crawford 1967, p. 190; Daumas 2010b, pp. 120–122; Okawa 2007, pp. 94–99; Stoskopf 2010, pp. 723–725).

3 Dior in the USA from the 1970s Onwards

3.1 Licensing and the Luxury Market

In 1975, the salons of the wholesale couture house of Christian Dior-New York closed their doors. The American licensing business of Dior remained in operation, capitalizing on the name of the couturier to maintain a place on the US luxury market. An internal document of the Dior firm, dated from the mid-1980s, outlined the strategy behind the licensing business in the USA. The first license contracted by Dior for the US markets had been set up in 1949 for Dior-branded men's neck ties. While the Paris haute

couture salons continued to create elite products for a rarefied clientele, licenses aimed to bring good quality to a wider base of middle-class clients. Finding the best manufacturers was a priority for the Dior executives. Indeed, in the mid-1980s, the USA represented the largest market for Dior, and made around 40 percent of the conglomerate's global volume.[5]

From the origins of Christian Dior, the management had been careful in their choice of manufacturers for the production of licensed lines. Each line was the object of a special contract. In the initial years, the quality of design and manufacturing was regularly reviewed by Christian Dior, in collaboration with his close team of assistants, like Mitzah Bricard, who was in charge of the accessories, and always with Rouët. The idea was that Dior himself, and later the head designer of the firm, would give his final seal of approval on the quality and taste of each item bearing the Dior brand. Although each license was subject to a contract and watched for quality and taste, over time the Dior firm had to put up with licenses and products that were considered internally to be dull or somewhat lacking in coherence with the image of the brand. The control over the licenses loosened while the performances of the Boussac group lagged behind.

Christian Dior had been the pioneering firm in establishing a royalty system for Paris haute couture in the USA. Paris couturiers had for over half a century wanted to develop such a system in order to cash in the benefits of the investment they made by creating and designing their own lines. The difficulty that the business model of Paris couture generally met was to realize the full extent of their investments in creativity. Most of these couturiers thought that they should branch out in the USA in order to cash in the results of their creative investments, but they generally lacked of financial capital to do so. Dior was the first Paris couturier to settle in the USA with durable success, and the financial investments that Boussac provided are fundamental to understanding why Dior succeeded where most of his predecessors had failed (Jones and Pouillard 2009).

The typical US woman fashion consumer in the 1970s was professionally active and often an active feminist. Consumption habits privileged workwear, separates and pantsuits at daytime, of which Bill Blass, who had succeeded the great Seventh Avenue entrepreneur Maurice Rentner, was one of the best producers. For clubbing vintage dresses were well received, and the crowd going to Studio 54 favored American luxury designers like Halston. This meant that there was no more place for haute couture, not even for wholesale couture, the line with which Dior had entered the US market. In the 1970s department stores like Bergdorf Goodman and Saks

Fifth Avenue closed their haute couture salons, where they used to display designs imported from France with reproduction rights. Specialty stores like Jay-Thorpe and Hattie Carnegie also closed their doors (Herndon 1956, p. 226; Milbank 1989, pp. 238–247, 250).

Despite a consumption landscape unfavorable to haute couture, Christian Dior-New York remained a very active firm after 1975, managing some fifty Dior licenses on the US market, of which the largest part was menswear. The firm had adapted quickly over nearly thirty years of presence in the USA, moving from a focus on wholesale women couture, to cater to career men and their families. The system of licenses started in the 1940s generated sales and royalties to Dior.

3.2 *The Legal Side of Christian Dior-New York's Business*

Dior's licenses were the response of the French luxury industry to the long-standing difficulty that Paris couturiers had experienced when they wanted to protect the intangible assets of their brands on foreign markets. In the USA, the firm Christian Dior-New York worked to sell its products, and behind the scenes, to develop a comprehensive intellectual property rights portfolio. In the second half of the 1980s, the legal activities of Christian Dior-New York could be grouped into four categories: trademark and patent protection; general counsel activities and corporate organization; certified public accountant's responsibilities; and licensing and related contracts. Christian Dior-New York delegated all work related the trademark and patent protection to firm Amster, Rothstein and Ebenstein, a counsel specialized in trademark protection. Dior's general legal counsel in the USA was New York-based firm Windels, Marx, Davies and Ives. This firm was in charge of the preparation of the meetings of Christian Dior-New York's board of directors and stockholders' meetings. In addition, the firm worked with a certified accountant, M.R. Weiser & Co., who handled the files, financial statements, and licenses audits.

During the 1970s and 1980s, the field of fashion intellectual property rights had matured (Palfrey 2012, p. 33). Luxury firms in the USA, even if they were confronted to recurrent infringements of their intellectual property rights, like cases of counterfeiting, preferred to settle matters by transaction. Litigations in the USA were notoriously expensive, and the outcome was "often unpredictable and disappointing".[6]

Licenses represented the most important part of the legal work handled for Christian Dior-New York. Licenses were set up according to a precise routine

in five steps. First, a standard license contract was drawn after the model license agreement that had been set up for the firm by Windels, Marx, Davis and Ives. The licensor, Dior, and the licensee entered in a negotiation process on a series of terms: "limits on Net Wholesale Price deductions, definition of Articles; Royalty Rate; Minimums; term of agreement; Option to Renew, of any; Required National Advertising Expenses; and permitted Close-Out Sales, if any."[7] Second, the licensor and licensee agreed on the potential option of an automatic renewal of the license contract, and on the possibility to adjust the contract upon renewal. Third, licensees could, in some cases, require an extension of their contract, even when renewal had not been included as an option. Fourth, the use of side letters was the procedure used in case of disagreements on the license agreement: for example, this could arise about the date of the payment of royalties, or on creative matters like the approval of product styles, advertising and packaging. A fifth point was about the sublicensing, that is the fact that a licensee would delegate all, or a part of production to a third party. Sublicensing was generally avoided and, in the case it would be undertaken, it needed to receive complete agreement from the Dior headquarters.[8]

A typical licensing agreement was a document of over twenty pages, that carefully laid out the relations between the Dior-New York headquarters, or licensor, and the licensee. Licensing required much legal groundwork because it involved the use of the Dior brand and image. All Dior-related trademarks were the property of Christian Dior SA in Paris. The brand itself was registered under various trademarks and service marks: notably Christian Dior, Dior, and CD. The trademarks were registered with the relevant offices at the French domestic and international levels, and in the US as well. Contracts defined the geographical area covered by the license and the production that the licensee would carry out under the Dior brand name.[9]

3.3 The Control Over Licenses

During his nearly ten years as head designer of the firm, Christian Dior used to personally verify the products designed by his licensees, and make recommendations with the help of his close management team. The designers that succeeded Dior had to pursue this task, and to watch over the aesthetic homogeneity of the products as well as over their branding. Twice a year or more, they had to verify the new collections designed by the licensees.

In terms of intellectual property rights, the styles elaborated by the licensees to be retailed under the Dior brand automatically became the property of Dior.

The template licensing contract that was in use during the 1980s outlined the directive role of the Dior headquarters in aesthetic terms.[10] The Dior head office had the final word on products, and monitored that the licensees' creativity was in line with the overarching aesthetic of the brand. The respect of the prestige and goodwill of Dior were clearly outlined in the license contracts, and retail had to match the highest luxury standards, as well.[11]

In practice, however, the relation between Dior and its licensees was an ever-evolving process that owed much to the involvement and mutual understanding of both parties. The 1980s were a turning point, when the Dior headquarters started regaining control over their licensing lines. Before that, the Paris headquarters had privileged a policy that brought royalties into Dior's treasury and made only occasional controls over the licensed lines. In the 1960s, Boussac's management became obsolete and the licensing strategy of Dior started showing weakness, notably by a dilution of the brand's prestige (Okawa 2007; Stoskopf 2010).

In the mid-1970s Rouët visited the New York headquarters and moved the finances of the company from Curaçao to New York. At the same time, Rouët made a full assessment of the US licenses of the firm and recommended more extensive quality controls. The objective was obviously to regain the prestige of the brand, that had been eroded by the large number of American licenses. Licensing on the American market remained, however, a balancing act: "The US licensees have the responsibility to find the balance between many elements – price, quality, styling – in order to produce a *salable* line. Considering our lack of design direction, we must also be remembered that a commercially successful license program in the United States required accommodation and compromise between aesthetic and commercial considerations."[12]

4 Catering to the American Middle Classes

4.1 *The Importance of Men's Wear*

During the 1980s, Dior had 45 licensing contracts in the US market that covered menswear, women's wear, accessories, children's clothes, and home décor. The most important business done by Dior in the USA during the 1980s was on menswear. Dior notably had the largest dress shirt and tie business in the USA, and such products were sold in department stores across the country.[13] In other categories of products, like men's scarves and

handkerchiefs, Dior was allegedly the "only major designer business in the US."[14] The total of all licenses catered by Warnaco, the license for most of Dior's men's wear in the USA, yielded sales of over $100 million for the year 1988, of which the royalties paid to Dior were over $5 million, that is 25 percent of the total royalties made by Christian Dior-New York.[15]

Reports of licenses in Dior's archives show the ongoing dialogue between designers on both ends. Despite the overall preference of Dior to avoid sublicensing, Warnaco, however, had passed one sublicensing contract with Ashear for the manufacturing of men's scarves and handkerchiefs. Hartmarx, Dior's licensee for menswear, sublicensed Dior tuxedos to yet another manufacturer called After Six.[16] Possibly these two examples show that licensing would more easily occur for products that represented a strong base of Dior in the USA. During the 1980s, the involvement of head designer Dominique Morlotti at Dior, allowed to evolve the Dior sportswear lines made by Warnaco from synthetic fibers and blends to wool and cotton, and the styles from "basic logo styles" to "much more fashionable styling".[17] Morlotti closely supervised licensed products, visiting New York twice a year and in addition offering constructive criticism and ideas for improvement in form of written benchmark reports.[18] While Dior became integrated in the LVMH group under the aegis of Arnault, the control over licensees evolved to a much more hands-on approach on the ground. Aligning Dior with high luxury standards in terms of material and taste were one obvious part of this strategy, yet the monitoring of markets was another equally important task. Comparative assessment of the global markets proved helpful in the process. For example, the Dior watches, that were licensed to firm Memox in the USA, targeted the consumer of middle- and upper-class department stores and retailed for sums going from $250 to 600, but were conceived to be "less luxe" than the Dior watches retailed in Europe.[19] From the inception of the Christian Dior-New York wholesale concern, this slight difference between the high luxury lines sold in Europe, and somewhat more affordable luxury sold in the USA, regularly appeared in the strategies of Dior, now within a global group.

4.2 *The Challenge of Women's Wear*

After the closing of the New York wholesale couture salon, Dior kept licensing and selling branded women's wear lines in the US, design being closely watched by Marc Bohan, then head designer of Dior haute couture in Paris, and by his assistant Cathy Khan, who came to New York for two

weeks twice a year and inspected all the women's licensed lines. Bohan checked that women's wear aligned aesthetically with the Paris collections. Dior was, in the second half of the 1980s, particularly successful with suits and coats, that were retailed at Bergdorf Goodman and Bloomingdales. The monitoring of licenses also shows that the Dior American headquarters were very attentive to the qualities of the retailers who sold their branded products.

During the 1980s a more sensitive or difficult area of business was women's wear. Bohan worked for the Dior women's sportswear, licensed to Jones Apparel Group, that registered a loss of $9 million in sales only for fiscal year 1986, that resulted from production problems. In response to this, Jones hired a new designer that followed Bohan's designs more closely, and the Dior headquarters imposed new quality controls. These measures resulted in an increase of 15 percent of the sales of that line in less than two years.[20] One could have easily imagined another strategy, of rarefying the number of licenses in order to recreate the prestige of the Dior brand, but the choice to keep a large number of licenses was coherent with the overall strategy of Bernard Arnault at the head of LVMH, as he aimed to extend his activities to the whole field of luxury, from alcohol to jewelry, cosmetics, perfumes and of course, fashion (Daumas 2010a, p. 33).

Dior's American licenses income rose only slightly during the 1970s (Okawa 2007, p. 104). The income statements for the next period show that the results from the new policy of closer control of the licenses proved fruitful, with a steep growth both in the US sales and in the US royalties of Dior during the 1980s (Table 6.1).

4.3 A Global Production Map

While the manufacturing of most of the Dior branded goods sold in the USA was licensed to American firms, a few ranges of products were made in Europe. The production of Dior umbrellas for both men and women was based on Paris designs and executed for a part in Italy, and in Asia. Dior leathers handbags for the worldwide markets were made by Guene in France for the luxury pieces, fabric bags were made in the USA, and some of the leather bags in Japan. Conversely, since the origins of the line in the postwar period, all of Dior's costume jewelry was executed by German firm Grosse following designs from Paris. Places of production of Dior accessories for the US markets in the mid-1980s show that the management paid

Table 6.1 Christian Dior New York Inc., royalties and sales in millions of US dollars, 1980–1992

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Sales US	147	217	230	259	286	296	319	352	411	452	497	547	602
US royalties	5.20	9	9.4	10.7	12.3	13.2	14.8	16.8	19	22.1	24.9	27.4	30.7
Total income US	2.6	4.5	4.7	5.3	6.2	6.6	7.4	8.4	9.5	11	12.4	13.7	15.3
Profit after tax	0.8	1.3	1.2	1.1	1.3	1.6	1.7	2	2.6	2.8	3.1	3.4	3.8

Source: Archives Dior, Historique CDNY, file II

attention to clusters and sites of production, although, as we have seen, the success of lines was variable.[21]

The overview of Dior's licensing further shows a strong sense of analysis of the competition on the US markets, that not only addressed the higher-end segments, but also branded goods for middle-class and upper middle-class consumers. In such cases Dior would consider competition not only from the point of view of styles, but of technical advancement as shown in the discussion on the motives for licensing Dior men's hosiery to manufacturer Camp: "As opposed to most of our other business which are labor intensive, men's hosiery is machine intensive. Our Dior business in this category continues to gain share of market because Union/Fruit of the Loom has the financial means to allow their Camp division to buy the high-tech machinery needed to keep Dior ahead of the competition."[22] Adaptation to market and diversification of the sources of production were at the core of the Dior US production.

5 A Balance Between Product and Image

5.1 Advertising Dior in the USA

In 1975 the American operations of Dior started running national advertising campaigns seeking to reach "a balance between product and image".[23] This developed into several ads, of which the most noticed, because it was then controversial, was a campaign called "three Diors" whose creative direction was commissioned to Richard Avedon. The campaigns staged Dior products in lifestyle ads that represented one woman and two men—the idea of a triangular relationship but also, as mentioned in an internal memo, a representation of the fact that then, the volume made by Dior in the USA was around 60 percent men's, for 40 percent women's products.

In the mid-1980s, when Arnault took over, Dior started using the services of a mid-sized, full service American advertising agency called Chiat/Day Advertising headquartered on Fifth Avenue in New York. The total advertising budget of Dior in the US was of some $4 million per year, of which 70 percent was paid by Dior's then 46 licensees, and the rest by the American managing headquarters. Since 1980, the Dior US head office included an advertising clause in contracts passed with licensees, who pledged to spend a set amount of the volume they made for Dior in advertising, of which a part had to be in the national campaigns. In return,

Dior consulted the licensees on all matters of national advertising. The licensees were able to make their own advertising, as well, but in the second half on the 1980s, the Dior headquarters worked to unify the format of such campaigns. Chiat/Day launched a series of lifestyle campaigns that staged the Dior codes: for example, in the late 1980s, they designed a worldwide campaign that showcased the typical Louis XVI chair that was a household staple of Dior's salons since their opening.[24] The concept behind such campaigns was to play around the visual codes associated with Dior, to reinvent them and give them a universal appeal (Sicard 1998). Furthermore, the Dior headquarters encouraged all licensees to use the Louis XVI chair in their ads, with the purpose of reinforcing the visual identity of the brand around this symbol.[25] Upon his control visits, Morlotti both checked each of Dior's licensees and visited Chiat/Day's client service to discuss future campaigns.

5.2 *Dior's Public Relations*

Christian Dior-New York also developed an in-house public relations service, whose main task was to organize the relations between the licensees and the trade press, the most famous of them being *Women's Wear Daily*. Most licensees did not have a specially appointed PR expert, and therefore the US head office of Dior coordinated most of the PR work for them. Dior's head office worked by market segments (men's wear, children's wear, for example), and brought the licensees and journalists together. The office called journalists at the beginning of every season to announce the new collections, and was responsible for lending Dior merchandise, including haute couture items designed in the Paris headquarters, to the US press for editorial purposes and photo shoots. Christian Dior-New York headquarters arranged all matters of insurance, and booked the transportation of merchandise.

Dior's PR service was in charge of the organization of prestigious events. For large galas, Dior-New York used the services of agency Harriet Weintraub and Associates (HWPR), that specialized in events for the luxury business, including the fashion and real estate sectors. Weintraub organized galas for Dior at the Bryant Park division of the New York Public Library for several hundred guests.[26] Today this is still the main site for the New York Fashion Week shows.

5.3 Dior's New Retail Outlets

During the 1980s, the real estate boom was a challenge to the fashion retail. Pressed by growing prices, many retailers in the luxury sector had to abandon Fifth and Madison Avenues, the original arteries of luxury in New York (Milbank 1989, p. 268). Dior was in a strong position on the US market, which translated in ambitious development of retail spaces. In 1989 Dior opened a boutique in Waikiki, Hawaii, an exclusive shopping destination, and in 1990 a boutique on Madison Avenue. Christian Dior-New York commissioned very complete studies of its position on the US real estate market. These studies included first, the monitoring of its competitors in the top commercial real estate market in Manhattan and in Hawaii and second, projections of expenses and incomes for potential retail locations (Table 6.2).[27]

In New York, Christian Dior competed for the best retail locations along with the new wave of American luxury, represented by Donna Karan, Ralph Lauren, and Fred Leighton. But the lion's share of the Madison and Fifth Avenue luxury was European, with branches of luxury firms that ranged from Cartier to Yves Saint Laurent—who had trained at, and briefly took over from Christian Dior—Pierre Balmain, and Sonia Rykiel for the French. The Japanese wave was represented by Kenzo Takada, whose headquarters were in Paris, and who would sell his brand to LVMH in 1993. The Italian luxury of Giorgio Armani, Valentino Garavani, and Gianni Versace also had the favors of the New York high-end consumers.[28]

6 Conclusion

This enquiry into French luxury in the USA has focused on Christian Dior-New York, established in 1948 as a branch of the French haute couture house founded in 1946. The history of Dior in the USA during the last decades of the twentieth century reveals a new dynamism after the reign of Boussac was over. During the ten years of design direction by Christian Dior, the brand had focused on innovating in women's haute couture, with a few licenses in men's accessories. Facing the decline of haute couture and increasing global consumption of luxury goods, the brand developed a comprehensive series of licenses in the USA, of which most of the sales and revenue were outside of Dior's original expertise. In the USA, Dior proved remarkably adaptive, by developing a large series of men's lines that catered to high-powered professionals, which grew steadily during the

Table 6.2 Projection for expenses and profits of a Dior boutique in the Wagner building, 819-821-827 Madison Avenue, New York, in USD, 1990–1997

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Sales	2,545,000	4,275,000	5,342,750	6,145,313	6,759,844	7,097,836	7,452,729	7,825,364
Gross margin	1,167,075	1,945,125	2,431,000	2,431,406	3,075,729	3,229,515	3,390,991	3,560,541
Rent	407,000	407,000	407,000	407,000	407,000	407,000	407,000	407,000
Net operating income	−88,844	359,571	548,676	645,279	814,253	917,771	1,046,741	1,173,585
Net profit	−467,845	−94,466	70,592	189,159	304,367	400,220	515,205	639,665

Source: Archives Dior, Historique CDNY, file II

1970s and 1980s, while women's wear was in an era of casualization, and took a backseat in the development of Dior-New York. Dior's menswear success was anchored in the retail at prestigious department stores, fostered by US high-quality and technically accurate menswear manufacturing, and addressed consumers demand.

After a slowdown in the prestige and quality of the licensees' products over the 1960s and 1970s, the departure of Boussac and the reorganization of Dior under the direction of Arnault revealed a need to tidy up the business of luxury licenses. The management of Morlotti and Khan shows a demanding approach in terms of design and quality of the products made by licensees, while production was made global and comparative data from the LVMH group allowed to refining strategies for different markets, including pricing differentiation. In order to remain competitive, Dior developed in the USA a three-pronged approach, characterized by a closer monitoring of its licensees, the modernization of its advertising communication and brand image, and a competitive approach to real estate. In some ways Dior US broke the rules of luxury marketing, for example by advertising widely, yet it aimed to build the symbolic image of the brand. In addition, the commissioning of Avedon meant that an artistic cachet was conferred to the Dior image while it was widely diffused. The choice of flagship stores further shows that the insertion in the LVMH group was both prescient and efficient in terms of real estate investments (Donzé and Fujioka 2015, pp. 822–840). In the USA the Dior brand was impacted by the general management—first Boussac, then Agache-Willot, and, finally and most importantly, LVMH group. Strategies meant to cater to US domestic demand, as the importance of men's wear and the struggle with women's wear lines show. A more accurate balance between centralized and decentralized features emerged under the aegis of Arnault, with the branding of luxury and accurate pricing of US lines, the tighter monitoring of licensees, and investment in premium retail locations, an ensemble of strategies that reveal breakthroughs in making luxury global. Marketing strategies, especially in terms of advertising and retail spaces, proved to be essential here.

Dior has remained into the new millennium one of the most profitable brands of LVMH group. Arnault owns the largest fortune in the domain of luxury, itself one of the most profitable sectors of entrepreneurial activity. This happened despite the stretch operated after the death of Christian Dior that took the firm from a high-end laboratory of haute couture, to a widely licensed luxury brand. This case seems, in this sense, to contradict the discourse

according to which when luxury met the mass markets, it lost a large part of its prestige (Thomas 2007). The examination of the longer-term history of the house of Dior, combined for the interwar period with the examination of the profits of haute couture, shows well that it is when luxury started catering to a much wider stratum of consumers that it achieved profitability.

Notes

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7. AMD, CDNY, "Legal", 1.
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20. AMD, CDNY, summary of Christian Dior licensees (women's), 1987, 5.
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24. AMD, CDNY, "Advertising", one-page document.

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CHAPTER 7

The Democratisation of Luxury and the Expansion of the Japanese Market, 1960–2010

Rika Fujioka, Zhen Li, and Yuta Kaneko

1 Introduction

Many scholars have acknowledged the so-called 'democratisation of luxury', or the dramatic expansion in the consumption of luxury goods by larger categories of a population, as being a major feature of luxury business since the 1980s and an important reason for the rapid development of the luxury sector. Even Kapferer and Bastien (2009), who defend a purist and conservative approach to luxury, recognise that democratisation was 'the most important driver of luxury' (p. 11). Most authors explain—some regretfully or critically—the democratisation of luxury as the result of the industrial reorganisation that occurred in the luxury sector during the 1980s, which

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saw a shift from small and independent family firms to multinational enterprises (MNEs) listed on stock exchanges (Chadha and Husband 2006; Truong et al. 2009; Featherstone 2014, for example). The business model of the new generation of managers heading these MNEs aimed at expanding financial profits through a strategy of product diversification (toward accessories) and extending the consumer base. Companies launched new products and new brands, which some called 'accessible superpremium' or 'mass prestige brands' (Silverstein and Fiske 2003; Silverstein et al. 2005), targeting new categories of customers. Consequently, scholars have viewed the democratisation of luxury as a top-down strategy that European MNEs have executed since the 1980s.

This chapter, however, argues that the current democratisation of luxury results from a more complex process in which the desire to increase profits went together with the initiative to enter new markets and the necessity to adapt to specific conditions. The examination shows that Japan, as the first major non-Western market for luxury goods, played a key role in the emergence of the democratisation of luxury. Statistics on the sales of luxury goods in Japan, published by Yano Keizai Kenkyusho (Yano Research Institute) since 1984 (see Fig. 7.1), clearly show that this market grew rapidly between the late 1980s and early 1990s. In 1985, the retail sales of imported luxury goods amounted to 446.3 billion yen, increasing to 1,656.7 billion yen in 1990 (+272 per cent). During this period, Japan experienced a bubble economy[1] where the relative economic power was at its peak, consumer confidence was high, and the demand for luxury goods continually increasing. Once the bubble economy broke, the sales of imported Western luxury goods fell to 1,314 billion yen in 1993. However, sales subsequently increased again and reached a new peak of 1,897.1 billion yen in 1996. From that point onward, sales of imported Western luxuries in Japan decreased steadily; in 2011, the totals represented approximately half the 1996 level.

The global expansion of European luxury and fashion companies since the 1970s has been a popular topic for numerous scholars, including Moore and Doyle (2010) writing on Prada, Donzé (2014) writing on the Swatch Group, and Merlo and Perugini (2015) writing on Pucci. Donzé and Fujioka (2015), meanwhile, gave a general overview of the market-entry strategy in Asia. One important strategy for global growth has been the opening of their own new stores, which operate under uniform international standards and the control of Western headquarters, throughout the world. These examples of past studies thus emphasise the broad development of the luxury market since the 1970s,

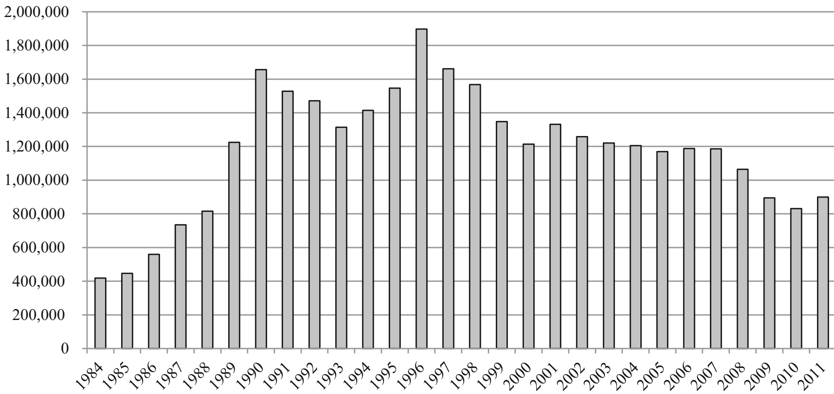

Fig. 7.1 Sales of luxury goods (millions of Yen)
Source: Yano Keizai Kenkyusho (2011)

one that involved both geographical expansion and the consumer-base extension through accessible luxury.

However, these studies address the issue primarily through examinations of Western luxury companies and include little discussion of local markets. European companies gained a significant foothold from their experiences in Japan, which became the largest luxury market in the early 1990s (Mitamura 2004; Toya 2004). They then applied what they learned in Japan to other markets, consequently unifying their practice throughout the world and adopting a global marketing strategy. Therefore, Japanese success had major implications with regard to the further development of luxury markets in other countries—particularly in Asia (Chadha and Husband 2006; Nagasawa 2007; Takahashi 2007). Furthermore, the Japanese market had a sizable impact on how European luxury companies went about creating affordable luxury products, as they were a widespread entry strategy in the 1960s, 1970s, and thereafter. This chapter thus discusses how the Japanese luxury market has developed in a climate of rapid economic change and what the driving force behind development has been.

This chapter emphasises that department stores made important contributions to expand the Japanese luxury market through the introduction of affordable luxury products. In order to provide a comprehensive view of the democratisation of luxury in Japan, we examine the role of department stores, which have been the largest outlet for luxury goods in Japan, and

the responses and behaviour of Japanese consumers since the 1980s. Finally, we use a quantitative approach to analyse the economic impact on the Japanese luxury market with data on sales of luxury goods and disposable income from the 'Family Income and Expenditure Survey'.

2 The Germination of the Luxury Market in Japan After the Second World War

The germination of the luxury market in Japan tied into the establishment of the post-Second World War democracy. While the expansion of the luxury market did not start immediately, new consumer demand for luxury products began to develop during this time. There were two factors behind the growth of the luxury market from the post-Second World War period through the 1960s and on to its full-scale expansion in the 1970s: One was Japan's economic development, and the other was a Japanese admiration of Western consumption (Fujioka 2013). Also, this expansion of the luxury market went along with that of Japanese department stores. Department stores were the only retailers to respond to the demand for luxury products at the time and also played an intermediary role in connecting Western luxury companies with the Japanese market.

The first factor is evident in Japan's expansion at a high average annual real economic growth rate of 9.7 per cent between 1955 and 1964. This high economic growth contributed to an increase in Japanese consumption. Apart from increased spending on staple foods such as rice, the index of expenditure on food, clothing, and other goods increased almost fivefold between 1948 and 1978, according to government survey on the family income and expenditure. Along with this development in the Japanese economy, both the sales of all retailers and the sales of all department stores in Japan grew dramatically. The popularisation of ready-made, Western-style clothing helped drive increased sales in department stores at the time, and the mass production of ready-to-wear clothing led to the mass consumption of fashionable items and the further development of department stores within the clothing industry (Nakagome 1975; Kikkawa and Takaoka 1997; Kinoshita 2011). With this rapid industrialisation, the Japanese economy developed enough to become a target for luxury Western products starting in the late 1950s.

The second factor came about through a change in Japanese culture. When the General Headquarters of the Allied Forces (GHQ) governed

Japan after the end of the Second World War, they introduced a new lifestyle into Japanese society, which included wearing T-shirts, jeans, and chino trousers, eating food like chocolate and cake, and using tables and chairs. Japanese consumers embraced this fashionable new style as a symbol of democracy and yearned for Western goods in a desire to catch up with the rich economies of Western developed countries. Takashimaya, for example, held an Italian fair in 1956, and Mitsukoshi held a Parisian fair in the same year, as a cultural demonstration of high fashion for Japanese customers—despite the fact that the Japanese government had not yet liberalised imports at the time (Takashimaya 1982; Mitsukoshi 2005). Japanese consumers therefore began to favour expensive Western products over cheaper traditional ones in order to fully embrace the benefit of Japan's economic development in the 1960s. Department stores were ideally placed to meet these new demands from their Japanese customers, leading the Westernisation of the Japanese lifestyle and the growth of the manufacturing industry for Western clothing and other Western products.

In order to incorporate this demand, department stores began transforming and steadily upgrading their positioning. This differentiation strategy was also a response to growing competition from supermarkets (Fujioka 2009). Department stores soon became the dominant retailers catering to the high end of the market, adeptly merchandising fashionable new Western products in addition to traditional expensive kimonos for wealthy Japanese consumers. At the time, Japanese clothing companies did not have enough skills to produce Western-style clothing, especially high-end, tailored items. Japanese department stores thus learned advanced Western techniques from Parisian haute couture, such as cutting and sewing, and hired Japanese designers who had either studied or been apprenticed in Europe. Some stores also expanded and went on to open overseas stores in order to build a network in the West. Takashimaya, for example, launched a store in New York in 1958; Daimaru opened its Hong Kong store in 1960; Seibu launched its Paris branch in 1961; and Mitsukoshi established a Paris branch in 1971. These stores obtained information on the latest fashions through their networks and functioned as purchasing bases for domestic department stores to import Western products to Japan (Yui 1991). As a result, customer demand for luxury goods grew in Japan in the 1960s.

On the one hand, department stores had a huge influence on the growth of the market for Western high-end goods in Japan. On the other hand, however, one particular entrepreneur stood out for his important contributions to these initial stages of the expansion of the luxury market. Chōichirō Motoyama, a high-fashion speciality store owner, was the first to import

these luxury goods to Japan. He made a tour of Europe in 1959 and was surprised to discover European high fashion such as Hermès, Charles Jordan, Lanvin, Gucci, and Loewe along the high street. Upon entering the Gucci store, Motoyama was inspired by its atmosphere, its impeccable customer service, and the quality of its merchandise. He wanted to bring that experience to the Japanese consumer. Although he attempted to make a deal with Gucci and Hermès to import their merchandise, they refused to see him. Almost every other designer store also ignored him on the basis of the fact that Japan had not yet developed sufficiently to be able to handle their upmarket fashion brands. Motoyama nevertheless pursued them relentlessly every year, and, in 1961, he was finally able to purchase some goods from Ferragamo in Florence, Italy, and Bally in Switzerland to sell to his Japanese customers. In 1962, Vasco Gucci, the son of the founder of Gucci, also decided to deal with Motoyama's store, and Hermès later approved his speciality store as the only space in Japan that would be able to sell Hermès's goods through the Seibu department store. In 1964, Motoyama's own new store on the high street in Ginza, Tokyo opened with these imported brands, thus becoming the first speciality store to focus on selling mainly Western luxury goods (Motoyama 2005). In the late 1950s and early 1960s, then, Japan developed into a new outlet for Western luxury companies—firms that needed Japanese retailers, mostly department stores, as partners to make efficient entries into the Japanese market. The cooperative arrangements soon found a particular format, which eventually gave way to the democratisation of luxury: the production of accessories under licences.

3 The Democratisation of Luxury Goods Through Licensing Agreements

The volume of imported products at department stores increased gradually, and this had an impact on their image. In 1952, for example, Takashimaya's Osaka branch set up its sales floor (named 'Salon le Chic') and displayed European luxury goods such as hats, scarfs, gloves, and shoes imported from the United Kingdom and France in addition to Japanese luxury goods. This new type of sales space was a symbol of Japanese department stores' rising status as high-quality retailers. Although these imported products helped to raise the stores' image, they did not immediately have a positive impact on sales (Fujioka 2013).

Instead of imported products, department stores introduced licensed products. First, Daimaru obtained an exclusive licensing agreement from Christian Dior in 1953. Under the agreement, Daimaru was able to start producing Dior's designer women's clothing for the Japanese market through its own manufacturer and hold fashion shows to exhibit Dior's designs (Daimaru 1967; Okawa 2008). Other Japanese department stores went on to negotiate licensing agreements with other upcoming Western fashion designers one after another: Matsuzakaya signed up with Nina Ricci in 1961, Mitsukoshi with Guy Laroche in 1963, and Isetan with Pierre Balmain in 1963. Takashimaya's 1959 licensing agreement with Pierre Cardin for women's clothing boosted sales in its clothing department, and that success enabled it to extend its licensing agreement in 1966 to include menswear and clothing for babies and children. As these lines were new, high-end styles, the fashions were extremely desirable to Japanese customers (Fujioka 2013).

The enhancement of this high-end merchandise brought increased sales for all Japanese department stores. Manufacturers could produce fashionable clothing for department stores' upmarket customers using the pattern-cutting designs granted to them by these exclusive licensing agreements. As the department stores' licences restricted them to providing for the corresponding store alone, however, the manufacturers made their own agreements with Western fashion designers to license production so that they could supply a wider market. The manufacturer Itokin, for example, obtained a licence from Aspen in 1965 to produce sportswear, while in 1970 another manufacturer, Kawabe, began producing handkerchiefs and scarfs under licence from Yves Saint Laurent (Tajima 1996). Japanese manufacturers paid Western designers a licensing fee for their trademarks and logos and proceeded to produce many branded products. As a result, department stores increased their sales, especially in their clothing departments, whose success then spilled over into other departments such as accessories and household goods departments; sales then grew as a whole throughout the 1970s. Licensed products thus enhanced the quality of department stores' merchandise, thereby upgrading their position in the market, and differentiating them from other retailers. It was a win–win relationship between department stores and Western luxury companies, which saw their sales climb rapidly through licensing and the democratisation of consumption.

Japanese manufacturers also expanded their ranges of merchandise to include various household goods such as towels and slippers, which Western

brands did not design themselves, and further develop the speciality stores as a new sales channel. They thus contributed to a growing consumer population and broadening publicity. As the licensing business led to an increase in sales, Western designers did not oppose the idea of simply providing their brand's logo to Japanese manufacturers. Pierre Cardin, for example, had licensing agreements with 34 manufacturers—not only clothing companies but also producers of bags, eyewear, umbrellas, and shoes. Yves Saint Lauren had agreements with 16 manufacturers in 1984, when sales in licensed products were already peaked out (Yano Keizai Kenkyusho 1984).

These licensed goods did not have the prestige of traditional luxury products, but Japanese customers in the late 1970s and early 1980s nevertheless preferred to buy these slightly more fashionable items rather than their ordinary counterparts which were made by only Japanese manufacturers. If a manufacturer produced two identical aprons, one with a fashionable designer logo and one without, consumers at the time preferred the branded apron; this was the first step in mass consumers' accessing luxury goods and consumption due to their prior knowledge of these famous brands. In other words, it signified the beginning of the democratisation of luxury goods in Japan. Once these licensed products became popular, however, particularly fashion-conscious customers were no longer satisfied with this type of product and started seeking out more fashionable and exclusive higher-quality goods. While the business model may have been unsustainable, it showed that the democratisation of luxury was capable of increasing profits. The Japanese experience demonstrated to Western companies that the production of licensed goods was an excellent opportunity for improving sales and profitability. Pierre Cardin wrote an essay on the strategy in the Japanese newspaper *Nikkei Shimbun* on 16 April 1996, saying that his company had expanded its business in the beginning of the 1960s with licensing agreements; customers could then wear the same clothing in Paris, London, or Tokyo, and mass media called the development the 'democratisation of mode' (Cardin 1996). Christian Dior, Gucci, and Cartier were also promoters of the strategy on a global level in the early 1970s.

As for department stores, the growing popularity of licensed products precipitated a search for authentic products from luxury brands such as Tiffany, Chanel, Loewe, and Louis Vuitton. The stores also had ideal conditions for opening brand outlets in their shopping spaces (Takashimaya 1982; Mitsukoshi 2005). In 1975, Mitsukoshi opened a special salon where European designer brands such as Dunhill and Céline were on display and

the atmosphere shared the same luxurious quality as the brands' own stores in France. The purchasing team at Mitsukoshi's head office also continued to search worldwide for luxury companies in cooperation with its overseas branches. The organisation thus began importing these high-quality goods, such as prêt-à-porter women's clothing for upper-middle-class customers, to various flagship stores in Tokyo and Osaka, where the various brands went on display together at designated luxury salons. Mitsukoshi then started to introduce the Tiffany with exclusive deal in June 1977 and proceeded to transform its sales floor dramatically through the creation of 28 separate boutiques for each designer brand such as Lanvin, Givenchy, Courreges, and Bergdorf Goodman in September of the same year. At each of these boutiques, customers could feel like they were in another world—a stop at a Tiffany boutique would make customers feel as if they were visiting Tiffany's on 5th Avenue in New York, for instance. Takashimaya similarly launched a Chanel boutique at its store in 1978, and many other department stores also focused on creating luxurious sales areas for their designer brands to showcase high-quality fashion at that time.

These conditions changed in the 1980s. By the late 1970s, Japanese manufacturers of garments had caught up with European manufacturers in terms of quality. Clothing floors at department stores began to be full of high-quality products made in Japan (Nakagome 1975). Japanese upcoming designers also won over customers, and there were no differences in brand prestige between licensed products from Western designers and products from Japanese designers. Licensing agreements were thus no longer necessary, and department stores and some manufacturers therefore terminated their agreements with foreign brands. They continued, however, to work with Western luxury companies, but as distributors, retailers, and providers of shopping spaces. Despite the liberalisation of the market, non-tariff barriers remained important until the late 1990s and frustrated the efforts of foreign brands to access the Japanese market (RIETI 2011). This was a built-in feature of the Japanese market, but the strength of the emerging consumer base gave luxury companies a powerful impetus to establish their presence in Japan.

The barriers made it difficult for foreign companies to open bank accounts in Japan, which in turn made it too risky for Japanese landlords to let their retail outlets to them. Despite being world-famous international fashion brands, the brands faced numerous challenges in entering the Japanese market; therefore, they relied on the help of Japanese trading companies and wholesalers, who could coordinate transactions between

the brands and the Japanese market. Under these conditions, department stores were ideal business partners as they were happy to offer their sales spaces and remodel accordingly at a very little cost (Donzé and Fujioka 2015). That gave luxury companies the ability to increase their sales through the wealthy Japanese department store clientele at minimal expense, and department stores also went on to spread these luxury goods throughout their chain of stores to major cities all over Japan (JDSA 1998). Therefore, the win–win relationship between Japanese department stores and Western luxury brands remained intact—even though the main products changed from licensed items to imported goods.

4 Affordable Luxury Goods and the Growth of Japanese Luxury Market in the Late 1980s

The macroeconomic environment began to boost the expanding luxury market in Japan in the late 1980s. Before the Plaza Accord on exchange rates came into effect on 22 September 1985, the Japanese yen stood at 240.1 against the US dollar. After a year of steady growth, the exchange rate moved to 154.75 yen to the dollar, and the yen continued to grow stronger against other foreign currencies. The strong yen prompted retailers dealing with imported products to lower their prices, making it easier for consumers to buy imported products in Japan and abroad. Mitsukoshi, for example, reduced the prices of 35 of its Tiffany products in March 1986, and of a further 633 luxury products in September of the same year by importing these goods via agencies (Mitsukoshi 2005). In addition, increasing numbers of Japanese customers began to visit Western countries and buy luxury goods there at lower prices than in Japan. In conjunction with the strong yen, the average index and many Japanese stocks received a boost in the stock market, and land prices increased considerably in Japan in the late 1980s. These rising prices were predominantly speculative and operated on very little in the way of real economic activities. Until this economic bubble burst in 1991, consumer confidence continued to rise in Japan. These economic backgrounds explain the country's increase in imported luxury products in the late 1980s, as shown in Fig. 7.1.

On the momentum of a business boom, the luxury market expanded toward a younger generation in Japan—even teenage girls were buying Louis Vuitton purses, an excellent example of the policy of further democratisation of luxury through accessories in the 1980s. Young

women who lived in urban areas and had enough disposable income were the greatest luxury consumers in the economic bubble of the late 1980s. In 1988, one magazine that targeted these young women, *Hanako*, ran a feature story on Chanel, introducing Coco Chanel's life and Chanel products (which differed slightly between Singapore and Hong Kong, according to local demand) and describing the best place to buy highly fashionable and limited stock items at reasonable prices (Shiine 2014). At that time, Chanel only had a presence within customers for department stores and did not yet have its own outlet in Japan. However, thanks to *Hanako*, Chanel's reputation spread throughout the country. Following the advice from department stores, Chanel's product designer, Karl Lagerfeld, agreed to produce many affordable goods such as accessories, which made Chanel's luxury products accessible to younger customers. This new market in Japan led to a large increase in sales for Chanel.

Hanako also introduced Tiffany in a feature story in 1988. In the late 1980s, Tiffany was reaching customers in Japan exclusively through Mitsukoshi stores. While many Japanese people had seen or heard of the classic film *Breakfast At Tiffany's*, they were not particularly familiar with Tiffany products. The magazine article advertised an affordable Tiffany 'open heart' necklace, recommending it as an ideal Christmas gift. When the magazine was released, Tiffany started a sale that proved hugely successful for the company and led to an expansion of its target market with the creation of more affordable products (Shiine 2014). Because of its exclusive contract with Mitsukoshi, Tiffany was able to use Mitsukoshi's customer data and innovated some product designs. The new, young segment thus brought increased sales not only to the luxury companies but also to the department stores. Other women's magazines, including publications both for working women (*Oggi)* and for housewives (*Miss* and *Very*), followed this strategy. As a result, the Japanese luxury market expanded downward and made affordable luxury goods more accessible to young consumers.

Although these new customers were not necessarily 'rich', they were enjoying an increase in disposable income due to Japan's economic development and began by buying more small fashionable items—purses, wallets, rings, scarves, and the like—rather than more traditional expensive items such as handbags, jewellery, and clothing. Thanks to the strong yen and subsequent economic bubble, some Japanese customers were newly rich and queued in front of the Parisian anchor stores of luxury companies to buy expensive goods; other Japanese customers were not wealthy or were young people trying to buy something fashionable at luxury stores. This pattern

contrasted the general character of these stores' European customers, who typically bought luxury goods as part of their lifestyles and were either very wealthy or upper-class customers (Yanagisawa 2002). These Japanese customers typically bought only the lower-priced luxury products available, such as scarves, purses, and key fobs, and were not the type of normal luxury consumers who bought lower-priced luxury items in addition to more expensive items. Chadha and Husband (2006) addressed Japanese consumer behaviour, saying that customers rarely show off and have an awareness of a fine line between self-expression and blatant exhibitionism under the Japanese egalitarian society. For this reason, Japanese young women required affordable luxury and thereby led the democratisation of luxury in Japan.

As shown in Fig. 7.2, the market of affordable luxury products, especially for bags and leather goods, grew in Japan between the late 1980s and early 1990s. Takahashi (2007) used data to show that an average Japanese household would have had 1.6 Louis Vuitton products. Luxury companies, realising that these affordable goods would be crucial for launching themselves into the emerging market in Japan, created these products specifically for Japanese customers and sold them mainly in Japan. Selling these affordable goods to young Japanese customers greatly expanded the market for

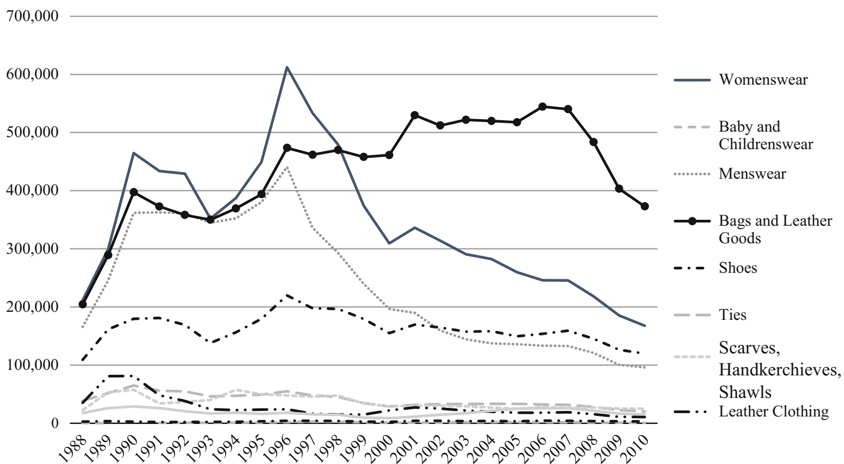

Fig. 7.2 Sales in luxury fashion goods by category (millions of Yen)
Source: Yano Keizai Kenkyusho (2011)

luxury companies: LVMH, for example, increased its net sales from 11,172 million French francs in 1986 to 22,036 million in 1991 and 31,142 million in 1996, with the Japanese market representing the largest proportion of sales in the LVMH group by currency between 1991 and 1995.[2]

The expanding market in Japan motivated the head offices in the West to change their strategies on their respective organisations and sales channels. From the late 1980s onward, luxury companies such as Louis Vuitton became multinational enterprises through mergers and acquisitions (M&A) and established their own sales channels all over the world. LVMH bought out other luxury companies such as Dior, Loewe, and Fendi and augmented its negotiating power with a greater share of the luxury market (see Chap. 2). Most luxury companies decided to launch a subsidiary wholesale company that would operate in Japan, using the same tactic that companies had used in the United States to cope with the large American market. The deregulations that began in the late 1980s enabled luxury companies to penetrate the Japanese market: The Chanel K.K. was established in 1980, Louis Vuitton Japan in 1981, Hermès Japon in 1983, and Richemont Japan in 1989—and these subsidiaries would significantly change the balance of power between Western luxury companies and Japanese department stores.

Once the luxury companies were firmly established in Japan, these Japanese subsidiaries launched their own stores along the high streets in Tokyo and Osaka. Louis Vuitton, for example, opened its store in Ginza, Tokyo, in 1981 and began to gather information about its Japanese customers without the help of department stores. Its Western office would then be able to produce goods in response to Japanese consumer demands, and the sales of the products in Japan would subsequently increase. Before that stage, Louis Vuitton had not been able to provide Japanese outlets with sufficient goods to meet the increasing demands of its customers (Tajima 1996). Luxury companies needed to understand the importance of the Japanese market and be able to respond quickly to the demands of Japanese customers. Through their own subsidiaries, they could finally control their supply chains. Meanwhile, in contrast with the progress of luxury companies, department stores were forced to accept the new strategy under the terms of a new balance of power; department stores ended up releasing control of their merchandise and operations of their sales spaces to the luxury companies' Japanese subsidiaries, which dictated the consignment of merchandise, interior shop design, and merchandise layout. They furthermore insisted on the renovation of the sales spaces every five years at the department stores' expense. While Western luxury companies gained more

negotiating power based on their global strategies, department stores still relied on the sales of luxury products.

Consequently, the creation of affordable goods in the late 1980s and thereafter contributed to an expanded luxury market in Japan thanks not only to the cooperation of department stores and fashion magazines during the economic bubble but also to mergers of luxury companies, which supported the development via the negotiating power of increased transaction volume. Once the luxury products expanded their markets and established affordable offerings in Japan, luxury companies began to control their sales channels and introduced global strategies without the consent of their former partners in the Japanese department stores. As previous studies have mentioned, 'affordable luxury products' connote the idea of offsetting the luxury concept (Mitamura 2004; Takahashi 2007). For a better understanding of the Japanese luxury market, however, one still needs to focus on affordable products in the 1990s in addition to the licensed products of the 1970s and 1980s.

5 Statistical Analysis of the Trends in the 1990s

To elucidate these characteristics of the Japanese market, it would be helpful to conduct a quantitative analysis of data on how the economic climate has impacted the sales of luxury goods in Japan. First of all, we combined data on family income/expenditures and sales in luxury goods, which come from independent sources. Income and expenditure data, based on 'Family Income and Expenditure Survey' conducted by Statistics Bureau of Japan's Ministry of Internal Affairs and Communications, were provided by the Japan Institute for Labour Policy and Training (JILPT). From the macroscopic angle of consumption, we focused on two factors: the average monthly disposable income of working families and the Gini coefficient. Disposable income represents the remainder of a household's income after deducting taxes and social insurance premiums from pre-tax household income. The Gini coefficient, based on income survey data, is an index for measuring the gap between wealth and poverty in Japan and has a value from 0 (no gap between wealth and poverty) to 1 (a significant gap between wealth and poverty). We thus used the reference data calculated by Tanabe and Suzuki for Japan's Gini coefficient (Tanabe and Suzuki 2013; see Table 7.1). Figure 7.3 depicts the changes in monthly disposable income in Japan from 1980 to 2014. As the figure shows, the integral situation of disposable income among Japanese households exhibits an obvious

Table 7.1 Complete data for the study

Year	*Disposable income* (*Yen*)	*Gini*	*Womenswear* (*Millions of Yen*)	*Menswear* (*Millions of Yen*)	*Bags and leather goods* (*Millions of Yen*)
1987	387,314	0.288	184,632	145,876	193,543
1988	405,938	0.285	211,351	165,659	204,296
1989	421,435	0.283	299,320	245,608	289,062
1990	440,539	0.291	464,661	361,823	397,376
1991	463,862	0.296	433,780	362,630	372,766
1992	473,738	0.293	429,238	361,033	358,202
1993	478,155	0.293	351,827	344,731	349,972
1994	481,178	0.293	387,441	352,490	369,452
1995	482,174	0.295	449,357	380,644	393,900
1996	488,537	0.297	612,435	440,636	473,503
1997	497,036	0.300	533,598	336,277	461,815
1998	495,887	0.297	479,343	292,945	469,873
1999	483,910	0.305	373,893	239,650	457,986
2000	472,823	0.294	309,258	196,613	461,289
2001	464,723	0.292	336,195	189,860	529,835
2002	452,501	0.295	313,843	159,491	512,167
2003	440,461	0.285	290,802	144,323	521,898
2004	444,966	0.284	282,449	137,375	519,841
2005	439,672	0.287	259,736	136,013	517,638
2006	441,066	0.293	246,019	133,429	544,555
2007	441,070	0.294	245,597	132,895	540,199
2008	441,928	0.291	218,093	120,802	483,478
2009	428,101	0.295	185,379	100,386	403,221
2010	430,282	0.292	167,805	96,075	372,889

Note: $*p < 0.1$, $**p < 0.05$, $***p < 0.01$
Source: JILPT and Yano Keizai Kenkyusho

downward trend after 1997. The collapse of the bubble economy in the early 1990s played a role in that decline.

Figure 7.2 shows the trends of sales of luxury goods. While sales of clothing and shoes were declining from around 1997 onward, bags and leather goods maintained stable sales even after 1997. As the economic circumstances in Japan shaped this trend in sales, we clarified the relationship between family income/expenditure data and sales of luxury goods via an empirical analysis. We then matched the data of disposable income and sales from these independent sources by year and obtained the entire data set over the period from 1987 to 2010, which included demand fluctuations

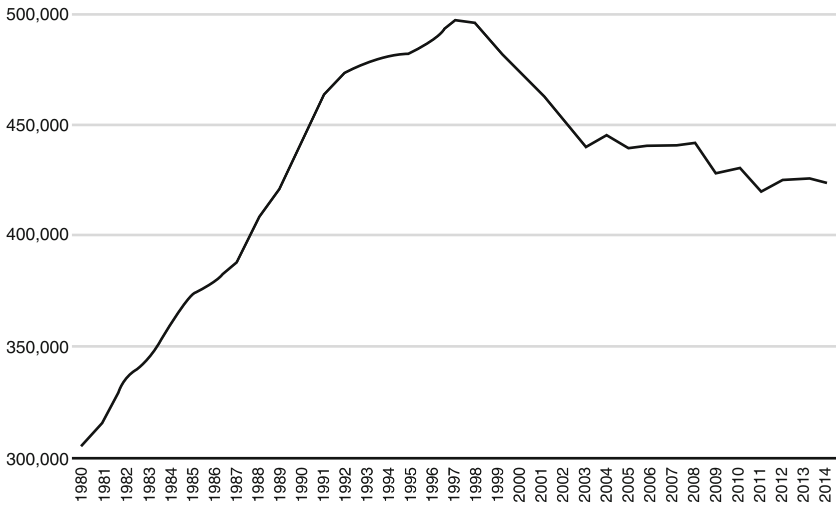

Fig. 7.3 Changes in disposable income (Yen)
Source: JILPT

before and after the bursting of the bubble. Table 7.1 presents the matched data, and Table 7.2 outlines a statistical summary.

To simplify the model for exploring the sales trend in luxury markets, we concentrated on discussing differences in demand outcomes between sales in clothing (a traditional luxury product) and in bags and leather goods, including some affordable products like key fobs and purses. In line with prior research (Mills and Schumann 1985; Wooldridge 2015), we transformed sales in luxury goods via natural logarithms. As it is currently difficult to obtain accurate assessments of expenditure levels and the gaps between rich and poor by household over the long term, we provided average disposable income as a surrogate for the income level. Similarly, we used logarithms for disposable income, as well.

With these data, we first provided a simple linear model and applied a Chow test to confirm the changes in the relationship between sales and disposable income at different time points. Next, we proposed a moderation model to investigate how income level affects sales in two kinds of luxury goods (clothing and leather goods) and the moderating role of the economic climate index in these relationships.

Table 7.2 Summary statistics

Variable	*Mean*	*Std. dev.*	*Min*	*Max*
Disposable income	454054.0	28704.3	387314.0	497036.0
Gini	0.29	0.01	0.28	0.31
Womenswear	336085.5	118114.6	167805.0	612435.0
Menswear	232386.0	108728.9	96075.0	440636.0
Bags and leather goods	424948.2	99181.8	193543.0	544555.0

Note: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

A simple approach to assessing the effects of disposable household income and Gini coefficients on sales in luxury goods includes these factors in a complete linear model. In this chapter, we specified the model (Model-a) as follows.

$$\ln Sales_i = \beta_0 + \beta_1 \ln Income_i + \beta_2 Gini_i + u_i,$$

where subscript i is the time dimension, which identifies the year, and we assume the error term u_i to be i.i.d. with a normal distribution.

Based on the fluctuations of disposable household income and luxury sales, which Figs. 7.2 and 7.3 illustrate, we used the year 1997 as a turning point in the time series.

Table 7.3 shows the estimation results of Model-a. Consistent with the results of economic principle-based conjecture, the Model-a parameter estimates indicate that disposable income has a significant and positive effect on consumption demand (sales). In contrast, the influence of the Gini coefficient is not significant; this may because the sales of luxury products in the present study are limited to one country—Japan. To confirm the changes in the sales–disposable income relationship at the turning point, we employed Chow tests to explore the presence of a structural break by checking whether the coefficients before and after the time period are equal (see Table 7.4). The Chow-test results demonstrate that the sales in both traditional luxury clothing goods (likelihood ratio = 40.85) and luxury leather goods, including affordable products (likelihood ratio = 38.23) point to a significant structural break after the bursting of the bubble in the mid- and late 1990s, as we expected (with $p < 0.01$).

Building on this result, we proceeded to Model-b, which introduced the moderating role of the economic climate index in the relationship between disposable income and luxury sales. Model-b is denoted as follows.

Table 7.3 Parameter estimates of Model-a

	Clothing			*Leather goods*		
	Whole	*Before 1997*	*After 1997*	*Whole*	*Before 1997*	*After 1997*
log-Income	5.437***	3.746**	6.902***	2.466**	2.834**	1.016
	(1.19)	(1.24)	(0.71)	(1.12)	(0.96)	(0.87)
Gini	−13.495	3.493	−11.894*	−3.375	7.742	−11.593
	(15.01)	(20.50)	(6.06)	(14.10)	(16.02)	(7.36)
Intercept	−53.688***	−36.391**	−73.420***	−18.202	−26.453**	3.252
	(12.87)	(11.39)	(8.41)	(12.09)	(8.90)	(10.22)
Obs	24	11	13	24	11	13
F-statistics	15.33	18.92	55.72	4.02	21.13	1.30
Adj R-sq	0.55	0.78	0.90	0.21	0.80	0.05

Note: Standard errors in parentheses; *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$

Table 7.4 Chow-test results

	Obs	Clothing		Leather goods	
		AIC	*BIC*	*AIC*	*BIC*
Whole period	24	7.08	10.61	4.07	7.61
Before 1997	11	−5.46	−4.26	−10.89	−9.70
After 1997	13	−22.32	−20.62	−17.26	−15.57
Likelihood ratio		40.85***		38.23***	

Note: *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$

$$\ln Sales_i = \beta_0 + \beta_1(1 + \gamma_1 D_i) \ln Income_i + \beta_2 Gini_i + \beta_3 D_i + u_i,$$

where D_i is a dummy variable representing the proxy of the economic climate index, which takes the value of 1 in years after 1997.

Table 7.5 shows the mean parameter estimates, standard errors, and other statistical indexes for clothing and leather goods. The parameter of log-Income indicates the effect of disposable household income on sales of luxury brands before the financial meltdown in 1997. A likelihood-ratio test shows that the coefficient for clothing is slightly higher than that for leather goods ($\chi^2 = 6.13$, $p < 0.05$), which means that the demand for traditional luxury clothing is much more susceptible to the influence of disposable

Table 7.5 Parameter estimates of Model-b

	Traditional luxury goods clothing		*Small luxury goods leather*	
	Coef.	*Std. err.*	*Coef.*	*Std. err.*
log-Income	4.362***	0.56	3.608***	0.52
Time dummy (D)	−30.536***	11.29	37.863***	10.57
log-Income × D	2.313***	0.87	−2.878***	0.81
Gini	−8.453	6.70	−7.269	6.27
Intercept	−40.927***	6.29	−32.153***	5.89
Obs	24		24	
chi2-statistics	242.27		126.76	
Adj R-sq	0.91		0.84	

Note: *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$

income than it is to small leather products, though the difference in the impact degree is not so substantial. In contrast, there is a significant difference in the coefficient of the interaction between the time dummy and disposable income, suggesting that the degree of income's effect on sales is different between the two luxury goods after 1997. As Table 7.5 shows, the effect of income on clothing sales increases from 4.362 to 6.675, while the effect on sales of leather goods decreases from 3.608 to 0.73.

This result implies that, compared with the consumption demand for luxury leather products, the consumption demand for luxury clothing is more dependent on the level of disposable income, which results in a substantial decrease in sales as the recession takes hold after 1997. For classic luxury goods like clothing, specifically, the purchasing intention of consumers depends more on the economic cycle; in other words, expenditures on this type of luxury goods drop considerably if there is a reduction in consumers' financial resources. When an economic bubble bursts, then, the sales preferences for clothing luxury goods decline markedly. With a downturn economic level, however, the income–demand elasticity for affordable luxury goods such as leather becomes much smaller. Essentially, consumption preferences for luxury goods shift from classic goods to affordable goods when consumers' disposable income diminishes. This finding reveals the economic background of the democratisation of luxury in Japan. Therefore, our economic data analysis shows that the economic climate has a different impact on sales according to product category.

6 Conclusion

This chapter shed light on the development of the Japanese luxury market. First, it stressed the key role that licensing played in the development of a strategy to extend the consumption of luxury goods amid the context of rapid post-war economic growth. This democratisation of luxury, which emerged in the 1960s, was a catalyst of the emerging luxury market in Japan. This represented a wholly different process from the experience in Western countries, where luxury companies had been established for several decades and driven the development of the luxury market: The Japanese democratisation of luxury consumption did not result from the strategies of luxury companies but rather came from department stores—which promoted the sales of Western luxury brands through the launch of licensed products. Socio-economic factors accelerated the growth of this market. Second, this chapter demonstrated that the affordability of luxury goods has contributed to the development of a luxury market in Japan. Intermediaries, such as department stores, apparel companies, and fashion magazines, stimulated the consumption of affordable luxury goods. Finally, our quantitative analysis of data from the 'Family Income and Expenditure Survey' and sales of luxury goods stressed the importance of the domestic economic climate in supporting this growth.

After the Second World War, Japanese consumers admired Western products as a symbol of democracy and adopted them in their lifestyles. This was the prologue to the growth of the luxury market in Japan and affected the pattern of consumer demand at the time. In the 1970s, department stores upgraded their strategic positioning and expanded the high-end market through the licensing of products as their customers enjoyed their increased incomes and exhibited stronger consumer demand. With the market maturing in the wake of the country's significant economic development, Japanese consumers demanded luxury imports from Western countries, and department stores introduced a stream of the latest luxury goods into the Japanese market. The growing luxury market expanded to include even teenagers and young women, who represented average-income households but enjoyed their new levels of disposable income. This expansion was instrumental in fuelling increased sales for luxury companies such as Chanel and Louis Vuitton in the 1990s. Consumers could access luxury goods more easily, allowing the Japanese luxury market to extend downward. In this way, the Japanese luxury market became one of the world's largest in the 1990s.

However, as Fig. 7.1 shows, the economic downturns from the late 1990s onward had a negative impact on the Japanese luxury market; in 2011, the market was at around half the level that it attained in 1996. Our second finding, which came from our quantitative analysis, was how the economic climate has impacted the sales of luxury goods in Japan since 1987. When we looked at the breakdown of luxury sales by product category, only bags and other leather goods saw increased sales in the late 1990s, while sales of clothing decreased sharply. The consumption demand for luxury clothing is more dependent on the level of disposable income than the demand for luxury leather goods, and that reality precipitated a substantial decrease in sales after the recession in 1997. Conversely, our findings show that the support for the Japanese luxury market rests on leather goods, including affordable luxury products, which characterised the market during the economic bubble, rather than on luxury clothing. Therefore, the Japanese luxury market has maintained distinctive features—a strong affordable luxury market, not necessarily the market for the wealthy or certain social classes—and a strong tendency to demonstrate these trends even after economic downturns.

The experience that luxury companies gained in Japan was valuable in furthering their development in other markets. On this point, we can identify three implications. First, traditionally Western luxury companies catered only to wealthy or upper-class customers and built an exclusive relationship with these segments. As the Japanese market showed, however, luxury companies could expand their market regardless of income or social class. Japanese customers in the 1990s, like Chinese consumers today, would combine a Louis Vuitton bag, a Gucci wallet, and some Tiffany jewellery with no special adherence to a specific brand concept. They were also comfortable combining an affordable Louis Vuitton key fob with 'fast fashion' clothing; they simply enjoyed shopping and flaunting their wealth through wearing luxury goods. Second, the economic climate does not affect all luxury categories but rather has a specific impact on the clothing category in Japan. Illuminating the characteristics of the Japanese luxury market, this trend gave luxury companies insight into the need for detailed portfolios of luxury products. Third, the democratisation of luxury was not a top-down process realised by European luxury MNEs since the 1980s. With roots stretching back to the post-war years, the Japanese democratisation process was a strategy implemented by Japanese intermediaries such as department stores to expand the consumption of Western luxury goods—and to turn larger profits. Western luxury companies thus had several lessons

to glean from their Japanese experiences as they transferred into other emerging markets.

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Notes

1. The Japanese asset price bubble (1986–1991) was an economic bubble during which real-estate and stock-market prices were greatly inflated. In early 1992, the price bubble collapsed. The bubble was characterised by the rapid acceleration of asset prices and overheated economic activity, as well as an uncontrolled money supply and credit expansion.
2. Annual Reports for LVMH in 1989, 1992, and 1996.

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CHAPTER 8

How Duty-Free Shops and Department Stores Expanded the Luxury Market in South Korea, 1980–2010

Insoo Baek and Rika Fujioka

1 Introduction

The luxury business has developed in Asia within the context of overall economic growth in the region. Kapferer and Bastien (2009) argued that consumers' increased availability of money and time was the driver of growth in luxury goods. Some scholars have analysed this concept in the Asian market; Donzé and Fujioka (2015), for example, investigated how luxury goods have developed in emerging Asian countries, Theurillat and Donzé (2017) also highlighted the retail network of luxury brands in China and Southeast Asia, while Chadha and Husband (2006) showed how consumer behaviour has changed in Asia and how luxury brands have created enthusiastic fans in the region. While the Asian luxury market continues to expand, many luxury brands have encountered serious problems with counterfeit products (Llewelyn 2015). As Kapferer (2012) noted, however, the luxury market is still growing robustly in Asia; the region's

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customers continue to enjoy buying the symbolic and 'magical' value of luxury products with their increasing income levels.

However, these studies have focused on the expanding luxury market in Asia from the perspective of Western luxury brands or the growth of domestic economies, which has subsequently increased the demand of domestic consumers; Japan and China are two examples of that pattern. In South Korea, on the other hand, the drivers of sales growth have been foreign tourists as well as domestic customers. According to data from Bain and Company, the South Korean luxury market, whose total sales came to 9.1 billion euros in 2014, stands as the eighth-largest market in the world and third-largest market in Asia. The market is not particularly large, especially in relation to either the Japanese market (18 billion euros) or the Chinese market (15 billion euros). However, it is notable that the South Korean luxury market for foreign tourists has grown rapidly since the 1980s. South Korea's GDP is 1,377,873 million USD in 2015, making it the 11th-largest economy in the world and the fourth-largest in Asia. Its neighbours are much larger: China had a GDP of 11,007,720 million USD in 2015, while Japan's was 4,383,076 million USD. In addition, there are few Korean brands capable of attracting a global audience to South Korea in the same way that the Paris-based Louis Vuitton draws buyers from all around the world. The only luxury brands are South Korean cosmetic manufacturers, which have become popular among Japanese customers and then other Asian tourists over the course of the past decade. Nevertheless, South Korean luxury outlets attract foreign tourists from across Asia with their strategies.

South Korea is the largest duty-free market in the Asia and Pacific area, and recent figures suggested that South Korean duty-free sales account for over 30% of the total duty-free sales in the region (Fung Business Intelligence 2016). Originally, the duty-free shops sold goods free of all duties at the airport—an increasingly viable commercial outlet since the late 1940s and 1950s, a period which began to see an increase in the number of air travellers (Kepos 1995). At the time, however, airports were not places for tourists to buy luxury goods; rather, they were convenient locations to purchase souvenirs. While American and European duty-free stores expanded their sales floors with souvenirs in the 1990s, South Korean duty-free shops implemented marketing strategies to make their sales floors more 'gorgeous' and negotiated with luxury brands to open airport stores. They also introduced boutique-style stores for specific brands, adopting the approach of Parisian stores. Airports thus gradually became destinations to

attract foreign visitors and allow tourists to enjoy shopping for luxury brands.

This expansion of the duty-free market had connections to the South Korean retail structure. In general, the South Korean retail sector exhibits a higher market concentration of the five big retailers (Lotte Shopping, Shinsegae, Hyundai department store, GS Retail, and Samsung-Tesco) and features multiple-portfolio strategies with several formats, including department stores, duty-free shops, hypermarkets, convenience stores, and online shopping (Choi 2014). Therefore, retailers could sell luxury products not only through single sales channels but also through multiple channels such as department stores, outlet malls, and online shopping. In addition, they could negotiate with the Western luxury brands using total purchase quantities. One could thus consider South Korea another Asian luxury market, distinct from Japan and China. By investigating South Korean retail outlets and distribution channels, one can develop a better understanding of the variable luxury market in Asia.

This growing South Korean luxury market, especially the developing duty-free store segment, impacted the strategies of luxury brands. However, there have been few studies on this development due to the relative scarcity of materials. As a result, we use internal materials, interviews with practitioners, consultant analyses, and the available literature for our inquiry. The purpose of this chapter is to investigate the development of the luxury market in South Korea over the past thirty years, emphasising how duty-free shops and department stores became the main outlets accompanying socioeconomic changes. This chapter comprises three sections and sheds light on the development of the South Korean luxury market, a context that involved not only domestic customers but also tourists from Japan, China, and other Asian nations. First, we focus on the historical process of the emergence of the South Korean luxury market, concentrating, in particular, on duty-free shops for foreign tourists and department stores for domestic consumers. Second, we explore the luxury brands' successful changes in local distribution strategies through the establishment of subsidiaries in South Korea. Third, we examine the current situation, which demonstrates a variety of sales channels and changing consumer trends, and consider signs of the democratisation of luxury in South Korea. In conclusion, we discuss the implications for other Asian markets by addressing upcoming challenges that an analysis of the South Korean luxury market reveals.

2 The Expanding South Korean Luxury Market in a Socioeconomic Context

2.1 *Market Liberalisation and the Launch of Duty-Free Shops Since 1980*

The beginning of the South Korean luxury market can be traced back to the 1980s, where it developed alongside market liberalisation and the establishment of duty-free shops. First, the government liberalised the trade of imported goods in 1979 and approved the import of clothing, shoes, handbags, and other items in 1985. Under the process of that liberalisation, the Lotte Group—now South Korea's leading retail conglomerate and the fifth-largest South Korean industrial and service conglomerate—opened the first boutique-style duty-free shop on the eighth floor of Lotte Department Store in Seoul in 1980. In 1979, Lotte opened the hotel to attract Japanese tourists in order to acquire foreign currency for South Korean economic growth. The store was exclusively for foreign tourists, especially Japanese guests at the Hotel Lotte, so that Lotte could earn foreign currency. The sales floor initially featured domestic products for souvenirs, such as Samsung radios and other electronic goods (727 m^2), and soon began showcasing luxury goods (760 m^2) in order to provide a convenient shopping environment for their guests (Hotel Lotte and Lotte Duty Free 2010).

As a result of changes in the regulations governing the self-reporting system for imports in 1984, the country began to see an expansion in the importers of luxury goods. Lotte Duty Free started to sell Louis Vuitton in 1984, Hermès in 1985, and Chanel in 1986. At that time, these brands did not sell their products through any travel retailers such as duty-free shops because they did not consider that souvenir stores or other travel retailers could fit their respective brand images. However, Lotte Duty Free managed to introduce luxury goods by stressing that its stores were akin to department stores—rather than simple souvenir shops—and building gorgeous, Paris-esque sales areas for the products. They also tapped into the potential of the South Korean luxury market, attracting Japanese shoppers looking for luxury brands from Hong Kong to South Korea. Employing this strategy, Lotte Duty Free could purchase goods directly from the headquarters of luxury brands without relying on their subsidiaries in Japan or Hong Kong (Hotel Lotte and Lotte Duty Free 2010).

The South Korean government, which aimed to promote duty-free shops in the dawn of two major international sports events (the Asian

Games in 1986 and the Seoul Olympic Games in 1988), decided to liberate the import of foreign goods completely. Lotte Duty Free launched a duty-free shop in the Athletes Village during the Asian Games in 1986, as well as the Olympic Village during the Seoul Olympics in 1988, and then opened its second branch— Lotte World Duty Free (Jamsil branch), with a sales floor measuring 3305 square meters—in 1989. Lotte Duty Free grew to become a leader among South Korean duty-free stores with over 55% of the total duty-free sales in 1990. With South Korea's economy and society developing, the numbers of foreign tourists to South Korea began to increase steadily and eventually reached three million in 1991. The government promoted 'Visit Korea Year' in 1994, and the numbers of tourists from other Asian countries continued to grow. In 1995, South Korea reached 1.52 billion USD in sales and became the largest Asian duty-free market over Hong Kong (889 million USD) and Singapore (587 million USD) (Hotel Lotte and Lotte Duty Free 2010).

Lotte Duty Free opened its first airport branch in 1999 at Gimpo Airport, where it began by selling liquor, tobacco, and cosmetics before expanding its merchandise to include perfumes. When it launched its Incheon International Airport branch in 2001, it introduced luxury brands such as Hermès, Fendi, Ferragamo, and Bulgari, in addition to luxury cosmetics. As the locations boasted strong sales and successfully implemented marketing strategies for helping luxury duty-free shops reach the Japanese tourist base, which accounted for 80% of global duty-free customers at the time, luxury cosmetics and fashion brands that were initially reluctant to open airport duty-free stores changed course and decided to launch airport stores marketing their latest products. The Lotte Duty Free Incheon International Airport branch achieved the world's best cosmetic shop sales in 2001. Many travel retailers around the world have benchmarked the shop, although there are various constraints and restrictions on promotion and floor layout.

With the success of cosmetic sales at airport branches, in 2004 the main branch in downtown Seoul launched a cosmetic shop, which stocked 60 luxury brands. Tourists could thus take time browsing for and purchasing luxury products at the downtown store or gain quick, convenient access to products at the airport store. As the numbers of South Korean customers traveling abroad and Japanese customers carrying the strong yen continued to grow, Lotte Duty Free renovated its main store in downtown Seoul in 2007 (Hermès launched a two-story flagship store and Chanel expanded its sales floor to cover 330 m^2). The corresponding sales amounted to 2,255

million Won in 1980 and increased to 100,263 Won in 1990 and 1,026,534 Won in 2006(Hotel Lotte and Lotte Duty Free 2010). In 2015, Lotte Duty Free ranked third in the global duty-free market (Lotte Duty Free 2017). Another big retailer, Shinsegae Department Store, has also had a duty-free shop since 2012 and expanded the number of stores since.

2.2 *The Entry of Department Stores into the Luxury Market Since the 1990s*

The growth of duty-free shops was one of the driving forces behind the expansion of the luxury market in South Korea. Despite arriving late to the luxury market, department stores have also become main outlets for luxury goods and contributed to the expansion of the market's target customer population: from the young generation to the older generation and foreign tourists to domestic customers. The range of target merchandise has also expanded, extending from exclusive high-end goods to more affordable offerings. In 1990, Galleria Department Store was the first department store to build a luxury sales area, the 'Luxury-Goods Hall', an exclusive retail space for foreign luxury goods. The store opened in Gangnam-gu, Seoul, which experienced accelerated development after the Seoul Olympics and saw substantial growth as the government encouraged upper classes to move into the area. Hyundai Department Store followed this movement and opened its store in Gangnam-gu, selling imported luxury leather goods and clothing goods to wealthy consumers. In 1991, the sales of department stores in this area increased of 45.8 % over last year (Nelson 2000).

In the 1990s, as Table 8.1 shows, there was rapid growth in South Korean GDP, in both national and per capita terms. In terms of economic

Table 8.1 Trends in GDP per capita (USD) and sales of foreign luxury goods (100 million KRW)

	1990	*1995*	*2000*	*2005*	*2010*	*2014*
GDP per capita	6,505	12,282	11,865	18,508	22,170	28,180
Sales of foreign luxury goods	–	9,000	12,000	23,000	72,000	110,000

Sources: Bank of Korea Economic Statistical System and Euromonitor

Note: The products included in Euromonitor's 'luxury goods' category are designer apparel and footwear (ready-to-wear items), luxury jewelry and timepieces, luxury accessories, luxury travel goods, luxury electronic gadgets, fine wines/champagnes and spirits, luxury writing instruments and stationery, and super-premium beauty and personal care products

growth, for example, GDP per capita first exceeded 10,000 USD in 1994; this increased affluence helped trigger the desire for luxury brands among South Korean customers. Luxury brands began to realise the potential of the ever-expanding South Korean market not only of foreign tourists but also of domestic customers. Louis Vuitton opened its first store in a South Korean department store (the aforementioned Galleria Luxury-Goods Hall) in 1996, principally targeting South Korean customers. Chanel and Hermès followed suit shortly thereafter, opening their first stores in the same Galleria Luxury-Goods Hall in 1997.

Further deregulation also promoted the expansion of the luxury market. The government allowed parallel imports in 1995 and fully opened the retail market to foreign companies the following year. As the authorities relaxed the regulatory restrictions, luxury brands established subsidiaries—Louis Vuitton established one in 1991, for example—and companies were able to import luxury goods from the West more easily than ever before. Some of these importers enjoyed high profit dealing, with margins exceeding 30% at the time. Despite the fact that the 1997 Asian financial crisis brought a halt to 40% of the then-existing luxury brands occupying the Luxury-Goods Hall, the sales of major luxury brands like Louis Vuitton, Chanel, and Hermès actually increased due to the success of their marketing strategies with department stores (Na 2003).

After Galleria Department Stores opened the Luxury-Goods Hall in 1990, other department stores began to venture into the luxury market one after another. Furthermore, a number of department stores launched luxury brands, not only in Seoul but also in other major provincial cities through their nationwide distribution networks. In the 2000s, then, the sales of luxury brands at department stores experienced double-digit growth on a yearly basis. As Table 8.2 illustrates, the sales of luxury brands at department stores increased steadily, by over 10% year-on-year during the 2000s, while the total sales of department stores developed more slowly.

Table 8.2 Year-on-year growth in total sales of department stores and sales of luxury brands at department stores, as a %

	2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*
Total sales of department stores	5.3	6.5	9.5	8.9	−0.3	1.1	−0.7
Sales of luxury brand at department stores	28.4	15.7	12.4	19.8	3.1	4.4	3.7

Source: Korea Statistical Information Service

In the case of the largest department store in South Korea, Lotte Department Store, the sales of imported luxury goods showed double-digit annual growth for the period between 2000 and 2012 (see Fig. 8.1). The sales of luxury goods at Lotte Department Store totalled 135,812 million won in 2000 and increased to 264,942 million won in 2005, 724,663 million won in 2010, and 1,093,839 million won in 2014. The proportion of imported luxury goods relative to the total sales of Lotte Department Store has shown consistent increases, growing rapidly in the late 2000s—the growth rate went from 2.8% in 2000 to 6.8% in 2010.

From their dominant position in the South Korean market, most department stores were able to improve the perception of their retail locations to attract customers by assigning the first two floors to luxury brands or dedicating an entire building exclusively to luxury brands; Lotte's Avenue L and Shinsegae's HQ Luxury-Goods Hall are two examples of the latter approach. These sales floors enabled department stores to provide various services such as VIP and privileges, which, in turn, drove traffic up and induced related purchases of groceries and other everyday products, ultimately contributing to the overall increase in store sales. As McKinsey (2010) noted, most customer transaction data are in the possession of retail conglomerates through a variety of channels, including department store

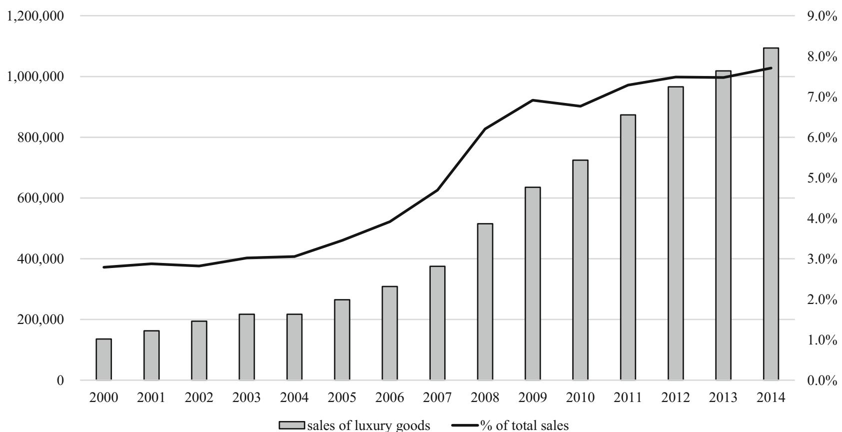

Fig. 8.1 Sales of luxury goods at Lotte Department Store (million KRW) and percentage of total sales. *Source*: Internal research data from Lotte Department Store

loyalty cards. Using the data to facilitate customer relationship management, both department stores and luxury brands alike have built good relationships with customers and conducted useful marketing strategies such as events for invitees and limited-edition sales events for loyal customers.

In addition, luxury brands have utilised the department stores' existing sales floors on high streets so that they could easily open new stores and increase sales with almost no initial investment. This is a common feature linking the South Korean and Japanese luxury markets in contrast to those in the United States and Europe, where brands' own stores are their main outlets (see Chap. 7). In Japan, department stores accounted for a 67.5% share of the luxury goods market in 2010, and they continue to maintain a strong position as the principal outlet for luxury brands. Historically, Japanese department stores played a crucial role in launching luxury brands into Japan because luxury brands needed local partners to be legally compliant as operators in the country and conform to Japanese business practices during the initial launch stage in the 1980s. In South Korea, luxury brands have developed along with increased sales at department stores—and department stores absorb the opening costs, thereby minimising the investments that brands need to make in the local market. Generally, the South Korean pattern bears strong similarities to the developments in Japan. However, luxury brands in South Korea have not relied solely on South Korean department stores.

Rather, South Korean department stores have relied on the luxury brands for sales revenue. Thus, department stores offer attractive deals to luxury brands. As department stores have been in competition for access to luxury brands in order to deal with more powerful brands, gain priority sales, or offer limited-edition sales with brands, luxury brands have enjoyed an advantage over other domestic brands in negotiating with department stores for concession agreements. When a domestic brand opens up a sales space at a department store and forges a concession agreement with the store, it will usually pay a fee equivalent to between 30 and 40% of their sales to the store. However, luxury brands have enjoyed the same type of fee in single-digit percentages thanks to their negotiating power with department stores (Lee et al. 2010). Moreover, department stores have also covered storefront interior costs, allowing luxury brands to minimise opening costs. In this way, Western luxury brands have been able to expand their markets through department stores—their most effective sales channel in South Korea.

3 Changing Channel Strategies

Before they began to establish local subsidiaries, luxury brands used local trading companies when they launched into South Korea. The country's first-generation importers, such as Euro Trading Co., Wear Fun International, and Samkyung Trading Co., started to introduce well-known foreign brands like Burberry, Aigner, Max Mara, and Etro. Among these brands, Burberry, which was first imported in the country in 1986 by Euro Trading Co., led the market with total single-brand sales exceeding 10 billion won in 1991. Hermès was already in the market in the 1980s through its agent Yeongseo Enterprise Co. Ferragamo and Dior also started their respective businesses with local agent Samkyung Trading Co., while Gucci made its way into the South Korean market with Sungjoo International as its agent in 1990. Luxury brands thus tapped the South Korean market through local trading companies with minimal inherent South Korean risk.

When Galleria Department Store opened its Luxury-Goods Hall in 1990, however, luxury brands began to establish local subsidiaries en masse, seeing the substantial growth potential in the South Korean market. In 1991, LVMH and Chanel opened their subsidiaries, followed by Hermès in 1997 and Ferragamo and Gucci in 1998. In 1999, Cartier, Dior, Celine, and numerous other firms discontinued their dealings with local agents and opted for direct channels into the South Korean market. Both department stores and consumers benefited from this change in the sales channel because it gave them easier access to a wide range of merchandise from subsidiaries. For the most part, the major luxury brands had adopted direct-entrance approaches to the South Korean market prior to the rapid expansion of the 2000s. During that time, the increase in luxury brand sales at duty-free shops also contributed to the positive evaluation of the South Korean market's growth potential in addition to sales at department stores.

This organisational change was closely tied to the risk and growth potential of the South Korean luxury goods market. During the initial stage, the considerable degree of uncertainty led many luxury brands to minimise local risk by entering the markets through agents; they needed local partners. As the potential for market growth increased, however, they soon realised that it would be more beneficial to make a direct entry to maximise profits without sharing too much of the pool with local agents. In 2002, Chanel Korea's operating profit reached 11.3%—or around 2.55 million won per square feet (Kwon 2005). For luxury brands, establishing

local subsidiaries created a synergy effect by combining the department store transactions and duty-free store transactions. Chanel, Prada, Gucci, and Hermès have been operating through their respective local subsidiaries to handle their deals occurring from both department stores and duty-free stores. Louis Vuitton, Fendi, and Christian Dior manage duty-free stores and department stores separately and deal with Blue Bell, a trading company, for merchandise at duty-free stores.

Meanwhile, luxury brands with local subsidiaries have faced new tax challenges that had not existed when they dealt with local agents. In order to mediate this issue, Korean subsidiaries have carried out their transactions in a third-party country (outside the country where the headquarters are located) to coordinate profits from South Korea and apply tax-saving measures. For example, Prada Korea purchases merchandise from the company's Hong Kong subsidiary—not the headquarters—at a high mark-up, allowing the Hong Kong subsidiary to profit from the transaction; the Korea location, where no additional mark-up applies prior to sales, thus effectively avoids profits. Obviously, transferring profits to Hong Kong, where there is a lower corporate tax rate, has been an effective business strategy for players in the global luxury market. Nevertheless, such business practices have been criticised for being evasive and not complying with proper business transactions in South Korea.

Kim (2008) investigated the extent to which both luxury brands and department stores could reap profits through sales channels into South Korea both with and without any trading companies playing agency roles. His research reveals that when the luxury brands sell their products directly without going through agents, the nominal profit shares of both the luxury brands themselves and the department stores are higher than in situations involving agents. This means that luxury brands and department stores allocate the roles—and thus the shares of the profit—that trading companies used to take. When Western luxury brands and South Korean department stores needed to rely on importers and agencies to import luxury goods into South Korea, they did not eliminate these intermediaries. However, once luxury brands could establish their own subsidiaries, the overall costs in the supply chain went down, thereby benefiting consumers, as well.

Indeed, if a luxury brand sells a bag through a local agent into the South Korean market, the agent's actual profit exceeds the nominal profit; this significantly reduces the profit return to the headquarters. This trend is not only evident among department stores but also applies to duty-free stores; luxury brands have surely realised much greater profits from dealing directly

with department and duty-free stores after establishing local subsidiaries in the 1990s. During the initial stages of the South Korean luxury market, local partners were crucial intermediaries between local demand and Western supply, helping brands adapt to the local market in terms of regulations and business customs. However, it would have made more economic sense for a luxury brand to establish a local subsidiary to expand their market in South Korea.

4 Diversifying Sales Channels and Changing Trends in Luxury Consumption

4.1 The Current Diversification of the Sales Channel

Within the South Korean market, department stores retain their position as the largest channel for luxury goods; therefore, luxury brands recognise their importance as a main channel. McKinsey has estimated that Lotte, Shinsegae, and Hyundai together have accounted for three-quarters of all luxury sales (McKinsey 2010). With the development of the South Korean luxury market, however, the sales channels for luxury goods have diversified to include airport duty-free stores, in-town duty-free store, online retailers, and premium outlets. Online channels, especially, have developed rapidly since 2000. Lotte Duty Free, for example, has increased its online duty-free shop sales from 583,000 USD in 2001 to 2,270,000 USD in 2002, 6,203,000 USD in 2005, and 49,018,000 USD in 2009 after rebuilding its e-commerce environment with a more effective search engine and securing online transactions in 2006 (Hotel Lotte and Lotte Duty Free 2010).

Younger customers, those in their 20s and 30s, have expanded the online market with their easy access to foreign fashion trends acquired from their experiences traveling and studying abroad. Generally, younger customers behave very rationally and compare prices among multiple stores—similar to comparing the prices of fresh vegetables at markets—even for luxury goods. Some domestic retailers are experiencing rapid growth through exclusive online luxury goods stores, and foreign online retailers have joined the force to increase their direct-purchase consumer base by providing a localised service in South Korea. In addition, premium outlet malls are becoming a common format among non-traditional offline channels (Kim et al. 2009). These online shops and outlet malls are usually parts of retail conglomerates,

considering the highly concentrated nature of the South Korean retail market.

In addition, the luxury market started to show a new trend in the 2000s as South Korean retail conglomerates made their way into the price competition for luxury goods. Large discount stores began to sell luxury goods at discounted prices that were 10–30% less than those charged at department stores; they were able to do this reducing the distribution margin through parallel and direct importing. In 2010, with NC Department Store taking the lead, discount stores such as Home Plus and Lotte Mart opened luxury goods stores and drew customers. The diversified distribution of luxury goods took off thanks to increases in two factors: the availability of information from websites and consumer confidence via the inclusion of authenticity certificates and free after-sales service.

In this way, the South Korean democratisation of luxury has resulted from the diversification of retail outlets for luxury goods. In addition to flagship stores in upmarket shopping areas in South Korea (Cheongdam-dong, for example), traditional duty-free shops for foreign tourists, and department stores for upmarket customers, price-sensitive retailers such as online retailers, parallel importers, and premium outlets have also led the explosive growth of the luxury market across South Korea. The sales of Louis Vuitton Korea in 2009 came to 372.1 billion won, amounting to a 7.5-fold growth over the total in 2001; adding in duty-free store sales (220 billion won) brings the yearly total to 590 billion won. Aside from Louis Vuitton, a number of players have seen their sales top the 100 billion won mark.[1]

4.2 Changes in Consumer Preferences for Luxury Brands and Expanding Product Categories

Luxury brand performance at department stores reveals shifts in consumer preferences. Between 2006 and 2010, sales of luxury brands at Lotte department stores showed strong growth (32%) in leather goods by companies like Gucci, Dior, Channel, Hermès, and Prada. Luxury jewellery and watches, including those by Cartier, Rolex, Bulgari, and Tiffany, demonstrated a growth rate of 28%. Meanwhile, contemporary designer brands such as Chloe, Lanvin, Marni, Dolce & Gabana, and Tory Burch also grew significantly at a rate of 34%. In contrast, traditional women's clothing brands like Giorgio Armani, Celine, and Ferragamo, as well as leather and men's clothing brands such as Dunhill, Brioni, Zegna, and Hugo Boss, have

shown low growth rates of 5% and 6%, respectively. While luxury brands focusing on leather goods (Louis Vuitton and Chanel, for example) exhibited consistently high growth through 2010, traditional women's luxury brands such as Celine and Ferragamo gave way to Chloe, Tory Burch, and other contemporary brands. One can interpret these findings as evidence of a growing consumer base that prefers trendier products from the perspectives of design and brand image.[2]

In terms of geographic categorisation, other big cities such as Busan and Kwangju, where luxury brands made early inroads, showed high levels of growth in jewellery, watches, and contemporary product categories aside from total sales over the same period. In relatively late-developing markets such as Ulsan and Daejeon, total luxury sales are still showing strong growth. The urbanisation of regional provinces in South Korea after the late 2000s fostered diversity among popular products in different cities. More and more consumers are apparently changing their buying patterns from clothing and other traditional luxury goods to more fashionable and exclusive luxury goods—jewellery and watches, for instance—that selectively portray the uniqueness of their personal tastes.

In the first decade of the century the democratisation of luxury in South Korea expanded the consumer base downward. The luxury market now includes consumers who only make purchases in visible, small product categories like sunglasses, wallets, or cosmetic products. However, South Korean luxury customers are more likely to trade up than they are to trade down. South Korean consumers are also happy to show off how much they spend on luxury goods; only 22% feel that showing off is in bad taste, compared with 45% of Japanese and 38% of Chinese (McKinsey 2010). As Chadha and Husband (2006) found, South Korea is a highly competitive society where women are always under immense pressure to measure up to society's expectations. South Korean women exhibit the desire to look good on other fronts, tending to adhere to higher personal standards of grooming and presentation and embrace a desire to be in fashion. Given the social circumstances, they want to buy affordable luxury goods such as wallets and sunglasses with specific brand logos that they can show off in public.

The next logical step is to examine how luxury brands meet the local demands of the expanding consumer base. Using the analyses of McKinsey (2010) on customer trends, we can categorise South Korean consumers of luxury goods into two types. First is the 'ultimate luxury consumer' category, a segment of consumers who are in the market for expensive jewellery and high-end luxury clothing. They have moved into more valuable and

exclusive product categories in order to differentiate themselves from other consumers in response to the neutralisation of traditional luxury brands. This segment has also expanded its luxury-good reach from clothing and leather products to sophisticated household products. While wealthy women in their 40s–60s have been the traditional core market for luxury brands, South Koreans in their 20s and 30s have now emerged as an exciting new demographic for retailers. At Lotte's Avenue L, a high-end branch of the Lotte Department Store that focuses on luxury goods, 20–30-year-olds comprised 35% of shoppers in 2006 but then 44% in 2009. This subcategory tends to spend greater portions of their disposable income on high-end clothing and accessories, and, thanks to the prevalence of this customer type, luxury brands can increase their sales stably.

The second category represents consumers who expand their purchase lists through a wide range of affordable luxury products such as accessible luxury clothing, handbags, dress shoes, and watches. This consumer segment has limited purchasing ability, in contrast to the 'ultimate luxury' segment, which has engendered smart buying patterns where buyers simultaneously choose to trade up and down. For example, they prefer to buy handbags from luxury brands but opt for clothing at cheaper domestic designers' stores because handbags are easier to identify than is clothing. This category corresponds to the customers who belong to the wave of luxury democratisation and enjoy shopping for luxury brands on limited budgets. Luxury brands have recognised the potential of this category and implemented strategies to capture them and led them to buy more luxury brands. For example, Armani, one of the most popular luxury apparel brands in South Korea, introduced a more accessible tier of products and preserved loyalty as they moved up from Emporio Armani to Armani Collezioni and finally to Giorgio Armani Black Label. Hermès also succeeded in introducing affordable brands, including 500 USD bracelets for younger customers (McKinsey 2010). In order to appeal to the younger consumer and continue the growth in sales, luxury brands much focus on the affordable products such as scarves and accessories. Luxury brands recognise the potential of this segment, understand the importance of affordable products, and follow a similar strategy in Japan (see Chap. 7).

5 Conclusion

The South Korean luxury market has developed rapidly over the last three decades, in line with the economic growth in the country. The government's liberalisation of the market and efforts to deregulate in the late 1980s triggered the development of the luxury market in South Korea, as well as in other emerging countries. Sales of duty-free stores in South Korea reached the top position in Asia and the third position worldwide. Sales of luxury goods at department stores have continued to develop strongly, while growth in the total sales of department stores is very slow. Furthermore, retail outlets selling luxury goods have diversified beyond duty-free and department stores to include online shopping, outlet malls, and discount stores. However, the point distinguishing the South Korean experience from the development of other countries was that the progress was driven by foreign tourists, initially Japanese and currently Chinese, at the duty-free stores. We thus shed light on the development of the South Korean luxury market from a historical perspective.

Although the South Korean market is not home to any strong luxury brands like the French market is, it has succeeded in becoming a shopping destination for its duty-free shops. Tourists started coming to South Korea for luxury shopping, and duty-free stores responded very well to the tourists' demands. At first, the luxury brands were not happy to launch airport stores for fear that doing so would damage their brand image. However, South Korean duty-free shops gave them gorgeous sales floors and offered good purchasing deals. The highly concentrated retail market and the conglomerates' dominant position enabled cooperation with Western luxury brands.

South Korean consumers have also gradually increased their demand for luxury goods in order to make status statements under the climate of economic growth. They were loyal customers of department stores, and department stores introduced a variety of marketing strategies to increase luxury sales. While luxury brands relied on their wealthy and fashion-conscious customers at department stores, department stores also relied on the brands' power to attract customers to their stores and drive sales. For example, South Korean department stores have utilised special membership services for their loyal customers to buy other related purchases when they come to the store to buy luxury goods. They enhanced their customer relationship management with luxury brands while bearing the cost of interiors for luxury brands. As a result, the department stores built a

win-win relationship with luxury brands and succeeded in retaining higher profits. Department store customers also use duty-free shops when they go abroad. Therefore, they have launched not only airport duty-free shops but also downtown duty-free shops in several large cities.

Luxury brands were also able to secure nationwide distribution networks via Korean department stores. They expanded their market into large provincial cities through the launch of new stores at the branches of large department stores. This was also the process of democratisation of luxury in South Korea. Luxury brands introduced affordable luxury for new segments, and mass customers could access affordable luxury goods such as sunglasses and accessories. This South Korean experience, like the Japanese experience, has forced luxury brands to pay much attention to affordable luxury goods.

Finally, there are several new trends in the South Korean luxury market. More consumers are now buying luxury goods at collection shops (or select shops, which are individual stores that sell a few luxury brands) that match their personal tastes rather than buying at mono-brand stores. For example, customers are happy to coordinate ensembles with a Louis Vuitton bag, Armani jeans, and domestic-brand shoes. Department stores have responded by organising in-store collection shops that carry specific selections of luxury brands rather than offering a full range of luxury brands and merchandise.

South Korean department stores also recognise new customer trends. The competition between the sales channels of luxury brands has been intensely in terms of price, especially with regard to outlets and online retailers. According to one Lotte Department Store director in charge of luxury brands, 'The 20–30s consumer segment shows signs of declined sales. The market is leaning towards buying for preferences of self-satisfaction, not simply showing off.'[3] Consumer behaviour is also changing. In the past, South Korean growth was partially fuelled by younger consumers in the mass segment of the luxury market, who seldom bought luxury brands on an affordable-item basis; department stores looked after them to become loyal customers. However, recent buying patterns have centred more clearly on direct price competition with online retailers.

Furthermore, changes in the political situation affect tourists from other Asian countries like Japan and China. Lotte Duty Free, therefore, has launched stores overseas instead of relying on foreign tourists coming from Japan: The company opened locations at the Changi Airport in Singapore in 2012, Jakarta, Indonesia in 2012, and Guam Airport in the

USA in 2014. In addition, Lotte Department Store launched overseas stores in Vietnam, China, Indonesia, and Russia (Lotte Shopping 2009). These retailers' international expansion efforts will generate more feedback into the South Korean luxury market.

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Notes

1. Internal research data from Lotte Department Store.
2. Internal materials from Lotte Department Store.
3. Interview with Director Kim (Lotte Department Store).

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CHAPTER 9

How to Enter the Chinese Luxury Market? The Example of Swatch Group

Pierre-Yves Donzé

1 Introduction

The rapid growth of luxury business since the final third of the twentieth century coincided with a geographic expansion of markets, especially in East Asia (Donzé and Fujioka 2015). Yet this development was not a mere extension of the scale and scope of sales. The organizational change of the luxury industry and the emergence of large companies had a considerable impact on distribution and the access to markets. The verticalization of sales channels is a major characteristic of this change. For example, the number of stores owned by LVMH for its luxury fashion brands rose from 566 in 2000 to 1534 in 2014 (LVMH 2000–2014). As for Richemont, the number of its mono-brand stores rose from 320 in 1995 to 719 in 2000 and 1370 in 2009 (Richemont 1995–2009).

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Management literature has emphasized that the internalization of retail, especially for flagship stores (mono-brand stores), enables luxury companies to exercise stronger control over brands (Moore and Birtwistle 2004; Moore and Doyle 2010; Dion and Arnould 2011; Cervellon and Coudriet 2013). Some authors have argued that these firms make intensive use of direct investment in retail in order to access new markets (Doherty 2000; Nobbs et al. 2012). Moore et al. (2010, p. 156) stressed that "the methods by which they enter markets will also be different to the norm covered in other sectors." Specifically, they make use of flagship stores as a way to enter new markets. However, although these studies shed light on the specific form of retailing adopted as a method of market entry, they focused on luxury companies and did not discuss the role of their domestic partners in this process. Of course, in particular they tackled Western Europe and the United States, where companies found it easy to invest in retail and to own their stores. Yet the situation in Asia is different, where the world's fastest-growing markets are located. In this region, local companies play a decisive role, particularly because foreign direct investments are subjected to strict regulation, notably regarding real estate and land property (Wrigley et al. 2005; He and Zhu 2010). Consequently, one should consider the local partners of the European luxury industry in order to achieve a proper understanding of the reasons for its expansion in Asia. The main research questions addressed in this contribution are as follows. Who are these companies and individuals? What is their competitive advantage and what can they offer to luxury companies? What kinds of links do local companies and luxury companies have? How did this partnership change over time and what was the impact of industrial reorganization in the European luxury business?

To answer these questions, this chapter considers the case of Swiss luxury watch companies in China, with a particular focus on Omega and Longines, two of the largest and most important companies and brands since the late nineteenth century. This market played a major role in the transformation of the watch industry in Switzerland, a sector that has indeed experienced a deep reorganization since the mid-1990s, characterized by three interconnected elements: the development of large companies and conglomerates (Swatch Group, Richemont, Rolex and LVMH); the repositioning of brands and products towards luxury—crystallized in the increased popularity of mechanical watches; and the growing importance of East Asian outlets, particularly China (Donzé 2014). The access to the Chinese market was hence not only a driving force behind the growth of

companies, but also an opportunity for rebranding and moving up to the luxury end of the market. Therefore, the choice of local partners was a major challenge for Swiss watch companies.

This chapter consists of three sections, in addition to this Introduction. Section 2 gives a macroeconomic overview of the development of the watch trade in China since the mid-1990s, based on an analysis of foreign trade statistics. Following this, Sect. 3 explains the presence of Swiss watch companies in China before the 1990s along with their distribution strategy at that time. The focus on the historical background of the entry market in China for Swiss watch companies in general, and Omega in particular, is necessary to emphasize the main changes realized since that time. Finally, Sect. 4 explores the entry market strategy adopted since the 1990s.

2 Evolution of the Trade of Swiss Watches to China

Foreign trade statistics are an excellent indicator of the development of the Chinese market for the Swiss watch industry. In the period immediately after World War II, China was an important outlet for the Swiss watch industry, despite the establishment of the People's Republic in 1949. Until the adoption of the Great Leap Forward policy by Mao Zedong in 1958, the Chinese market became increasingly important, rising from 0.1% of the value of all Swiss watch exports to 5.6% in 1950 and a peak of 9.5% in 1957. The early recognition of communist China by the Swiss government (1950) was obviously significant in this respect (Dubois 1978). Yet China launched its own production of watches in 1957–1958 and thereafter it adopted a protectionist policy. Accordingly, the volume of Swiss watches exported to China dropped from 3.4 million pieces in 1957 to less than 85′000 in 1960. Between 1960 and 2000, the Chinese market amounted only to an average of 0.7% of the value of the total exports of Swiss watches.[1] During this period it had lost any significance for watch companies in Switzerland. However, the opening up of China in the new century, symbolized by its accession to membership of the World Trade Organization (2001), and the increases in the country's average income, with rapid growth in GDP per capita running from 954 USD in 2000 to 7′590 USD in 2015, opened new opportunities for Swiss watch companies.

The Chinese statistics regarding the importation of complete watches, as expressed by Fig. 9.1, clearly illustrates the stagnation up to 2000. They represented an average value of 53.1 million USD during the years 1995–1999, and at this point Switzerland had only a share of 12.1%. At

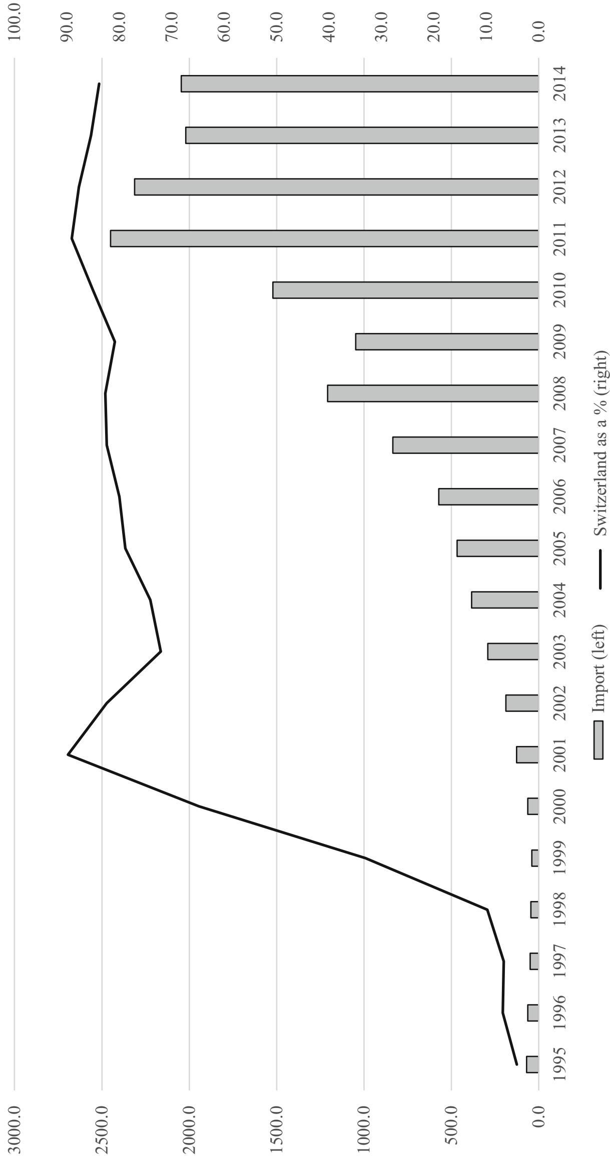

Fig. 9.1 Import of complete watches by China, in million USD, and share of Switzerland, as a %, 1995–2014 (Source: Comtrade)

this time the market was dominated by cheap goods imported from Japan (which accounted for 57.6% of sales in 1995) and Hong Kong (17.3%). Yet, after 2000, it began to grow very rapidly: it rose to 467 million USD in 2005, 1.5 billion USD in 2010, and 2.1 billion USD in 2014. This high growth has two distinct features. First, the share of Switzerland increased dramatically (64.8% in 2000; 83.9% in 2014) and led to the virtual disappearance of Japan (16.8%; 2.8%) and Hong Kong (3%; 0.2%). Second, the average value of an imported watch skyrocketed from 5.7 USD in 2000 to 137.7 USD in 2014, after having peaked at 196.4 USD in 2011. Consequently, the opening up of China gave way to a deep change on the watch market, characterized by the domination of Swiss luxury watches.

At the same time, the Chinese market became increasingly important for Swiss watch companies. Figure 9.2 shows clearly that both the value of the export of watches to this country and the share of China started to grow in 2002. The increase was rapid for a decade, and peaked at 1.8 billion USD in 2011, before decreasing slightly. The years 2010–2014 have, however, an average of 1.5 billion USD, which is far higher than a decade before (70.5 million USD in 2000–2004). Furthermore, this development went together with a high growth of the share of the Chinese market: this increased from less than 1% before 2002 to a peak of 8.9% in 2011 and an average of 7.5% in 2010–2014. During this period, China became the third-largest outlet for Swiss watches behind Hong Kong and the United States. Of course, the weight of Chinese customers is far larger if one includes overseas shopping by tourists, but this fact is not considered in this chapter, which focuses on the issue of entry market.

Consequently, the foreign trade statistics for China and Switzerland emphasize a rising co-dependency since 2000. The development of a market for watches in China relied nearly completely on the import of Swiss products; in turn, the Swiss watch industry experienced a period of high growth based on the expansion of the Chinese market. This strong integration between both countries is important to explain the new market entry strategy implemented by Swiss watch companies in China. This was a newly open market which offered opportunities for rapid growth for Swiss watchmakers, but also for Chinese wholesalers and retailers. In order to understand all these changes, Sect. 3 focuses first on the distribution of Swiss watches until the 1990s.

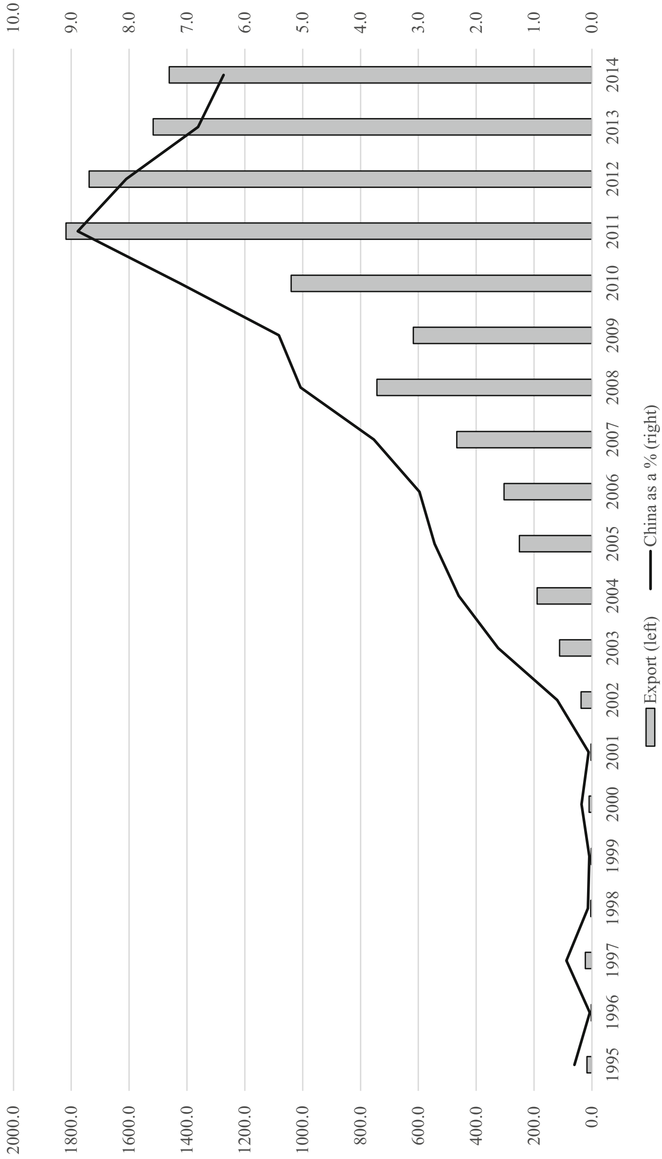

Fig. 9.2 Export of complete watches by Switzerland to China, in million USD, and share of the Chinese market, as a %, 1995–2014 (Source: Comtrade)

3 Market Entry Before the 1990s: A Historical Overview

The presence of watch importers from Switzerland in China, which dates back to the eighteenth century, developed during the nineteenth century (Jeanneret 1899; Chapuis 1919; Bonnant 1964). Watches were destined for a small social elite and the access to this market was realized through British trading companies which controlled business between China and Europe, such as Magniac & Co. (forerunner of the Jardine & Matheson), which had a watch and clock department until 1824 (Bonnant 1964, p. 37). In this context, following the signing of the Treaty of Nanking (1842), Western merchants, including a few Swiss, established branches in Guangzhou, then in Shanghai and Hong Kong. These businessmen were basically intermediaries between manufacturers based in Switzerland and Chinese retailers and customers. For example, between the 1880s and the 1910s, the company Longines exported watches to China through his agent based in London, Baume & Co., who enjoyed the sole agency for British concessions in the Far East. The latter then exported watches to different merchant houses established in China, such as Hirsbrunner & Co., in Shanghai, and Landmann, in Qingdao, who sold the goods to Chinese customers.[2] Hence, at this time the access to the Chinese market was very indirect for the watch manufacturer. It had to go through different intermediaries and to outsource wholesale and retail to independent traders and salesmen, who offered their services to headquarters in Switzerland.

Among the few exceptions to this pattern, one must cite the company Louis Brandt & Frère (Omega). It was indeed one of the first Swiss watchmakers to internalize distribution in China in the early twentieth century. In 1922, this company engaged a new employee specifically dedicated to visit markets in East Asia. However, this salesman, Marc Croset, quit the company few years later. He settled in Shanghai and opened his own business, The Croset Agencies, which was the sole agency for Omega in China. In 1932, Croset merged his business with the sales branch of another Swiss watch company also established in Shanghai, and the new business was renamed Crobest Ltd. It experienced success during the 1930s, extended its distribution network to Tientsin and Hong Kong, and promoted Omega watches using modern advertising methods, such as the use of Chinese movie actresses (Richon 1998). Hence, the example of Omega shows that Swiss watch companies were not directly involved in distribution and sales in China. They carried out these activities through

independent companies. For example, in 1931 Longines signed a contract for the sole agency in China with a French watchmaker established in Shanghai, Gintzburger, and then the German trading house Wilhelm Maier & Co at the end of the 1930s.[3]

The foundation of the People's Republic of China marked a major disruption to this system. The brothers Albert and Dario Beraha, who owned Crobest, moved to Hong Kong in 1948–1949 and reorganized their business with the support from Omega. Renamed Omtis, their new company focused on Hong Kong and Taiwan. Swiss watch companies were not officially and legally forced to leave China, but they faced many administrative difficulties in the early 1950s, such as the impossibility of obtaining import licenses or repatriating profits. The protection of trademarks was also the object of intense negotiations between Swiss and Chinese authorities. Despite Mao's refusal to recognize international agreements, pragmatism and connections made it possible for some watchmakers to protect their brands. Omega was registered in China in 1953.[4]

In this context, most Swiss companies decided to withdraw from Chinese markets. The very rare firms which tried to keep and active presence were small companies that had specialized in Far Eastern markets since the interwar years, and were consequently dependent on this outlet. Enicar SA was one of them. According to the Swiss Legation, in 1956, this company had become the main exporter of Swiss watches to China.[5] Yet it enjoyed no representation in the country. During the first part of the 1950s, it sold a few tens of thousands of watches to Chinese authorities through the Embassy of China in Switzerland. Accessing the market became a major concern. Indeed, the import of watches was controlled by a state-owned company, the China National Sundries Export Co. Swiss companies who wanted to sell watches in China had to negotiate with this body. For example, in 1956, Paul Vaucher, director of Liengme & Cie, signed a contract with this partner for the delivery of 56′000 watches in China.[6] For the years 1956–1957, about fifty companies from Switzerland and thirty from other countries (France, Germany, the UK and Japan) were allowed to export watches. Some of them got even the authorization in 1957 to publish advertisements in two Beijing newspapers.[7]

Yet most of these watches were relatively cheap products and unknown brands during the 1950s. The most famous brands, such as Longines, Omega and Rolex, were not completely absent from China, but they were mostly introduced in the country through unofficial channels. Luxury watches were mainly acquired in Hong Kong and in India by Chinese

bureaucrats on overseas assignments, and through smuggling.[8] Once again, there was no direct access to the market.

At the end of the 1960s, increasing political tensions with the USSR, the major supplier of watches to China, led Chinese authorities to turn to Switzerland and to Japan. For example, in 1965, they asked the Federation of the Swiss Watch Industry and two Swiss trading companies, one of which was the watch importer in Asia Siber-Hegner (today: DKSH), to organize the Swiss Instrument and Watch Exhibition in Beijing. This took place three years later with the participation of 46 companies.[9] Similar fairs were organized during the 1970s. The value of watch exports from Switzerland increased from 4 million CHF in 1960 to a peak of 60.6 million in 1978. However, the share of the Chinese market in Swiss exports remained under 1%.

This partially opened up market was an opportunity for Swiss luxury watch companies to attempt a comeback in China. Longines sent a representative for a business trip in communist China for the first time in 1966. As for Omega, it took part in the 1968 exhibition and in 1972 it sent a salesman to Beijing. Both of these companies started negotiations to increase the import quotas of their watches with the China National Light Industrial Products Import & Export Corporation. Several other sales missions were organized by Omega in the 1970s. Finally, in 1980, Longines and Omega opened their first service centers in Shanghai. Dedicated to after-sales service, each of these centers was established within a watch shop, at Nanking Road for Omega (Richon 1998). This cooperation with a local retailer, who would obviously have links to the authorities, was the method for the two Swiss manufacturers to re-establish in China. The same strategy was pursued to extend the presence of the brand to other cities. Omega opened a second service center in Nancheng Hengdeli Watch Store in Beijing (1985), which was followed by similar operations in Chenyang and Guangxu (1987). Longines adopted a similar strategy, characterized notably by the opening in 1985 of a repair service center in a shop run by the General Merchandise Co., Watches & Glasses Wholesales Stores, at Tianjin. It was followed by the opening of other service centers and showrooms in Beijing, Shanghai and Guangzhou during the second part of the decade.[10] Therefore, although business opportunities, sales and presence became important during the 1980s, Swiss watch manufacturers had to cooperate with state-owned enterprises. This partnership with local companies and entrepreneurs strengthened in the 1990s and laid the foundation of the successful growth in the early twenty-first century.

4 The Changes of the 1990s–2000s

The distribution of watches in China underwent a considerable transformation in the decade of the 1990s. However, more than the expansion of the market and the increase in the demand for luxury watches on the part of Chinese consumers, it was the industrial reorganization which happened in Switzerland that provided the driving force for this change (Donzé 2011, 2014). The Swiss watch industry, which had been organized as an industrial district since the nineteen century, had lost its competitiveness against highly concentrated Japanese watch companies in the 1970s and early 1980s. |At this time it faced a severe crisis which ended with the creation in 1983 of a large conglomerate to control the manufacture of watch movements and holding many brands which used to be independent—among which Omega, Longines and Rado—Société de microélectronique et d'horlogerie (SMH, renamed Swatch Group in 1998, hereafter SG). During the 1980s, SG rationalized production, brand management and distribution.

In this context, the worldwide distribution system was reorganized. When SG was founded, it held a large number of sales subsidiaries set up by its brands while they were independent. The first objective was to merge these companies so as to have only one for each country within which the group traded. Hence, SMH Hong Kong, founded in 1988, assumed control over the activities of three former sales companies in the city (ETA, Longines and Rado). However, as the group had no sales subsidiary in mainland China, distribution in this country was unaffected by rationalization during the 1980s.

The next step occurred during the first part of the 1990s. The context was different, as SG began to focus on the luxury end of the market, notably through the takeover of Blancpain (1992) and the appointment of Jean-Claude Biver to Omega's international marketing (1993). Omega was chosen by SG as its brand of "accessible luxury" (Allérès 1991) and needed a strengthened distribution system to boost sales against Rolex. In 1993, SG opened offices in Shanghai and Beijing, as well as two new Omega's service centers in Hangzhou and Shanghai. The after-sales service in China was reorganized in 1994, with the creation of a joint venture in Shanghai, SMH Watch Service Center, by SG, the Technology, Industry & Trade Development Corporation, and the Engineering College of Shanghai University. It opened in 1995 and takes in charge repairs and maintenance for all the brands of SG.

In addition, in 1993, Omega transferred the management of the Chinese market from headquarters in Switzerland to SMH Hong Kong (Richon 1998). The following year, it appointed Kevin Rollenhagen as its first brand manager for Hong Kong and China.[11] In 1997, the responsibility of SG's brands markets was transferred to Wenpo Lee, meaning that for the first time it was being handled by a Chinese, as he had been trained in Taiwan.[12] This appointment marks a major step forward in terms of the cooperation with local managers to enter more deeply into the Chinese market. This was followed a few years later by the foundation of new sales subsidiaries in this country, such as SMH International Trading (2000, renamed Swatch Group China in 2010), SMH Swiss Watch Trading (2003) and Swatch Group Les Boutiques (2004).

4.1 The Partnership with Xinyu Hengdeli

But above all, the cornerstone of SG's entry strategy in China after 2000 has been its cooperation with one of the largest Chinese watch distributors, the firm Xinyu Hengdeli Holdings Ltd., in which SG took a 6% interest in 2005, which it subsequently boosted to 9.1% in 2010, before more than doubling it, to 20.4% the following year, and then reducing it to 9.2% in 2015.[13] Moreover, since 2006, one of the eight members of the Board of Directors, Shi Zhongyang, has been a legal advisor to Swatch Group, which he entered in 2000. This allows Swatch Group to access internal information and play an active part in the management of the company, which is not the case with rival group LVMH, which also has a share in Hengdeli (6.4% in 2015).

The person responsible for the supremacy of the Hengdeli group on the Chinese watch market is a businessman named Zhang Yuping, who has been active in the watch distribution sector since the early 1980s.[14] In 1981, he joined the firm Hua Qiao Co., a state-owned enterprise that specialized in the distribution of electrical appliances. Zhang went on to head up the company's watchmaking division from 1982 to 1987, which gave him a great many contacts with foreign watchmakers and domestic retail networks. In 1993, he left the employ of Hua Qiao Co. and began his own business in Hong Kong and China. Four years later, Zhang bought up the firm Beijing Hengdeli Timepieces Ltd., a State company founded in 1957 specialized in watch distribution and sales in the People's Republic of China, including foreign brands like Omega and Longines.

In addition, through a complex system of cross-shareholdings and shell companies, the Zhang family has stakes in a number of companies: Shanghai

Xinyu (founded in 1999); Hefei Xinyu Hengdeli (2000); Tianjin Huichang (2000); Harbin Beiheng Jiefu (2002); Qingdao Xinyu Hengdeli (2002); Liaoning Bao Rui Hang (2003); and Shenzhen Yangguang (2003), all of which are active in the field of watch sales at the local level. By gradually taking over these various companies between 1999 and 2003, the Zhang family extended its influence to retail watch sales. In 2004, this entire conglomerate of companies and holdings was restructured and centralized in the form of a new firm, Xinyu Hengdeli Holdings. The group, which is incorporated in the Cayman Islands and listed on the Hong Kong Stock Exchange, is majority-owned by the Zhang family through offshore companies set up in the British Virgin Islands. Thus, over the course of just a few years, the Hengdeli group has managed to carve out a position as the leading watch distributor in China and an indispensable partner for Swiss watch companies seeking to organize the expansion of their sales on a Chinese market which has entered a period of high growth.

4.2 A Key Challenge: Accessing Shopping Spaces

The competitive advantage of Hengdeli relies its ability to build and manage a dense retail network throughout China. This company is not the only one to have engaged successfully in this business. Other groups include the Hong Kong-based Emperor Watch & Jewellery (which had a turnover of 5.9 billion HK$ in fiscal year 2014), Oriental Watch (3.5 billion HK$) and Sincere Watch (648 million HK$), but their size is far smaller than Hengdeli (gross sales of about 18 billion HK$ in 2014).[15] According to the Vontobel Group, Hengdeli is comfortably the largest watch distribution company in continental China, with a market share estimated at 30% in 2010, far ahead of two Hong Kong-based firms, Oriental, with 6%, and Emperor, with less than 3%.[16] For all Swiss luxury watch companies, working together with these groups as a necessity to access new shopping spaces in Chinese cities, which became the centers for the consumption of luxury goods, in the context of urban development (Theurillat and Donzé 2016). Hence, the strong links forged between SG and Hengdeli were a significant way for growth on the Chinese market, especially for Omega and Longines.

In the second half of the 2000s, the Hengdeli group experienced a period of strong development, driven by its commitment to retail activities and the geographical expansion of its sales network, which it broadened in 2006 to include second-tier cities, after initially focusing on the major coastal cities.[17] To set up these shops, Hengdeli enters into a partnership,

based on a case-by-case strategy, with local Chinese developers (in the case of tier 3 and 4 cities) and large developers from Hong Kong and China (for tier 1 and 2 cities). As the group stepped up its retail activities, which jumped from 34.9% of turnover in 2004 to 77.6% in 2010, and to an average of 72.5% in 2012–2015 (see Fig. 9.3), its turnover soared from RMB 1.5 billion (renminbi = yuan) in 2004 to 8.2 billion in 2010, and an average of 13.4 billion in 2012–2015. It has the largest chain of high-end watch stores in China, and has expanded its retail network through a strategy of purchasing companies. The number of its retail shops has increased apace, rising from 65 in 2005 to 350 in 2010 and 482 in 2015. In addition, the Hengdeli group works with over 300 distributors located throughout China—more than 400 in more than one hundred cities since 2011—and has since 2005 reaped the benefits of a strategic partnership with three influential distribution groups (Shanghai San Lian Group Ltd.; Shanghai Oriental Commercial Building Ltd.; and Shenzhen Hengjili World Branch Watches Center Ltd.). Together, they are said to control nearly 48% of the Chinese domestic market. Moreover, Hengdeli has based its growth on the geographic expansion of its sales network. In 2005, nearly half of its retail sales were limited to operations in just three cities: Beijing (18.5%), Zhejiang (18.3%) and Shanghai (10.3%). Over the course of the following year, it started to expand outside of mainland China, operating in Hong Kong, Macau and Taiwan. M&A was an important tool for this expansion, with, for example, the acquisition of Elegant International Holdings Ltd., in Hong Kong, where it has four shops. By 2010, mainland China accounted for only 59.1% of its turnover.

As is clear from the above, the partnership with Hengdeli appears to be an essential component of Swatch Group's strategy for expansion in China in the period after 2005. Hengdeli's commitment to the retail trade has taken the form of the establishment of flagship stores for several Swiss watchmaking companies, including Swatch Group. They have joined forces in two major joint ventures, one for the exclusive distribution of Omega and Rado watches (2003), and the other for the management of flagship stores—in particular, Omega and Swatch (2007). At the occasion of the foundation of the latter company, Zhang Yu Ping, chairman of Hengdeli Holdings, argued that "*this agreement establishes a closer bond between Xinyu Hengdeli and the Swatch Group, as the two parties fully utilize their resources to strengthen their relationship in the China retail market*."[18] Yet such a strategy requires an involvement in real estate business, to secure stores in the new shopping malls. Consequently, in 2010, SG took a 50% stake in

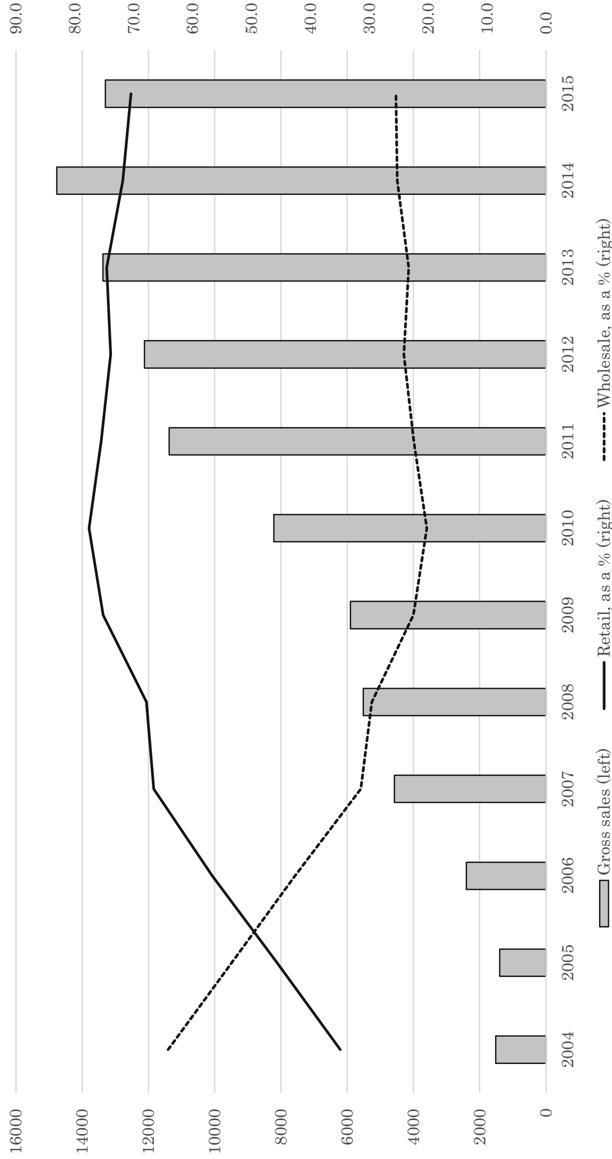

Fig. 9.3 Gross sales of Hengdeli Holdings, in million RMB, and shares of wholesale and of retail, as a %, 2004–2014 (Source: Hengdeli Holdings, Annual report, 2004–2014)

Beijing Xin Yu Heng Rui Watch & Clock Co., a subsidiary of Hengdeli specializing in real estate in China.[19]

As an example of this cooperation, the number of Omega stores operated in mainland China has grown from 84 in 2010 to 150 in 2016.[20] Of course, not all of them are managed by Hengdeli, even if this group is a major partner of SG. Finally, SG referred for the first time in 2011 in its annual report to the existence of a client accounting for over 10% of its turnover (10.8%), a share which increased slightly the following year (11.1%). Even though the client's name is not mentioned, this clearly refers to the Hengdeli Group, as part of the breakdown of SG various markets.

Consequently, this partnership made it possible for SG to achieve rapid growth over the course of the past fifteen years, with gross sales going from 4.3 billion CHF in 2000 to 9.2 billion CHF in 2014. Asia played a key role in this expansion. Its market share increased during these years from 29% to 58% of gross sales. Moreover, the share of the Greater China region (comprising mainland China, Hong Kong, Macau and Taiwan), which has been measured since 2008, grew from 23% of gross sales that year to 37% in 2014.[21]

5 Conclusion

This chapter tackled the evolution of the market entry strategy into China adopted by Swiss luxury watch companies, particularly Omega and Longines (owned by Swatch Group since 1983), since the early twentieth century, with a special focus on the period since the 1980s. The approach of business history offered here made it possible to emphasize the long-term development of this strategy, to stress the major breaks, and to shed light on the real novelty of changes which occurred during the 1990s.

During the first part of the twentieth century, although China was a growing outlet for the Swiss watch industry, distribution was not internalized and was carried out through the traditional system of contracts with independent importers, agents and retailers. Manufacturers in Switzerland had no direct access to Chinese customers. This model had not changed fundamentally after World War II, despite the foundation of the communist state, the only novelty was that independent traders were replaced by state-owned companies. However, some companies like Omega and Longines took the opportunity of the slight opening up of the market during the 1980s to enter China in a more active manner. They opened service centers and showrooms in few watch retail shops, obviously State-controlled

companies, of the largest cities of the country. These first establishments were the basis of expansion during the following decade, in the context of the increased focus on the luxury end of the market adopted by SG. The latter opened new sales subsidiaries in China, headed by Chinese managers, to control the imports in this country, and started to verticalize sales channels. Yet, in order to pursue a countrywide expansion of the retail network, the opening of flagship stores and the access shopping spaces in the new luxury malls opened throughout China after 2000, SG had to work together with local partners, particularly the Hengdeli group, with which business relations go back as early as the first service centers opened during the 1980s. The Swiss group had neither the knowledge, nor the social network necessary to enter the Chinese market efficiently and actively.

Consequently, the example of Swiss luxury watches in China shows that the entry market strategy relied on joint ventures and equity participations. Moore et al. (2010) argued that luxury fashion companies adopted a particular market entry strategy, characterized by flagship stores. Yet, more than the form of retail (mono-brand, multi-brand, megastores, e-commerce, etc.), the nature of the direct investment distinguishes the entry market strategy. For SG's brands, and for Omega in particular, opening mono-brand stores was a major objective, but to achieve it, it was necessary to have access to shopping spaces in the newly built luxury malls, and consequently to enter into partnership with local companies like Hengdeli.

Notes

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PART III

New Strategies

CHAPTER 10

Crafting Time, Making Luxury: The Heritage System and Artisan Revival in the Swiss Watch Industry, 1975–2015

Hervé Munz

1 An Anthropology of Luxury, Heritage, and Craft

Over the past two decades, the two topics of luxury and heritage have gained prominence and generated a significant number of publications in the human sciences, particularly in anthropology. In this field, luxury is not understood as a natural and objective property of certain things (goods, services, activities) whose rarity or preciousness is intrinsically determined and transparently expressed by a price. Nor is it an autonomous sphere of consumption, a designation of particular products thus isolated and separated from 'common' ones. Instead, it is conceptualized as the specific result of a social process whereby things are 'symbolically constructed' (Bourdieu 1984), 'materially valuated according to their perceived qualities' (Sougy 2013), 'qualified as individual' (Callon 2002),

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'qualified as singular' (Karpik 2007), 'enriched' (Boltanski and Esquerre 2014), or 'made precious' (Trébuchet-Bretwiller 2011) by actors and groups. Moreover, the process through which the luxury value of a thing is established is neither a universal nor a steady one. It is highly dependent on the historical and cultural context in which it takes place. Luxury's meanings are always evolving, conditioned by interactions, controversy, and the power connections through which they are negotiated and transformed.

Socio-anthropologists consider heritage to be a specific treatment of the past (Bendix 1997; Kirschenblatt-Gimblett 1998; Poulot 2006; Smith and Akagawa 2009; ETHNOL@GIES 2015). Heritage is the product of an operation, a 'making' in which people identify what has been transmitted from past to present and value it. The plasticity of heritage means that it can be found not only in artifacts (monuments, objects, urban architecture) but also in natural landscapes or cultural items (such as rituals, festive events, oral traditions, or the knowledge of a craft). Socio-anthropologists refuse to take a positivist attitude towards heritage. It is a social construction, in the present, conforming to current issues and situated goals. Despite its propensity to be viewed as ancestral and even immemorial, heritage is not the result of a direct transmission that operates from generation to generation and expresses the natural and continuous stream of the past into the present. The making of heritage is conditioned by a 'rupture' with the past (Rautenberg 2003). It consists of practices in which actors qualify their links with a past that they have carefully selected beforehand. Thus, heritage does not exist before it is named (Hertz and Chappaz 2012), and it is always an invention.

More importantly, however, luxury and heritage are cultural categories and cannot, as such, according to the methodology of socio-anthropology, be defined by scholars. The primary task of scholars is, instead, to understand the phenomena of luxury and heritage on the basis of how these two categories are identified, appropriated, used, shared, and/or contested by actors. From an epistemic point of view, therefore, socio-anthropologists focus mainly on the formation and productive aspect of these categories, aiming to define their effects in a particular context (what they make possible, what they create) instead of their ontology (what they substantially are).

The human sciences have, however, largely neglected the intersection of these two topics, namely heritage as a source of luxury value and, reciprocally, luxury conceived as a new space within which to create, claim, or

transform heritage. Nor have luxury and heritage been sufficiently approached, so far, from the perspective of materialities, knowledge, and the body. The two topics are still predominantly studied as abstract notions, from an intellectualist perspective. And they have not been much studied through the lens of their *making*, in other words via the crafts, technical skills, and professional identities that they capture and on which they are constructed.

2 Aim and Structure of the Chapter

The aim of this chapter is to examine the connections between the luxury industry and heritage paradigms, with an anthropological focus on craftwork and techniques (Warnier 1999; Geslin 2002; Julien and Rosselin 2009; Ingold 2011; Darène 2014; Jourdain 2014; Marchand 2016). In this regard, the current organization and recent history of Swiss watchmaking offer a useful case study.

2.1 *The Case of the Swiss Watch Industry*

Indeed, the current dominance of the Swiss watch industry in the market of high-added-value timepieces and the unprecedented success that the concept of heritage enjoys in the Swiss watch world may best be understood, jointly, by going back forty years. At that moment, the Swiss mechanical timepiece industry was under extreme pressure from a structural crisis, which began in 1974. As a result of the rise in the Swiss franc, the lack of competitiveness within the industry's own structure, the expansion in the activities of international rivals, and, later, the arrival of quartz wristwatches, the Swiss watch industry quickly lost market share (Donzé 2014). The Swiss Jura, where watchmaking had been concentrated since the seventeenth century, suffered an economic and social cataclysm; in less than ten years, the number of workers employed in the industry was reduced from 90,000 to around 30,000. Moreover, many other trades related to mechanical watch production, which were already threatened by the progressive mechanization and automation introduced during the post-Second World War boom, were also strongly affected by this event.

Since the beginning of the 1980s, the category of heritage has been used as a means for industry leaders to progressively update the value of their mechanical products and reposition them into the luxury market. An exploration of the Swiss watch industry also reveals that, in the 1980s and 1990s,

many Swiss brands went upmarket by selling products in their traditional styles but incorporating high-end mechanisms created and developed by skilled independent craftspeople, who were experienced in repair and restoration. This shift of heritage products into the luxury market has, in turn, reshaped the notion of the craftsperson or artisan and led to the emergence of a new category of watchmakers called 'independent creators'.

2.2 Research Questions

Four research questions organize this chapter. First, what are the specific modalities of the progressive repositioning of the Swiss watch industry (especially the mechanical watch industry) into the luxury market? Second, how was this new system of patrimonial luxury implemented in terms of trade, professional knowledge, and technical skills? Third, what effects have this shift had on watchmakers and their craft? And fourth, what tensions and ambivalences have recently arisen between the ascendant luxury watch industry and these craftspeople?

The answers to these questions are based on my doctoral research in anthropology, approximately four years of fieldwork in the world of contemporary Swiss watchmaking, studying the relationships among professional practices, the transmission of skills, craft affiliation, and the politics of heritage.[1] I used participant observation in technical training schools, occupational workshops, showrooms, and trade fairs; about three hundred semi-structured interviews with a wide variety of craftspeople and stakeholders in the watch industry; and significant periods of archival research in public and private document collections.

3 Heritage as a Key Tool Within the Luxury Market

3.1 Swiss Mechanical Watches as High-Added-Value Products

Alongside cheese production, alpine trekking, chocolate making, and bank secrecy, watchmaking is undoubtedly one of the activities most commonly associated with Switzerland. Within the country's borders and abroad, it is presented by many actors as a national tradition, embodying emblematic values of quality and precision that are claimed to define the country. Moreover, this industry currently employs nearly 60,000 people and reports exports valued at about 21.5 billion Swiss francs (CHF) per year (FH 2016),

making it the country's third-largest export sector (after pharmaceuticals and machine tools).

Remarkably, this export value has increased by 10 billion since 2005 and by 15.4 billion since 1990, while the number of exported pieces has decreased significantly (FH 2016). This recent growth is due to the industry's focus on the production and sale of mechanical watches commonly perceived as 'expensive' and situated in the highest price range defined by the baseline of the Federation of the Swiss Watch Industry, which encompasses pieces priced at 3000 CHF and upwards. Indeed, the consolidation of Swiss watchmaking in the highly valuable sector was especially tangible starting in 2001, when mechanical watches overtook electronic ones in terms of export value, despite the smaller volume. Fifteen years later, mechanical timepieces represent slightly more than a quarter of the exported pieces but generate 80 per cent of the sector's export value (FH 2016).

In the global watch market today, 'luxury timepieces' are perceived as a Swiss tradition or, at least, are strongly associated with the country. The current position of the Swiss watch industry in the market for high-added-value products may be measured by considering recent figures: between 2000 and 2015, the export value for the most highly priced category of watches rose from 3.1 to 13.4 billion CHF. The absolute number of pieces exported in this category also increased over the same period, from 488,000 to 1,574,000 units (FH 2016). In terms of value, Switzerland has thus become the most competitive watchmaking country in the world. Since 2000, nearly half the value of global sales of watches has come from Swiss timepieces, and 95 per cent of the watches valued at more than 1000 CHF were made in Switzerland (Mégevand 2014). Moreover, most prestigious brands are located there, and since the end of the 1980s, some non-watchmaking international luxury groups, such as Richemont, LVMH, and Kéring, have also gradually begun to produce timepieces in Switzerland.

What is a Swiss luxury watch? How is luxury defined in the Swiss watch industry? There is no unambiguous answer to these questions, because the uses of luxury in this sector consist in heterogenous, nonconsensual, and often-antagonistic practices (Munz 2016). Nonetheless, we may better understand the constitution of luxury value if we consider how actors segment the Swiss luxury watch market in range and price. It may be subdivided into three smaller categories: watches considered 'high end' (3000–15,000 CHF), 'very high end' or 'prestige' (15,000–50,000 CHF), and 'exceptional' (more than 50,000 CHF). The differences

among these categories are part of the phenomenon of the 'democratization' of luxury (Silverstein and Fiske 2008; Michaud 2013; Donzé 2014; Tiran 2014) that emerged at the beginning of the 1990s. These categories can be characterized using the conceptual distinctions proposed by scholars between 'new' or 'affordable' luxury; 'intermediate' luxury; and 'exclusive' or 'ultra' luxury (Allérès 1992; Silverstein and Fiske 2008; Truong et al. 2009; Donzé 2014).

The most valuable products in today's global hierarchy of watchmaking are not simply the most precious but also those perceived as the most 'authentic', assessed in terms of skilled craft and technical accomplishment. The category of 'luxury' has been partially eclipsed by the notion of 'authenticity' (Jeannerat and Crevoisier 2011; Munz 2016). To be recognized as a quality item, a watch first has to be in line with the 'watchmaking culture' (Kebir and Crevoisier 2004; Jeannerat and Crevoisier 2011; Sougy 2014; Oakley 2015; Munz 2016; Donzé 2017). Thus, the most highly valued items are not necessarily always made of precious metals; what is more important is that most of these items are mechanical watches. These mechanical timepieces may, in addition, be embellished by craftspeople such as hand engravers, enamelers, miniaturist painters, and engine turners, and they are fitted with timing functions (beyond just the hour, minute, and second) which are known as 'complication mechanisms' in watchmaking.

Distinctions are made between 'complicated' watches (with chronographs, annual calendars, moon phases, and power reserve indications) and 'ultra-complicated' ones, which are technically more complex and composed of a larger number of components (such as multiple time zones, perpetual or astronomical calendars, minute repeaters, and tourbillons[2]). Because of their high production costs and of the way in which they are marketed (based on the ideological valuation of the handmade), these 'ultra-complicated' timepieces remain exclusive products, produced in smaller numbers. Many stakeholders consider these watches to be the hardest ones to make and service, requiring the most sophisticated artisanry,[3] which is why they are often prized as material manifestations of the Swiss watchmaking heritage and contribute to a brand's legitimacy and prestige. Over the past thirty years, complicated mechanical watches have triumphed in almost every market, contributing to the rise in export values. At the same time, they have gradually been massively industrialized. This development involved important evolutions in the realms of research and development, automated tool-machining, and materials manufacturing.

3.2 *The Launch of Uses of Heritage in the Watchmaking World*

In the Swiss watchmaking world, in parallel with the establishment of mechanical timepieces in the luxury market, the category of 'watchmaking heritage' has begun to be used in different fields such as industry, culture, tourism, politics, and the media; it is mobilized for multiple projects and actions and related to various objects, from actual pieces to the gestures of watchmakers and from urban architecture to corporate archives. A variety of actors and organizations use this category in order to link their current activities to history and to claim a temporal continuity between their present and that past.

The most active organizations in this production of heritage are the watchmaking companies. Many of them have launched their own museums and showrooms or set up their factories, retail spaces, or exhibition sites in buildings classified as local or regional heritage sites. The brands' museums function as complements to the factory visits that these firms arrange for customers and for journalists, during which they show their watchmakers at work and stage their workshops as dioramas. Furthermore, a number of companies have established heritage offices in their communication departments, hiring historians with university degrees as heritage managers who assist in marketing efforts through research, organizing and promoting archives, publishing papers and monographs on the company's history, and more generally guaranteeing the timelessness and uniqueness of its heritage. In the same vein, the brands commemorate their classic models by redesigning and reissuing them in new collections called 'Patrimony', 'Heritage', or 'Traditional' and they hold workshops devoted to preserving traditional arts and crafts and highly valued trades. Thus, professional knowledge and its transmission have become useful marketing and advertising tools, used to reinforce a brand's legitimacy based on its history and durability.

While the history of regional museums, such as the *Musée d'Horlogerie* (Watchmaking Museum) in Le Locle and the *Musée international d'horlogerie* (International Watchmaking Museum) in La Chaux-de-Fonds, signals the existence of a patrimonial approach to watchmaking dating back to the second half of the nineteenth century, there are numerous current projects and/or events linking heritage to watchmaking that are less than 25 years old. The private museums opened by corporate brands, for instance, were all inaugurated between the early 1980s and the first decade of this century (Omega in 1983, Audemars in 1990, Girard

Perregaux in 1991, Longines in 1992, Patek Philippe in 2001, Chopard in 2006, Swatch Group in 2006, Jaeger-Lecoultre in 2007, and Tag Heuer in 2008). Is that not surprising for an industry that is often presented as being some three hundred years old? Why has this heritage trend appeared in the Swiss watchmaking world over the past three and a half decades, shaping much of the practice and discourse today, when it did not exist at all before 1980?

3.3 *The Luxury Turn: The New System of Heritage as a Way to Move Swiss Watches Upmarket*

The watchmaking brands' current focus on high-added-value products and their deployment of heritage can be best understood by going back forty years. These two phenomena of luxury and heritage converge in the emergence, at the beginning of the 1980s, of what I call a new 'system of heritage' (Munz 2016; drawing on Hobsbawm 1983; Hartog 2002) in the Swiss mechanical watch industry. In this system, intended to reestablish the prestige, authority, and legitimacy of the watchmaking industry, interconnected sets of discourses and practices, focused on the notions of tradition and heritage, make the activity and brands of watchmaking appear ancestral, long-standing, and deeply rooted in the Swiss territory. This dynamic gradually transformed the watchmaking world and entirely reshaped the heritage paradigm that was attached to it.

In the early 1980s, the Swiss watch industry reemerged on the international stage by shifting its production toward highly valued goods. This rebirth was supported by the organizational restructuring of its production system (Donzé 2014) and the gradual implementation of the system of heritage described above. This point marked a rupture in the sector's discourse and practices: 'tradition', a category that had been used since the mid-nineteenth century by watchmakers to defend a certain understanding of their trade that they felt was under threat, became a way of modeling the past, a 'return to origins' appropriated by some brand leaders in order to elevate their mechanical watches and reposition them in the global market for luxury goods.

The invention of this trend toward traditionalism has also affected the heritage paradigm as it relates to watchmaking. From the second half of the nineteenth century until the beginning of the 1980s, the heritage of watchmaking was essentially conceived of as a public good bound to the history of a territory, materialized in collections of objects, and managed by public

institutions with the help of private actors. Since the 1980s, however, it has gradually migrated from the public sphere to the corporate space of brands, who have appropriated it and made it exclusively theirs. The brands have increasingly created and promoted 'their' heritage in private. Heritage, by providing a spatial and temporal anchoring for their activities, demonstrates the authenticity to which the brands aspire.

Mobilizing a rhetoric of continuity, this new heritage regimen has been successfully propagated by brands which have commemorated past events, dramatized former techniques and professional decorations, highlighted figures of the past, and resuscitated old crafts or specific watches with highly complicated mechanisms developed during the eighteenth and nineteenth centuries. The bodies of artisans, their tools and workshops, as well as the regional context in which they live and operate, have been highlighted as authentic signs of watchmaking culture. And the notions of 'tradition', 'heritage', and 'know-how' have systematically infused the advertising strategies of the various brands (see Figs. 10.1 and 10.2).

Significantly, the types of watches that were designed at the beginning of the 1980s were portrayed as the result of a mechanical, ancestral, and highly valued activity. The accompanying discourse and products represented a

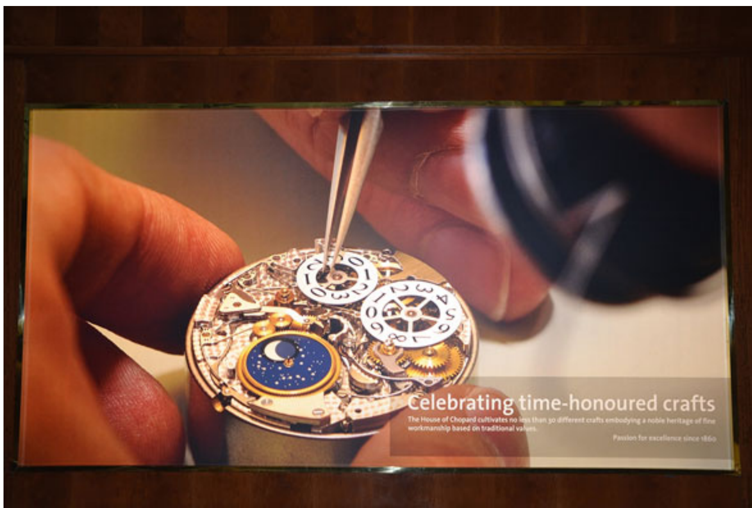

Fig. 10.1 Chopard's advertising poster, displayed at the 2013 annual trade fair in Basel (Photo credit: Hervé Munz)

Fig. 10.2 Skills demonstration by a Blancpain watchmaker at the 2012 annual trade fair in Basel (Photo credit: Hervé Munz)

break from what was standard before the crisis, when advertising focused on mid-range items and industrial leaders concentrated on automation, progress, and electronics. Because certain highly specific technical skills had almost disappeared from the industry, the craftspeople who tried to recover this know-how now admit to having actually reinvented these gestures. In other words, the transmission of technical knowledge was reconstructed after a moment of rupture, bringing absence and loss into the analysis of heritage. While brand marketing was heavily focused on the continuity of craft, the circulation of technical knowledge was actually discontinuous, renegotiated and transformed depending on the context and situated interactions. This specific heritage system was disruptive, and it shows that in spite of the apparent contradiction, the tradition-oriented management of the brands was a powerful force for innovation in the watch industry, paving the way for a renewed trend towards mechanical products that has led to new methods of timepiece manufacturing over the past twenty years.

4 The Artisan Revival

How were these inventive high-end mechanical timepieces, made in the name of tradition, developed? A closer look at how industrial brands embraced the heritage trend from the late 1970s to the first decade of the new millennium reveals that it was actually talented, established tradespeople who should be recognized for this. In response to a renewed demand from international customers, these craftspeople had begun to design and make high-end mechanical pieces. Technically, then, the brands were often not the instigators of these innovative mechanisms at all. What they were, instead, were the organizations that captured these ideas, industrialized them, and made them marketable. Brands thus relied on the skills of independent craftspeople, who worked for them as subcontractors.

4.1 The Watchmaker's Craft and the Turn to Patrimonial Luxury

It is necessary to step even a little further back in time to understand who these craftspeople were and where they came from (Munz 2016). During the 'quartz crisis' of the 1970s, when the making of mechanical watches was on the decline, skilled watchmakers did not have many professional opportunities on the production side of the industry. One of the few ways in which they could avoid unemployment and keep practicing their craft was to repair current models or restore antique timepieces. And because there were few such positions available in the servicing or restoration centers of the various brands, in watchshops, or in museums, many watchmakers launched their own businesses and opened their own workshops. Among the rising stars who did just that between 1975 and 1985 were Michel Parmigiani in 1976, Roger Dubuis in 1980, Franck Müller in 1984, and François-Paul Journe in 1985. As independent repairers, they occasionally restored timepieces for museums, auction houses, and wealthy private individuals. Meanwhile, since the end of the 1960s, some of these watchmakers had also been creating new mechanisms that they submitted to local contests and for which they sometimes received awards (Svend Andersen in 1969, Vincent Calabrese in 1972).

Over time, these craftspeople became known to the interconnected world of antique timepiece collectors. These lovers of fine mechanics, most of them European, constituted an emerging market for a small number of talented watchmakers in the wake of the 'quartz crisis'. First called upon for restoration work, the watchmakers were increasingly asked to create new mechanisms. Their purist clients championed the beauty of

mechanical movement versus the boredom of ‘static’ quartz. They wanted distinctive, handmade, personalized timepieces. And within a few years, some of the independent watch restorers had indeed become creators, executing special orders and unique pieces with high levels of technical skill and polish.

These craftspeople drew on the repair techniques and the knowledge that they had acquired of and from existing mechanical timepieces while working with a wide array of suppliers. They turned to the highly complicated horological mechanisms that make up the most demanding part of the classic pocket watch repertoire, combining these mechanisms, pairing them with precious materials, and gradually transforming them in order to fit into the format of the wristwatch. The design and creation of such top-of-the-range items was a real technical challenge but also an opportunity to refine their inventiveness and combat the marginalization of their knowledge. The demand for creative work was, however, insufficient to live on, and therefore these watchmakers continued to simultaneously repair and restore.

Although it was still a marginal niche, this renewed interest in fine mechanical watches was strong enough to attract the attention of businessmen and investors. At the end of the 1970s, some began to take over time-honored brands that had become dormant or fallen into disuse, a maneuver designed to provide storytelling potential, while other companies that had endured hard times also expressed interest in launching new exclusive products. A large number of these houses subcontracted the work of creating, designing, and developing mechanical timepieces to independent watchmakers. The resulting timepieces were products that the watch companies could then sell using heritage rhetoric, while at the same time recovering their brand status. For example, in 1983, Ulysse Nardin was acquired by a German investor, who asked the watchmakers Jörg Spöring and Ludwig Oechslin to miniaturize the astrolabe that they had previously produced, and fit it within a wristwatch. From the second half of the 1980s, numerous brands developed their production by subcontracting to small companies, founded by craftspeople such as Jean-Marc Wiederrecht, Giulio Papi, Dominique Renaud, Christophe Claret, and François-Paul Journe, that specialized in designing or creating highly complicated movements for others. At the beginning of the 1990s, Omega produced an interpretation of Breguet’s coaxial escapement that had formerly been patented by George Daniels. What is ironic is that in reinventing themselves according to ‘ancestral values’, these Swiss brands were enlisting the help of independent craftspeople who were, and still are, ambivalent about the notion of tradition (Munz 2016).

To design products and make prototypes and limited series, these independent watchmakers had to rely on the observations and analytical knowledge of their trade that they had developed at the bench as well as on techniques that they had learned in training and honed during their restoration work. They resorted to conventional equipment (such as micro lathes and milling machines) and to micromechanics, and adjusting and timing methods that were considered obsolete in the mainstream industry of the time. Their mastery of that knowledge played a key role in the rise of these innovative luxury mechanisms because, at that point, there was no other way to design or produce such pieces. In other words, the brands depended on these watchmakers because the skills they possessed had not yet been implemented at the industrial level.

4.2 *Artisans as Creators and Independent Brand Names*

While independent craftspeople contributed to the rebirth of several luxury mechanical brands, the new system of heritage, in turn, affected them, their trade, and notions of craft and of the watchmaking artisan. These notions have shifted, since the end of the 1970s, from their initial meanings, which involved specialized manual work or small crafts with no exceptional qualities to a highly valorized lexical field explicitly related to fine technical culture: this included 'genius', 'preciousness', 'masterpiece', and 'art', materialized through expressions such as 'fine watchmaking', 'artistic watchmaking', 'fine crafts', and 'arts and crafts'. In the process of this progressive transformation, moreover, a new category of craftspeople has emerged, called 'independent watchmaker-creators'.

So how, exactly, did these social and semantic transformations take place over the course of the last thirty years? In the first half of the 1980s, despite the quick recognition brought by their collaborations with brands, the skilled independent watchmakers working as subcontractors did not gain immediate fame on the wider stage. These watchmakers were still relatively few in number, and the creativity they brought to the relaunching of the large-scale houses was, paradoxically, at the same time both central and marginal: while their inventiveness was appreciated, they often stayed in the shadows of the brands for which they subcontracted and were not allowed to claim or sign their pieces or mechanisms. Some of these craftsmen began to consider the many advantages—such as assertion of their status, synergy, and direct clients—if they organized. The first such attempt, however, the

Groupement Genevois des Cabinotiers (Consortium of Geneva Watchmakers) (1977–1984), ended in failure.

From the ashes of this first initiative, a second project was born. Vincent Calabrese and Svend Andersen, two foreign-born watchmakers living in Switzerland, founded the Académie horlogère des créateurs indépendants (AHCI; Academy of Independent Watchmaking Creators) in 1985 with the aim of bringing together watchmakers from across the globe to form a network of elite artisans and designers. This association, which remains active today, reflects the key role that immigration and the international mobility of watchmakers have played in the revival of prestige for artisanry in Switzerland. It currently consists of 46 members, from 19 different nationalities. Not all independent watchmakers belong to the AHCI, but most of those who have made a name for themselves in the sector have been involved with it at some point.

The AHCI has helped many watchmakers to start making luxury watches under their own names; it has also indirectly benefited most self-employed creators by contributing to the establishment and recognition of the watchmaking craft as an independent, inventive activity. In the decade that followed the founding of the AHCI, a large number of these creators launched their own brands, though with varied success. At the same time, other skilled independent watchmakers opted to keep their status as subcontractors and, starting in the 1980s, launched companies that specialized in the development, design, and occasionally the making of highly complicated movements for third parties. In a period of less than twenty years, AHCI members and other small-scale makers had stabilized the status of inventive artisans. The development of collaborations between them and larger prestigious industrial brands or luxury houses (such as Goldpfeil or Harry Winston) also contributed to the consolidation of their reputation.

Today, independent creators lead small and medium-sized enterprises that design, make, and sell mechanical timepieces under their own brand names or for third-party clients. They have founded companies of different types (manufacturers of finished products or subcontracting firms) and sizes (from one to around fifty people) that use production tools and equipment with varying degrees of industrial integration and mechanization. Those that produce their own signature brands have a production volume of anywhere from ten to two thousand pieces a year, with starting prices around 30,000–50,000 CHF. Although the number of units produced by these practitioners has always been small compared to the production of the mass luxury brands, their importance must be measured in terms of their creative impact on the whole industry. They are considered by many

observers, experts, customers, and media representatives to be the most highly skilled craftspeople in terms of technical inventiveness, positioned at the top of the hierarchy of authenticity. Their clients are mainly collectors and wealthy people from Western Europe, the United States, the Middle East, and Asia, who are often interested in having local service and personalized relationships with 'their' watchmakers.

In an industrial era in which labor is extremely specialized and automated, these masters of their craft, by contrast, proclaim to be 'true' craftspeople or 'the last of the artisans'. They emphasize their 'authenticity' by arguing their ability, theoretically, to design and produce a complete mechanical watch entirely by hand even though, most of the time, they actually work with subcontractors and use cutting-edge production technologies. These watchmakers construct the particularity and rarity of their artisanal approach by focusing on the artistic, creative, and 'human' aspects of their products, which they closely connect with their own name, face, and personal story. This creativity, based on a practical knowledge of antique watchmaking techniques (see Fig. 10.3), is illustrated in the development of complicated timepieces on the basis of extant mechanisms that the

Fig. 10.3 In the workshop of a small brand managed by an independent creator, a watchmaker adjusts a complicated mechanical movement, using a technique that is no longer current in the luxury industry (Photo credit: Hervé Munz)

watchmakers combine, simplify, improve, transform, or reframe, using new materials and new designs.

What distinguishes these watchmakers is that they conceive their own pieces, carry out the necessary process of machining some of the components themselves, and assemble, finish, market, and repair the final products. In Switzerland's recent history, this type of artisan watchmaker did not exist before the second half of the 1970s.[4] Before then, craftspeople were not responsible for all the tasks of designing and making, producing, and repairing timepieces. Nor were these practitioners responsible for the production tasks of machining movement components and finishing watches. The new figure of the creative artisan appeared over the period from 1975 to 1990 and contributed to changing the landscape of Swiss watchmaking, and the emergence of this figure has blurred a number of binaries (designing/making, production/repair, machining/finishing) that had until then determined the role and the status of watchmakers in the industry.

The ways in which these watchmakers behave and position themselves reveal a picture of craft that does not quite match the conventional imaginary around folk culture. These independent creators understand themselves as a kind of artisanal elite that cares for invention, art, and distinctive creation, making watches in small production runs with the help of computer-controlled machines, about which they are completely unabashed. In their world, the artisans are mainly male, conscious of their genius, concerned with their characteristic signature, aware of their intellectual property, suspicious of the notion of 'tradition' but attached to old techniques, not necessarily Swiss but connected to Swiss territory, and resolved to defend the world of independent craft production but dependent on a very large industrial network for their supply of components and/or services.

These creators still cooperate with large groups and brands, working with them as subcontractors, despite feeling threatened by the large companies' policy of vertical development and their gradual takeover. Indeed, the watchmakers that have founded prestigious independent brands have met with a variety of outcomes. Many of them no longer have power within the brands they founded; some of them no longer own the brands they founded or do not even work for them anymore.

In spite of their current visibility, these creators have the impression that the pendulum has swung back again and that they have been eaten by larger fish. These watchmakers resent 'big industry', which was able to reposition itself into the luxury goods market by banking abundantly on the inventions

of independent artisans, but which now treats those same craftspeople with condescension. While the shift to a high-end patrimonial market first valorized independent artisans and their trade, today these same craftspeople feel victimized by the success of this luxury era. The industrial brands now make the same type of complicated products as do the artisans, but without their help, on a very much larger scale, and with incomparably greater financial means. The independent artisans therefore often feel overpowered by the very arrangements on which they depend: these large brands, the trend towards fine watchmaking, and the industrialization of the field.

This partially explains why some of these craftspeople now look with suspicion at the notion of heritage. They have not forgotten that Swiss mechanical watchmaking, and their craft along with it, had a dynamic rebirth based on heritage, framed by luxury, but they now also see heritage as the cause for the level of success that justified the automation of the luxury sector and their own progressive marginalization. Ironically, it is heritage itself, the very resource that previously protected them and allowed the conservation of their knowledge through reappropriation, that now threatens them.

5 Conclusion

While brands, tourist guides, and even some museums entertain the fiction that contemporary watchmaking in Switzerland descended in a direct line from the famous rural workshops that first began producing watches in the region in the early eighteenth century, the watch industry was in fact profoundly transformed by the economic crisis that swept through the market in the 1970s. While some observers declared the Swiss watch industry almost dead at the beginning of the 1980s, it made a progressive comeback on the international stage by focusing on high-value-added products.

This focus was implemented mainly by the brands, through the use of one key concept, namely heritage. Heritage can be identified as a core parameter for explaining the revival of mechanical timepieces and the worldwide success of the Swiss luxury watch industry. It has now obviously become an important tool for branding high-end and very high-end Swiss watches and for creating the worldwide market for them. More generally, though, over the period from 1975 to the present day, heritage has been even more than that. It has progressively become the key notion through which the Swiss mechanical watch has changed its status from that of an

object that had been made obsolete by the unsurpassable chronometric superiority of quartz technologies to that of a luxurious, precious, and technically prestigious item. Many brands that are now respected as high-end or very high-end houses were repositioned and have grown by capitalizing on heritage as a communication tool and as a standard for designing and making new products.

This heritage concept did not consist merely of marketing strategies conceived as semiotic techniques but was primarily embodied in the creation and production of new types of mechanical watches. These production processes were initially carried out by professional actors who were established, self-employed craftspeople. The birth of the new luxury watch business in Switzerland was therefore not just based on the industrial restructuring of the sector and the formation of powerful corporate groups through verticalization and takeovers. Thus, we can see that the dynamics of the luxury business and the emergence of a market for high-added-value items exist not only thanks to representatives of large multinational enterprises but also the efforts of creative and skilled craftspeople, positioned as independent contractors, who sometimes then became artisanal brands of their own or creative entrepreneurs.

In sum, the new invention of tradition beginning in the early 1980s constituted an important rupture that also affected the meaning of craft and the status of artisans. This transformation is proof that the emergence of this system of authenticity was not a non-technological innovation, as some authors state (Jeannerat and Crevoisier 2011), but had a material and technical impact on the trade and on the means of manufacturing watches, at the artisanal and, later, industrial levels.

More broadly, the contribution of this chapter to the understanding of the connections among luxury, heritage, and craftwork may be encapsulated in three points. First, in comparing Swiss watchmaking with other sectors, it becomes clear that not every craft that is understood as a regional or national heritage may necessarily be translated into a luxury trade (Jourdain 2014). This is one of the reasons for the collapse, in the French-Swiss Jura region in the 1970s, of the two traditional sectors of eyewear and toys (Barbe and Lioger 1999): no one was able to find the appropriate way to transform glasses and toys into luxury items. Second, the central role played by craftspeople in the rise of the luxury business is not unique to the Swiss watchmaking sector. Since the end of the 1980s, artisanal know-how has become a major resource for many large luxury businesses such as textile/fashion, perfume, and leatherwork. Nevertheless,

Swiss watchmaking does have some characteristics that remain peculiar to this industry. While most craftspeople involved in the luxury industry are now employed by large-scale brands, many of the creator-artisans in the watch industry have so far continued to work as independent artists, designing and making their own products and, acting as suppliers or subcontractors, developing projects for other brands. And third and finally, this chapter illustrates the importance of approaching the phenomenon of luxury not only through the formal lenses of figures, statistics, and documents but also through long-term qualitative surveys with stakeholders and groups. This kind of scientific investigation reveals that heritage remains an ambivalent tool for social actors and that, in contrast with the theories of mainstream scholars and the discourses of the very high-end brands, luxury has in fact become an incidental driver of the industrialization of traditional crafts rather than a means for preserving them.

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Notes

1. This research, financed by the Swiss National Science Foundation, was part of a collective transdisciplinary project called 'The Midas Touch' (2009–2015), devoted to the description and analysis of the issues generated by the implementation of the United Nations Educational, Scientific and Cultural Organization (UNESCO)'s Convention for the Safeguarding of Intangible Cultural Heritage in the Swiss context.
2. A tourbillon is a system devised to compensate for errors of rate caused by the earth's gravitational force in upright positions. In this system, the escapement (mechanism whose purpose is to maintain the oscillations of the regulating organ) of the watch is mounted in a revolving cage with the regulating organ (balance) at the center. The cage generally revolves once a minute and, in doing so, compensates for errors of rate caused by the vertical position in which pocket watches spend most of their time (Berner 1961; FHH 2016).
3. A mechanical wristwatch that is very technically complicated is not necessarily more accurate or reliable than a simple one. On the contrary, according to some experts, the more complicated a mechanical watch is, the more it is potentially subject to breaking down.
4. As early as the beginning of the seventeenth century, watchmakers in Geneva had already started to lose interest in the whole process of timepiece production and to focus on the more lucrative steps of assembling and finishing rather than on machining (Blanchard 2011, p. 59).

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CHAPTER 11

Luxury Brands and Public Museums: From Anniversary Exhibitions to Co-branding

Karina Pronitcheva

1 Introduction

Chanel in Moscow, Valentino in Paris, Cartier in New York, and Bulgari in Tokyo: Whatever metropolis one makes a stop in nowadays, one may be sure to discover, at a metropolitan art museum, another splendid exhibition dedicated to a world-famous luxury brand. Why so? Why have brand exhibitions, which were quite rare until the 2000s, suddenly become a must for every more-or-less important art museum's programming?

Although the phenomenon of luxury brand exhibitions at art museums seems ubiquitous, few researchers have addressed the issues that affect both the development of museums and the development of the luxury sector. Despite the fact that the history of museums (Bayart and Benghozi 1993; Tobelem 2005; Schwarzer 2006; Rentschler and Hede 2007; Sandell and Janes 2007; McClellan 2008; Mairesse 2010) as well as the evolution of luxury industries (Bergeron 1998; Semprini 2005; Degoutte 2007; Bastien and Kapferer 2008; Chevalier and Mazzalovo 2008; Tungate 2009; Jones 2010) in general have attracted attention from researchers, academics, economists, and even journalists, different forms of collaboration between museums and luxury industries still remain relatively

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unexplored (in terms of display, tie-up goods, events, etc.), except for corporate sponsorship (Alexander 1996; Rectanus 2002; Wu 2003; Stallabrass 2004). Luxury brand exhibitions in museums are the focus of a few articles (Remaury 2004; Steele 2008), book chapters (Taylor 2004; Crane 2012; Bô 2013), and doctoral dissertations (Burlakova McConaghy 2010; Jan 2011). The dissertation by Jan (2011) appears to be a single complete study dedicated to fashion exhibitions, but while the author provides a rich overview of fashion exhibitions and events from the 1980s to today, the survey does not consider the twentieth-century development of the luxury sector nor that of museums; thereby, the study removes the phenomenon of brand exhibitions from its economic and social context.

The purpose of this chapter is to establish, for the first time in the academic tradition, the history of luxury brand exhibitions at museums (which are not, contrary to the common assumption, a recent phenomenon but actually date back as far as the 1920s) not only to demonstrate how the nature of relations between luxury industries and museums changed over the span of a century but also to reveal the contemporary role of luxury brands as cultural players.

2 Enthusiasm for Industrial Art

Although the rise of exhibitions pertaining to the heritage of luxury brands began in the 1980s, the emergence of monographic exhibitions devoted to luxury brands, in the form of anniversary exhibitions, occurred much earlier. The first anniversary exhibition at a museum dedicated to a luxury brand was apparently *A Centenary of A.-L. Breguet (1747–1823): An exhibition of his watches and works of chronometry*, which was staged at the Museum of Industrial Art of the Palais Galliera in Paris in 1923. This first retrospective consisted of five sections: iconography (portraits, drawings, manuscripts, and other items 'related to A.-L. Breguet, to his family, and to his work'); history (the history of the watch movement 'from the origin of times through Abraham Breguet's period'); technology (illustrating 'the working principle of watches, stopwatches, and clocks'); watchmaking by Breguet ('watches, stopwatches, and clocks'); and an additional section ('works of physics or precision by A.-L. Breguet, his son, and his grandson, L. Breguet').[1] Designed exclusively from the historical and technological point of view, the Breguet exhibition was even more appropriate as it was showcased at the Palais Galliera—the Museum of Industrial Art of the City

of Paris at the time. Moreover, the exhibition fit within the broader programming with the strong historical dimension that the museum had adopted since the appointment of art historian Henri Clouzot as curator in 1920.[2]

In the post-war period, other anniversary exhibitions paid tribute to some great national enterprises, at both the Victoria & Albert Museum in London and the Museum of Decorative Arts in Paris. The Victoria & Albert Museum celebrated a centenary of the House of Worth in 1958 (*The House of Worth: A centenary exhibition of designs for dresses [1858–1958]*)[3] as well as the centenary of Liberty's department store in 1975 (*Liberty's, 1875–1975: An exhibition to mark the firm's centenary*). As for the Museum of Decorative Arts in Paris, it presented two anniversary exhibitions in 1964: *Baccarat, 1764–1964* and *Christofle, one hundred years of vanguard silverware from Napoleon III to the present day*. For exhibitions in the 1950s and 1960s, the display of commodities was a pretext to examine the evolution of forms specific to different industries. The Baccarat exhibition thus included, among others, contemporary products by Baccarat (crystal table services called Saint-Rémy, Dom Pérignon, and Saint-Exupéry, for example), while the exhibition catalogue provided the addresses for the boutiques of the Baccarat Crystal company in Paris and New York (*Musée des Arts décoratifs*, 1964).

3 The 'Big Show Era' and the Rise of Corporate Sponsorship

The specific system of exhibitions with a clear historical or aesthetic calling, displayed in museums of industrial or decorative arts and initiated by museum staff members, began undergoing a drastic change in the 1960s. Rises in museum operating costs as well as low government or local subsidies forced museums 'to seek new audiences and to entice visitors new and old to give and spend money' (McClellan 2008, p. 212). The emergence of blockbuster exhibitions,[4] aiming to provide additional income, kick-started the commercialisation of museums of the 1960s and 1970s, first in the United States and then in Europe. The first of these blockbuster exhibitions, *In the Presence of Kings*, took place at the Metropolitan Museum of Art in 1967. The following year saw *The Great Age of Fresco* (1968; same museum), which appears to be the first exhibition to benefit from corporate sponsorship—which came from an Italian typewriter manufacturer, Olivetti. These

two successful exhibitions marked the 'beginning of the Big Show Era' (Danilov 1988, p. 206), when corporate support became an integral part of any exhibition of medium or great importance (Alexander 1996).

The creation of new services to improve public facilities, in addition to the oil crises of 1973 and 1979, questioned museum management itself. Several economists fervently defended the idea of managing museums in the same way as business organisations (Raymond and Greyser 1978) and thereby set the tone for museum management first in the United States and then all over the world. The 1980s–era 'Reaganomics' policies, which included state divestiture in the cultural sector, accelerated the rise of market logic in American museums with several consequences, including the renting of museum spaces and the opening of museum cafés and museum shops. Furthermore, the commercialisation of museums sparked the emergence of development departments and 'non-art specialists, such as accountants, fund-raisers, public relations experts, and lawyers' at public museums. The professionalisation of non-profit management and marketing,[5] as well as the influx of 'business school graduates into arts management', irrevocably transformed the museum world (Alexander 1996, pp. 87–88, 90). For example, Diana Vreeland, formerly a member of the editorial staff at *Harper's Bazaar* and editor-in-chief at *Vogue USA*, became the Special Consultant to the Costume Institute of the Metropolitan Museum of Art in 1972. Serving as the curator of fashion shows at the Costume Institute until her death in 1989 (Pronitcheva 2016, 92–97), Vreeland not only organized the first monographic exhibition dedicated to a fashion designer (*The World of Balenciaga* in 1973), but also developed the first exhibition dedicated to a still-active fashion designer: *Yves Saint Laurent: 25 Years of Design* in 1983 and 1984. The latter exhibit featured approximately 150 items of clothing that Yves Saint Laurent had designed over the course of his career, along with some of the Metropolitan's pieces of art. The exhibition's sponsor was the Zurich-based Abraham silk house, which was the supplier for such French *haute couture* houses as Yves Saint Laurent and Givenchy.[6] The fact that the *Yves Saint Laurent* exhibition took place at the Metropolitan Museum of Art—of which the Costume Institute is a part—encouraged other art museums in the late 1980s and thereafter to host several fashion exhibitions despite the absence of the kind of fashion or design department that the Metropolitan had.

It is also important to note that most of Vreeland's exhibitions benefited from corporate sponsorship: *The Manchu Dragon: Costumes of China, the Ch'ing Dynasty* (1980–1981) was sponsored by Yves Saint Laurent, *The*

Eighteenth-Century Woman (1981–1982) by Merle Norman Cosmetics, *La Belle Époque* (1982–1983) by Pierre Cardin, and so on. Of all of Vreeland's exhibitions, it was *Man and the Horse* (1984–1985), sponsored by Ralph Lauren, that triggered the most virulent criticism for its sponsorship and completed 'the development of museum history as luxury commercial stimulant' (Silverman 1986, p. 134). The $350 million contribution to the exhibition allowed Ralph Lauren to place his brand name and logo (Polo Ralph Lauren) on all exhibition-related advertising and the walls of the galleries. According to Debora Silverman,

> Stung by intermittent criticism that his design work was 'derivative' and less original than his fashion competitors, Lauren founded in the Met benefit package a means for gaining an elevated entry into the elite circles of society and fashion design supporting the Costume Institute, as well as a way to enjoy the prestige of succeeding couturier Yves Saint Laurent as the featured living designer promoted in the museum's galleries. (Silverman 1986, pp. 127–128)

4 Luxury Groups and Corporate Sponsorship in France

As for France, the birth of luxury holding companies (LVMH, Richemont, and PPR) at the turn of the 1980s to the 1990s marked the beginning of a real patronage strategy by luxury brands in the field of art and culture. Indeed, the representatives of the houses' founding families were replaced by American-style entrepreneurs implementing American business methods such as broad corporate sponsorship[7] and intensive marketing strategies. Corporate sponsorship by luxury brands took then two main forms: support for cultural institutions or their exhibitions (LVMH) and support for artists (Cartier International). In the late 1980s, Bernard Arnault engaged Jean-Paul Claverie, the former adviser to French Minister of Culture Jack Lang, as his personal adviser for communication.[8] Claverie proposed 'a PR strategy that aimed to defend through sponsorship the values that make identity and success of all our houses' (Fohr 2006, p. 29). Between 1991 and 2014, LVMH supported 37 exhibitions, 31 of which took place in France (Versailles, Grand Palais, Pompidou Centre, Museum of Modern Art of the City of Paris, and the Palais de Tokyo, for example) and 6 abroad (New York, Beijing, Shanghai, Hong Kong, and Moscow).[9] Looking at the list of exhibitions supported abroad, one can clearly discern the strategic issues of the sponsorship campaigns. Moreover, Jean-Paul Claverie does not deny the nature of the approach; and his avowal is evident in his comments on

LVMH's support for *The Impressionist Treasures from French National Collections* traveling exhibition in China, as well as for *Celestial Mountains, Treasures of China* exhibition at the Grand Palais in Paris, that took place in 2004 as a part of the France–China year:

> They [the exhibitions] have been an ideal occasion for us to show to our Chinese friends not only that we have real corporate ethics and are surely very interested in our business relationship but also that we are very respectful to their culture.

Furthermore, *The Impressionist Treasures from French National Collections* exhibition at the Fine Arts Museum in Beijing featured a space dedicated to the history of fashion houses of the LVMH group (Fohr 2006, p. 30).

Inaugurated in 1984, the Fondation Cartier has epitomised the support of contemporary artists by luxury brands. Pledging to promote contemporary art in all its expressions, the Fondation Cartier balances its activities between temporary exhibitions (of contemporary art; brand exhibitions are overseen by Cartier International), weekly Nomad evenings (dedicated to the performing arts), and the commissioning and purchasing of works from artists. Foundation creator Alain-Dominique Perrin explains:

> What I was looking for was to get Cartier out of that image of an artificial and superfluous luxury. A kind of suspicion, contempt and disdain of the Parisian intelligentsia was looming over us. Simultaneously, I was waging alone a wearying, merciless struggle against counterfeiting. I said it and will keep saying it: I am not trying to sell more watches or jewels through the Foundation, but rather to insert Cartier into the history of civilized society. If today there is a positive sentiment of the brand among consumers, it's because of the Foundation. (Lisbonne and Zürcher 2007, pp. 131–132)

Hervé Chandès, the director of the Foundation, highlights the independence of the Foundation relative to the company as well as the absence of any subordination between the artistic content and the business logic: 'a real project of patronage' (Fohr 2006, p. 51). However, his comments on the Foundation collection's exhibition at the Museum of Contemporary Art in Tokyo (2006) seem to contradict his claims:

> We are a private institution: the Executive Board is based in Paris, but Cartier is international. [. . .] The company wishes to mark the occasion radically. The subsidiary in Tokyo is very involved and very enthusiastic. (Fohr 2006, p. 52)

Some other factors, such as the *Cartier, Jeweller of Arts* exhibition (April 3–21, 2012) at the Fondation Cartier and the fact that 'the press coverage [of the Foundation's activities] represent 25 per cent of all the Cartier's press coverage in the world' (Lisbonne and Zürcher 2007, p. 132), may sow doubts concerning the independence of the institutions.

5 Government Support for Luxury Industries

Simultaneously, the French government demonstrated substantial support for national luxury industries. The trend of democratisation in fashion since the 1960s, the economic crisis of the 1970s, and the end of the French colonial empire (1945–1962) resulted in the French *haute couture* losing important market shares. Thus, the end of the *haute couture* era[10] and the coming of the *prêt-à-porter* (ready-to-wear) trend in the late 1960s and early 1970s not only led to the ruination of numerous French manufacturers, but also spurred the rise of Italian designers who would prevail on the fashion scene until the advent of American clothing design in the 1990s (Degoutte 2007, p. 129). The same progression affected other French luxury industries such as the perfumery, which encountered fierce competition from American, Spanish, and Japanese fragrance companies (Jones 2010).

Seeking to support luxury industries, Jack Lang, French Minister of Culture (1981–1986 and 1988–1992), invented the 'all culture' concept—a vision that resulted in the acknowledgment of creative industries, including fashion and design, as cultural entities, and contributed to their exceptional outreach. In that context Lang set up a number of initiatives: the opening of the Cour Carrée of the Louvre for the runway shows during Paris Fashion Week, the foundation of the Institut français de la mode under the chairmanship of Pierre Bergé (co-founder of Yves Saint Laurent house), the presentation of the Oscars of Fashion at the Paris Opera in 1985, and the inauguration of the Museum of Fashion Arts at the Pavillon de Marsan of the Louvre in 1986. According to an American journalist, Pierre Bergé was the person behind the idea of a national Fashion Museum:

> Toward the end of Valérie Giscard d'Estaing's Administration, Bergé went to the government and suggested the founding of a fashion museum. There was one in Paris already, the Musée de la Mode et du Costume, in the Palais Galliera, but it belonged to the city and was run on a modest scale. Bergé had in mind something larger and national in character – something world-class. (Quoted in Jan 2011, pp. 169–170)

Thus, the growing commercialisation of museums since the 1970s, the rise of corporate sponsorship, the emphasis on luxury goods in Diana Vreeland's resounding fashion shows, and the acknowledgment by the French government of creative industries as cultural entities led to a mass *patrimonialisation* (the valorisation of brand heritage) among French luxury brands. This phenomenon is manifest in the publication of monographs dedicated to great couturiers,[11] the gradual establishment of corporate archives,[12] and the explosion of luxury-good exhibitions in fashion and art museums. From that perspective, the *Yves Saint Laurent: 25 Years of Design* exhibition (1983–1984) at the Costume Institute of the Metropolitan Museum of Art had a symbolic meaning as the first exhibition in an art museum dedicated to a still-active luxury brand. Converted into a traveling exhibition, the *Yves Saint Laurent* show was presented in several museums worldwide,[13] including the Museum of Fashion Arts, which had just opened in Paris. This strategy was almost immediately adopted by other French luxury brands, which proceeded to organise their own exhibitions at the Museum of Fashion Arts,[14] the Fashion Museum of the Palais Galliera,[15] the Fashion Museum in Marseille,[16] the Jacquemart-André Museum,[17] and the Petit Palais (Museum of Fine Arts of the City of Paris).[18]

6 The 'Democratisation' of Luxury Goods and the Export of Brand Exhibitions Worldwide

In the mid-1990s, the French luxury industry entered a period of 'democratisation'. Faced with a middle class with limited income, compared to the bourgeoisie's opulence in previous decades, luxury brands seeking to become affordable to these potential customers launched less-expensive products and second lines (Bergeron 1998, p. 77). However, the question was not only of making luxury 'accessible' but also and mainly of attracting new customers to compensate for the loss of their former clientele.[19] Moreover, the emergence of new markets in Russia and China in the 1990s led to the increased importance of the export of luxury goods.

After a period of general enthusiasm in France for creative industries in the 1980s, exhibitions in museums turned a decade later to marketing and sales promotion campaigns for luxury brands or groups, becoming both a new communication tool and an additional means of attracting the middle class.

Lydia Kamitsis, Head of Programming and Research at the Museum of Fashion and Textiles (the former Museum of Fashion Arts) in Paris since 1995, set a new direction for the museum's programming by asserting: 'We won't be there to deliver certificates of excellence or to be reduced to multi-brand show-rooms, but rather to accompany people throughout History' (quoted in Jan 2011, p. 198). Indeed, no monographic exhibition of a luxury brand took place at the Museum of Fashion and Textiles between 1988 (*A UN: Issey Miyake*) and 1999 (*Hussein Chalayan, Airmail Clothing 1999*). Similarly, the Fashion Museum of the Palais Galliera brought an end to its monographic programming with the *Jacques Fath, 1950s* exhibition in 1993 before restarting in 2002 (with *Madame Carven, a Great Couturier*). While fashion museums curtailed their luxury-brand exhibitions, other Parisian museums, mainly art or history museums, implemented the mechanism of luxury exhibitions. One of them was the Carnavalet Museum (Museum of History of the City of Paris), which presented the *Chaumet Paris, Two Hundred Years of Creation* exhibition in 1998.

Finally, in the 1990s, the phenomenon of luxury brand exhibitions was in full swing across the world. Over the decade, the Metropolitan Museum of Art, together with the Costume Institute, hosted two exhibitions on *Louis Comfort Tiffany* (1990, 1998–1999), one on *Christian Dior* (1996–1997), one on *Cartier* (1997), and one on *Gianni Versace* (1997–1998). As for brands, it was Cartier that launched an impressive series of heritage exhibitions worldwide. The *Art by Cartier* exhibition was showcased at the Hermitage Museum in St. Petersburg (1992), the Metropolitan Teien Art Museum in Tokyo (1995), the Fondation de l'Hermitage in Lausanne (1995), and the Palacio de Bellas Artes in Mexico (1999), while the *Cartier: 1900–1930*[20] exhibition was hosted in turn by the Metropolitan Museum of Art (1997), the British Museum (1997–1998), and the Field Museum in Chicago (1999–2000).[21] An effective means of differentiation from other luxury brands in an increasingly competitive marketplace, the concept of brand history has thus become a recurrent theme among cultural events and museum exhibitions.

7 The Rise of Corporate Museums and Co-branded Exhibitions

The 2008 financial crisis had a short-term effect on the luxury sector before experiencing a rapid recovery. However, despite the prosperity of the French luxury industry today, there is no denying another trend: French brands losing their market shares. In the early 1980s, the global luxury industry was mainly French, with 75% of the market share going to French brands; by 1993, however, that percentage had fallen to just under 50% (Bergeron 1998, p. 74). In 2008, France and Italy shared the leadership in luxury goods, with Italy overtaking France in the ready-to-wear sector.[22] In 2013, French brands found themselves with only 30% of the global luxury market (Castarède 2014, p. 102).

The presumption of guilt regarding the relocation of production and super-profits (Thomas 2008), along with the mass production of luxury items and an increasingly competitive marketplace for luxury, caused substantial changes in the brands' heritage strategies and their relationships with culture and the arts as well.

First, contemporary art events had become plentiful: collaborations with artists (Louis Vuitton & Takashi Murakami, Kenzo & Ron Arad), Louis Vuitton's support of the gala evening at the Venice Biennale 2003, and the FIAC (Foire Internationale d'Art Contemporain) of Luxury in the Cour Carrée of the Louvre in 2006 (organised by the FIAC and the Comité Colbert) attest to that trend. Likewise, 'cultural spaces' dedicated to contemporary art were also popping up left and right (Espace Louis Vuitton in its flagship on the Champs-Élysées, Espace Cerrutti at the Madeleine Square, and Motor-Village by Fiat at the Rond-Point des Champs-Élysées, for example), while foundations were flourishing, too (Fondation Louis Vuitton, Fondation Hermès, Fondation Nicola Trussardi, and Fondation Prada, among others). The 'Chanel Mobile Art', designed by the architect Zaha Hadid to present the Chanel quilted handbag as revised and produced by some twenty artists, is an example of 'mobile museum'; the latter went around the world between 2008 and 2010 before being stored at the Institut du monde arabe in Paris. LVMH Particular Days, established in 2011 and inspired by European Heritage Days, have become regular events (2nd edition in 2013; 3rd edition in 2016) and given the public access to some forty LVMH houses famous for their *savoir-faire*. Finally, in the summer of 2014, the Centre Pompidou-Metz and the Fondation Hermès co-produced the *Simple Forms* exhibition, whose content was designed by

the staff of both institutions (Coste et al. 2014, pp. 42, 47). Luxury brands have also set up genuine museums, moving from collections intended almost exclusively for internal use to large audience museums. With few exceptions,[23] corporate, large-audience brand museums have blossomed since 2000 as the Breguet Museum (2000, refurbished in 2007) in Paris, the Patek Philippe Museum (2001) in Geneva, the Fondation Pierre Bergé-Yves Saint Laurent (2004) in Paris, the Mercedes Benz Museum (2006) in Stuttgart, the Balenciaga Museum (2011) in Getaria, Spain, the Gucci Museum (2011) in Florence, the Lalique Museum (2011) in Wingen-sur-Moder, and so on. Most of these museums occupy a special building housing exhibition halls, a café or a restaurant, and a gift shop offering tie-up goods (Mercedes Benz) or brand goods, mainly accessories (Gucci, Balenciaga); others share their premises with a point of sale (Breguet, Chaumet). Some brands have launched 'virtual museums', as well. Jaeger-LeCoultre, for example, designed a virtual 'history gallery' to commemorate the brand's 80th anniversary in 2011.

Curiously, the most prominent luxury brands prefer temporary exhibitions to the creation of corporate museums: Chanel, Dior,[24] Hermès,[25] Cartier, and Bulgari have no such public museums.[26] Instead, they are particularly active in the 'market' of temporary exhibitions. This exhibition approach is now characterised by a 'mass effect'[27] and a new distribution of roles regarding exhibition design and production, one where elements like curatorship, editorial work, and exhibition design are often co-produced by the museum and the luxury brand or fully entrusted to the brand staff. This was the case for *Abraham-Louis Breguet: Watches conquering the World* exhibition (National Museum of Switzerland in 2011, the *Breguet at the Louvre* exhibition's recast version in 2009), whose catalogue articles were written by Emmanuel Breguet (the Breguet Museum Curator) with the participation of Rodolphe de Pierri (International Communication Manager of Watches Breguet SA) and Christian Lattmann (Product Manager of Watches Breguet SA). The curatorship of the *Bulgari, 125 Years of Italian Magnificence* exhibition (Grand Palais, Paris, 2010), meanwhile, was executed by Amanda Triossi (Bulgari Archives Manager). Another example is the *Van Cleef & Arpels* exhibition (Museum of Decorative Arts, Paris, 2012), which featured an exhibition design by the Jouin-Manku agency—the bureau that has overseen the renovation of Van Cleef & Arpels points of sale since 2006.

In fact, the *Giorgio Armani* exhibition at the Guggenheim Museum in 2000–2001 has made a large contribution to the new distribution of roles between public and private players. Accompanied by a three-year, $15 million donation from Armani to the Guggenheim Museum (Lee 2000), the exhibition initially met with stiff criticism—the show was 'fatally compromised less by concept than by execution':

> The pathetically egomaniacal overkill of both the 'Armani' catalog and exhibition suggests that Mr. Armani had much too much to do with both. The show is excessively full, installed according to theme or color rather than chronology and top-heavy with recent designs, including two final galleries crowded with pathetic attempts at punkish deconstruction, from his spring 2000 collection. Nearly 250 of the 450 ensembles date from 1995, another 160 from 1990 to 1994. [...] I'm not sure that Mr. Armani's development merits a museum exhibition, especially a museumwide one. He seems to be less an innovator than a brilliant tailor. But the Guggenheim should have made a far better case for his achievement, in part to put the best possible face on accepting his money. (Smith 2000)

Despite the widespread condemnation of the exhibition, the Armani Guggenheim phenomenon became a reference and even a model for co-branded exhibitions to follow. Widely practised by luxury brands (the two-seat Smart by Swatch & Mercedes, the Fiat 500 Gucci, and the advertising campaign Sheraton & Cartier, for example), the co-branding is 'a strategy of collaboration between several brands in marketing a product or a range of products displaying both brand identities', which 'leads to a competitive advantage for all partners' (Gavard-Perret et al. 2010, p. 36). Significantly, the Guggenheim Museum in New York became the first museum to apply the co-branding strategy in the museum world by developing co-branded projects not only with other museums (Guggenheim-Hermitage Museum, Las Vegas, 2001) but also with luxury brands (Guggenheim-Armani, Guggenheim SoHo-Prada, New York, 2000–2001). The *Giorgio Armani* exhibition at the Guggenheim therefore established a new type of collaboration between a luxury brand and a museum, aimed at co-creating a cultural product with the dual purpose of expanding the number of customers and generating revenue for both the brand and the museum. Thus, it has also paved the way for turnkey luxury-brand programming developed by the Palais de Tokyo and the Grand Palais in Paris in the 2000s and 2010s (Pronitcheva 2016, 265–273). Increasingly

fierce competition between France and Italy in the luxury market has made its way into the museum world as well, at least at the scale of the city of Paris: the *Valentino, Themes & Variations* (2008) exhibition was followed by the *Sonia Rykiel. Exhibition* at the Museum of Decorative Arts, while the *Bulgari, 125 years of Italian Magnificence* (2010) exhibition gave way to *Cartier, Style and History* at the Grand Palais. Moreover, several luxury brands have designed their own world-traveling exhibitions, like *COATS! Max Mara, 55 Years of Italian Fashion* (Berlin, Tokyo, and Beijing), *A Little Black Jacket* by Chanel (New York, Paris, Moscow, and Tokyo), *The Fashion World of Jean Paul Gaultier: From the Street to the Stars* (Montreal, Dallas, San Francisco, New York, Madrid, and Rotterdam) and so on. French designer Pierre Hardy makes the following observations about today's global fashion:

> Whether it is here or elsewhere, women who read *Vogue* or whatever read the same thing everywhere, magazines even buy fashion editorials from one another. Brands now open identical boutiques around the world and advertise through international campaigns. Fashion is really global now; the clientele is stimulated at the same time, in the same way wherever they live. There has been a sort of general formatting. (*Institut français de la mode* 2008, p. 99)

While the 'market' for luxury goods exhibitions is becoming 'democratised' and some young designers manage to get their own exhibitions after a few years of activity,[28] it is also noteworthy that temporary programming in museum galleries remains the exclusive domain for leading market brands with very large budgets.

8 Conclusion

Within the span of a century, luxury brands made their way from modest, museum-initiated anniversary exhibitions to resounding, if not garish, exhibitions that the brands conceive and essentially impose on museums. Moving from the *A Centenary of A.-L. Breguet* exhibition at the Museum of Industrial Art in 1923 to the Armani-style blockbusters of the 2000s, exhibitions now attract throngs of visitors—and, by extension, potential consumers. The commercialisation of museums and the rise of corporate sponsorship since the 1960s, as well as the fierce competition on the luxury market and the 'democratisation' of luxury goods, fostered ever-closer collaboration between museums and luxury brands. The co-branding strategy, or the union of a luxury brand and of a museum, thus appears to have

become in the 2010s a recurring marketing tool for attracting more customers by emphasising the values of heritage and creativity as crucial elements. Luxury brands did not merely incorporate museum exhibitions into their marketing strategies, however: the rise of collaborative 'brand-museum' projects also leads to the blurring of boundaries between commercial and cultural offerings. Gradually, luxury brands have become credible players in the global cultural landscape. The progressive professionalisation of their exhibition practices, in addition to their unlimited means, allows them to generate cultural offerings whose quality is often superior to that of public museums. More generally speaking, luxury brands are now becoming makers of culture—and, one might argue, makers of history: a sort of history where every event serves to sell.

Notes

1. Comité du Centenaire d'A.-L. Breguet (1823–1923). Letter from the Secretary to Mr. Clouzot, Curator of the Galliera Museum, September 27, 1923, 2–3. *Exposition Breguet octobre 1923*, 5 files, file 'Correspondence'. The Palais Galliera Archives, Box 11, 1923.
2. Henri Clouzot was the first art historian to head the Galliera Museum of Industrial Art. Indeed, the museum's first curator was journalist Charles Formentin (1895–1903), who was replaced in February 1903 by a man of letters, Eugène Delard. The latter remained at the Galliera Museum until the arrival of Henri Clouzot in October 1920 (Froissart-Pezone 1997, 103, note 42).
3. Although the exhibition refers to 'a centenary exhibition of designs for dresses', this is not accurate: In 1950, the House of Worth was acquired by the House of Paquin; the closure of the House of Paquin in 1956 naturally caused the closure of Worth, as well. Despite its title, *The House of Worth: A Centenary Exhibition of Designs for Dresses (1858–1958)* was not an exhibition of a still-active fashion house.
4. McClellan asserts that '. . .large-scale shows full of masterpieces and accompanied by extensive publicity were nothing new in the 1960s' and provides examples of the Italian Renaissance exhibition at the Royal Academy in London in 1930 as well as the Van Gogh show at MoMA in 1935. However, McClellan argues, 'if making money has become a fundamental goal of the blockbuster as we know it today, we can trace the origins of the phenomenon to the moment in the late 1960s and early 1970s when rising financial pressures made generating revenue a chief impetus for exhibition planning' (McClellan 2008, p. 212).

5. For example, in 1988, the Whitney Museum of American Art in New York hired a new public relations officer: Margery Rubin Cohen, who had been the Marketing Director of Bloomingdale's department store and cultivated an 'extensive background in marketing and publicity for the fashion and cosmetics industries' (Wu 2003, p. 136).
6. *Major Retrospective of Designs of Yves Saint Laurent to Open in Metropolitan Museum's Costume Institute*. Press release, October 1983, p. 1. The Metropolitan Museum of Art Archives.
7. The famous American businessman and philanthropist David Rockefeller listed as follows the advantages of corporate sponsorship: 'It can provide a company with extensive publicity and advertising, a brighter public reputation, and an improved corporate image. It can build better customer relations, a readier acceptance of company products, and a superior appraisal of their quality. Promotion of the arts can improve the morale of employees and help attract qualified personnel' (Quoted in Rectanus 2002, p. 26).
8. Luxury brands often call on the 'professionals of culture' as advisers or directors of artistic projects. For example, Jean-Jacques Aillagon, the former Minister of Culture, is now Advisor to François Pinault; Suzanne Pagé, the former Director of the Museum of Modern Art of the City of Paris, is now Artistic Director of the Fondation Louis Vuitton.
9. Two out of six foreign exhibitions focused on a leading LVMH brand, Dior: the *Christian Dior* retrospective at the Metropolitan Museum of Art in 1997 and the *Dior Inspirations* exhibition at the Pushkin State Museum of Fine Arts in Moscow in 2007.
10. According to Didier Grumbach, 'Between 1966 and 1967, the number of *haute couture* house members of the Chambre Syndicale decreased from 39 to 17' (Grumbach 2008, p. 252).
11. Examples include *Le Temps Chanel* (1979) by Edmonde Charles-Roux, *Marcel Rochas: 30 ans d'élégance et de créations* (1983) by Françoise Mohrt, *Poiret* (1986) by Yvonne Deslandres, *Dior: Christian Dior, 1905–1957* (1987) by Françoise Giroud, and *Cristóbal Balenciaga* (1988) by Marie-Andrée Jouve (Jan 2011, p. 36).
12. Dior's heritage department was established in 1987; at the same time, Marie-Andrée Jouve began to work on inventory and data collection at Balenciaga (Jan 2011, pp. 274–275).
13. Beijing (1985), Paris (1986), Moscow (1986), Leningrad (1987), Sydney (1987), and Tokyo (1990). Retrieved from http://www.fondation-pb-ysl.net/fr/Art-70.html# on August 20, 2015.
14. *Homage to Christian Dior: 1947–1957* (1987), *Louis Vuitton. A Unique Way to Design Travel Instruments* (1987), *Shoes by Roger Vivier* (1987–1988), and *A UN: Issey Miyake* (1988).

15. *Pierre Balmain: 40 Years of Creation* (1985–1986), *Gianni Versace: Fashion Dialogues, Pictures of One Creation* (1986–1987), *Cristóbal Balenciaga* (1987), *Givenchy: 40 Years of Creation* (1991–1992), and *Van Cleef & Arpels* (1992).
16. *Chanel, a Fashion Opening in Marseille* (1989), *Yves Saint Laurent: Exoticisms* (1993–1994), and *Paco Rabanne* (1995).
17. *Boucheron. 130 Years of Creation and Emotion* (1988).
18. *Art by Cartier* (1989–1990).
19. Micheline Kanoui, Director of Jewellery Creation at Cartier at that time, confirmed: 'There are 200 [jewellery customers] today compared to 2000, ten years ago. These are the same' (Jalou 1997, p. 86).
20. The exhibition was sponsored by Cartier and curated by J. Stewart Johnson, Department of 20th Century Art at the Metropolitan Museum of Art, and Judy Rudoe, Department of Medieval and Later Antiquities at the British Museum. ('*Cartier: 1900–1930' traces influence and innovation of celebrated jeweler*. Press release, October 29, 1996, p. 6. The Metropolitan Museum of Art Archives).
21. Informal interview with Renée Frank, Director of Exhibition Projects, Heritage Department, Cartier International, conducted on April 14, 2014.
22. As observed by Michel Chevalier and Gérald Mazzalovo, 'If one day perfumes by Gucci, Prada and Versace reach the [sales] level of perfumes by Chanel, Dior and Yves Saint Laurent, then Italy will become the world's number one producer of luxury goods' (Chevalier, Mazzalovo 2008, pp. 34–35, 45–49).
23. The Baccarat Museum (1966) in Meurthe-et-Moselle in France, Salvatore Ferragamo Museum (1995) in Florence, and Porsche Museum (1996) in Stuttgart.
24. The Christian Dior Museum in Granville is not, strictly speaking, a corporate museum. Created by the City of Granville in 1991, it is a public museum managed by Christian Dior Presence Association, benefiting from public (City of Granville) and private (LVMH) funding. Although the Association is chaired by Jean-Paul Claverie, Bernard Arnault's Adviser for Communication, the museum remains property of the City of Granville and is labelled a 'museum of France' (Pronitcheva 2016, 246–250).
25. Émile Hermès' study is not a museum of Hermès brand goods nor less still a large audience museum (Chaudun 2014).
26. Until very recently, the Louis Vuitton brand had been a part of them. On July 4, 2015, however, the company opened La Galerie, its corporate large audience museum in Asnières-sur-Seine, next to the Louis Vuitton workshop for special orders (Viguié-Desplaces 2015).
27. For example, Cartier organised 19 exhibitions worldwide between 2000 and 2013 (compared with 8 exhibitions between 1989 and 1999), including 9 in

Asia (China, Japan, South Korea, Singapore, and Taiwan), 8 in Europe (Berlin, Milan, Lisbon, Moscow, Zurich, Prague, Madrid, and Paris) and 2 in America (Houston and San Francisco).

28. As observed by Karl Lagerfeld, '[t]here are too many young designers today, who, after five years, want a retrospective, museums, an homage' (Quoted in Jan 2011, p. 303).

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CHAPTER 12

"Exclusively for the Happy Few": Luxury Hotels and Globalisation: The Emergence of a New Sector (1980–2010)?

Laurent Tissot

1 Introduction

The aim of this chapter is to question the emergence, from the 1980s onwards, of a new luxury hotel sector. According to previous studies, it seems obvious that, from that time, hotel luxury concept evolves profoundly (for example, see Daumas and Vacher de la Ferrière 2007, pp. 10–12; Delahaye et al. 2013). New clienteles coming from emerging countries – mainly from Asia (Middle East, Far East), South America (particularly from Brazil) and more recently from Eastern Europe (Russia) – are supposed to have given a new impulse to the sector disrupting in some ways the rules and standards old social Western elites used to fix. They gave birth to new expectations and imposed new practices. Simultaneously, new hotels were built and old ones were refurnished in terms of types of accommodation, styles, categories of prices, location, amenities, additional services as restaurants, boutiques, entertainment, excursions, wellness, etc. Different questions arise from this finding. Over the course of the past three decades, what requirements should a hotel possess in order to be selected as a luxury hotel?

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What are the capital and symbolic values needed to be recognized as such? What strategies need to be adopted by the hotels' companies to fulfil these new demands coming from such a diversified socio-economic and cultural background? What kinds of criteria are chosen in terms of quality of services (room services, etc.) and how, if at all, have these criteria changed over this period? Who are the actors who define 'luxury'? Are they the suppliers themselves – who try to anticipate the tastes and new forms of behaviours? Or are they the clients – who have precise requirements in terms of their experience and tastes?

In order to bring some answers to this set of questions, three levels of analysis will be considered: (1) the definition of 'luxury' in the hotel sector; (2) a statistic overview of luxury hotels; and (3) the segmentation of luxury hotels.

2 The Definition of 'Luxury' in the Hotel Sector

At first glance, the notion of luxury appears to be self-evident. From a historical point of view, the boom in the luxury hotels sector is now a familiar phenomenon. Closely linked to the emergence of tourism, it was the result, on an international scale, of a long process which has been detected from the end of the Napoleonic Wars. It was to the result of a complex dynamic in which some actors intervened, seeking the same goals in terms of sociability and environment. It summoned specific attributes (both material and symbolic) in order to respond to the expectations and requirements of a wealthy clientele, the aristocracy and the upper middle class. In that sense, luxury was not a superfluous value as it was experienced in other fields. It gave expression and meaning to a way of life, to behaviours which corresponded directly to political, economic, cultural and social authorities (Tissot 2007). Luxury hotels were not an abstract concept, however. They were connected to a specific context which favoured their birth, ascertained their growth and strengthened their outlook (Tessier 2012).

Competition existed between hotels and new accommodations appeared (Lesur 2005). Hoteliers were keen to integrate new technologies to attract clienteles and anticipate their needs. This could result in the creation of an implicit hierarchy. In all cases, however, the 'Grand-Hôtel' or the 'Palace' remained a distinctive marque and everybody recognized it as such. In the period from the 1880s to the outbreak of the First World War, their number grew rapidly, first in large cities, and then in more isolated locations where

direct contact with 'immaculate' nature was possible (as far as Switzerland was concerned, see Flückiger-Seiler 2001). With the improvement of the standard of living during the 'Trente Glorieuses' and the birth of a consumer society taking the form of 'mass consumption', travel amenities diversified greatly in order to fulfil the expectations of 'less' wealthy consumers (Tissot 1998). This trend reinforced the specificity of 'luxury hotels' which were convinced that 'their' infrastructures still corresponded to a different way of life from that of the 'common people'. According to this perspective, strategies of differentiation and distinction were pointedly put in place in order to legitimize their position.

So what change has taken place in the notion since the 1980s? Is it necessary to frame a new definition of luxury hotels to understand this supposed transformation? The question cannot be disconnected from the nature of the good. Unlike other industries, what is proposed in a hotel, regardless of its standing, is a service provided for a limited period of time and consisting of an accommodation: at least a room with a bed designated for spending a night or more in a different place from the one the client usually lives in. In this sense, the client does not acquire a tangible good which becomes his personal ownership like a watch, a car or a perfume. If the use of an intangible good characterizes the field of hotel activity, this means that the relationship between the provider and the user is of a different kind. In addition to different considerations (social, cultural, geographical, professional), there can be considerable variation in the expectations of the clients and the choice of a hotel is supposed to correspond to these expectations. From the hotelier's point of view, this situation leads to a constant appreciation of the expectations and even an anticipation of what the client should or might expect while running the risk of having to take a sudden new turn if it is not the case. Reinvesting a lot of money in refurnishing a hotel is not an easy task, however. In the case of the Hotel Ritz in Paris, for instance, the renovation lasted nearly four years – from 2012 to 2016 – during which the hotel was shut, at a cost of around 140 million euros (Shivani 2016).

In this respect and according to some observers, defining a 'luxury hotel' now becomes very confusing (Chu 2014) which leads luxury travel experts, such as Karen Tina Harrison, to point out that "the word 'luxury', as it is the case for other goods, has been degraded by overuse. Everything has its 'luxury' component nowadays... from coffee blends to detergents" (Harrison 2015). However, the actors involved in the so-called 'luxury hotel sector' continue to believe that the notion remains topical. At an event

organized in Dubai in 2007, Mavinder Puri, at that time head of the Americas, General Hotel Management (GHM), advocated a definition that requires "something that is bespoke and individualized": "It's exclusive. It's an obsession and a passion, without reference to cost," he told a journalist. From this perspective, he was in a position to assert that properties such as those of the Ritz-Carlton or Four Seasons groups do not correspond to his definition. They are abundant and, if they are of a high enough standard, it is possible for them to be mass produced. In his opinion, luxury is, above all, characterized by rarity in numbers and is the concern of a small number of very 'few' exclusive people. The executive vice-president and chief operating officer of *The Leading Hotels of the World*, Welf J. Ebeling, shares the same belief. A clear distinction needs to be made between mass affluent and luxury both terms being antithetical. Luxury is not just a question of money, it is a question of taste and unique experiences.

It is therefore unsurprising to find the representatives of the Ritz-Carlton and Four Seasons Hotels in complete disagreement with this restrictive definition. They claim that luxury means "different things to different people". They stress the fact that "a true luxury hotel provided extraordinary experiences that exceeded customer expectations and created life-long memories" regardless of the quantitative aspect. Moreover, each hotel has its uniqueness and provides exclusive amenities to its clientele according to standards of very high quality (Greenwood 2007). In the same perspective, a survey conducted by Paul Johnson among ten people who worked in the hotel industry gave ten different definitions of what, in their opinion, is meant by the term 'luxury travel'. Location, experiences, hosting, guides, privilege, accommodation, exclusivity, preferences, dream, excess were usually pinpointed in a different hierarchy. Interestingly, however, the term 'opulence' was not usually included in the list. In other words, "luxury is not about the marble bath-tub or the gold taps [...] nor a longer a 6-star hotel with flunkeys and banquets and ever more exquisite spas" as some interviewers said. The word 'price' was seldom used, just to say that "it is impossible to put a price on" what is offered (Johnson 2013).

Danielle Allérès distinguishes between three categories of luxury in which the coherence between the market, the product, the method of manufacture and the distribution channel is very clear: the "exceptional" luxury, the "intermediary" luxury and the "accessible" luxury (Allérès 1997, see also, for another distinction, Castarède 1992). The first category encompasses rare and precious objects, often made to order, according to

artisanal methods or by a world-famous creator, and distributed in a confidential manner. The second category, sometimes labelled "marketing luxury", involves objects produced in large quantities on the basis of what has been produced in the first category. This production is very controlled, however, and is dedicated to a clientele that is more concerned with marks of distinction and fashion trends. The last category gathers objects produced in large series. The quality is often guaranteed by the brand and distributed within a highly competitive market. According to Daumas and de Ferrière le Vayer, such products are particularly attractive to younger generations (Daumas and de Ferrière le Vayer 2007, p. 11). Whatever the classification, the hotel sector is rarely mentioned – which is unsurprising considering the intangible nature of the hotel product. Even if the same hotel can offer very specific accommodations, it can also provide a variety of rooms at a variety of prices.

Sociologically speaking, the concept can be considered as very volatile, not to say inconsistent. In this perspective, it is necessary to pose the question: is it still useful? As far as the hotel sector is concerned, according to a report released by Bloomberg News in 2013, "the decline in construction [in the United States], combined with conversions of existing properties into cheaper options, signals there may be fewer five-star choices in the future for travelers seeking the highest-quality rooms and amenities". In other words, in future, luxury properties may become less attractive as a result of the cost of high-end amenities and the shrinking of profit margins (Brandt 2013). Does this mean that, as a blogger expresses it in his comments, we are currently facing the end of the hotel luxury market? (Kerala Tourism Blog 2013). Indeed, why do consumers pay "a higher room rate to have fresh flowers in their room or be greeted personally and escorted to the pool"? That means that ultimately luxury, which for a long time was solely dedicated to wealthy people, an elite, is nowadays "an everyday feature of lifestyle and to this extent has become characteristic of our culture" (Journal du luxe.fr 2016). To avoid disturbing misinterpretations, some studies prefer to speak about 'high-end market', a more inclusive term encompassing experiences, markets and representations in the same broad package (L'hôtellerie haut-de-gamme 2013).

In such circumstances, defining the notion of the luxury hotel becomes a very improbable task. Even if the criterion is dismissed by some observers as we have seen above, the price remains clearly a very explicit point. Not everyone can afford 1000 euros night in the Ritz Hotel – even if anyone can easily book such a room on the Internet. But where is the point at which the

category 'luxury' loses its relevance? Setting such a limit would be misleading. Moreover, the concept in itself is evolving "because it is a concept or a way of life increasingly associated with emotional or sensory. In addition, the luxury experience tends to prevail in the luxury purely material" (Yacine 2009).

3 Statistic Overview of Luxury Hotels

It is particularly notable that it is difficult to find statistics or figures relating to the luxury hotel sector. We can find figures for the hotel sector as a whole (for the United Kingdom, see Steward 1996; Quek 2011a; for France, see Kpmg (2012). For the last twenty years, for instance, the world's hotel market has been representing about 220 billion euros per year and it encompasses nearly 20 million beds (L'hôtellerie haut-de-gamme 2013). Several studies have also outlined the structural transformations which occur from the 1950s in the sector, particularly in terms of internationalization as well as mergers and acquisitions (Dunning and McQueen 1982; Quek 2011b). Moreover, as we will see later, these transformations are accompanied by the development of integrative strategies, particularly in the creation of many kinds of sub-brands for each segment of the market.

According to Mary Quek, the first great period of internationalization came after the Second World War and particularly between 1949 and 1968 with the increasing pre-eminence of the American way of life in Western countries. The emergence of the current brand names confirms this phenomenon: Intercontinental Hotel Corporation (1946), Hilton Hotel International (the brand Hilton was founded in 1919, but the Hotel International was born in 1949), Sheraton Corporation of America (the brand was created in 1937, but the international expansion dates back to 1949) and Holiday Inn (1952) (Quek 2012, p. 212). In addition, the market was characterized by a concentration of hotels. More than 80% of the beds available are now located in the twenty wealthiest countries in the world. Unsurprisingly, studies also highlight the paramount importance of the American hotel groups, which make up 75% of the total of luxury hotels in the world, with the rest of the top five being the UK, Canada, Hong Kong and France (The World Luxury Index 2014). Such groups undoubtedly exercise considerable influence on the way in which hotel management and hotel amenities must be handled (Potter 1996; Sandoval 2007).

When you try to detect the specific impact or the precise role of luxury hotels in an economic perspective, the task becomes particularly difficult. In

her PhD thesis, Yin Chu's estimations are based on the figures delivered by the Forbes Travel Guide Star Awards which takes into account only the awarded hotels. The number of five-star hotels and four-star hotels which were in this case (in September 2013) 83 five-star and 264 four-star hotels, an increase of 9% and 16.8%, respectively, for each category in the course of just six months. Yin Chu concludes that, according to this perspective, "every week one more new luxury hotel was built in the world during this time period" (Chu 2014, p. 1). Although it is difficult to confirm this assessment it is clear that, according to a recent report published by the Ecole Hotelière de Lausanne (EHL), the interest in this market is still growing from a consumer's point of view (Digital Luxury Group 2015). A survey was conducted in order to detect the consumer's preferences according to the hotels' standing. The results show that the most sought-after hotel categories were – by number of searches – the upper Upscale with 56%, luxury Major with 25% and the luxury exclusive with 19%.

The difficulty of making any precise identification of the weight of luxury in the hotel sector is also directly linked to the variety of ownerships. Hotel chains represent 45% of the world's hotel market and operate on an international level with the other part being represented by independent owners who work principally either on a national or a regional level. Unless we have at our disposal the figures coming from these companies – I'm not saying that nothing can be done with regard to the quantitative aspect – an overall overview is certainly possible, but it is difficult to get a clearer picture. The problem concerns the trend that has been observed for some years and that shows that the multinational hotel groups encompass all types of hotels – from the 'bas de gamme' to the 'haut de gamme', from the 'one star' hotels to the 'five star' hotels, making it impossible to distinguish between the ranges, as shown in Fig. 12.1.

Interestingly, however, as Hubert Bonin shows clearly in his study of Accor, the French group, the global return on investment is far higher for the low- and middle-range hotels than it is in the case of the luxury ones. If the latter represents 7% of the number of the types of hotels in 2001, the return on investment represents only 2% whereas for the others it reaches 15% (Bonin 2009, p. 155).

In fact, we are facing a real paradox. On the one hand, luxury is considered as a commodity addressed to 'the happy few'. This is the traditional meaning of luxury. The more expensive the commodity, the more the circle of people who can afford it shrinks and the better delineated are the symbolic attributes as well as the material expectations. What is crucial to know is to what

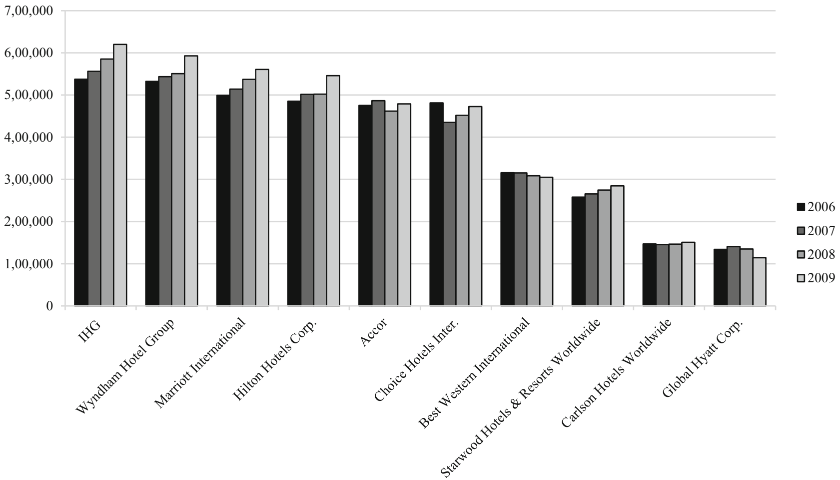

Fig. 12.1 Number of beds of some large multinational hotel groups, 2006–2009 (Source: Magazine Hotels, July 2009 and 2007)

extent this notion of 'the few' is still relevant. It is clear that, from a qualitative perspective, 'the few' means a selective group of people. In the nineteenth and the majority of the twentieth century, it was relatively easy to identify these groups of people – the aristocracy and the upper middle class – that was a more or less homogeneous group of people, in social, political and cultural terms, who could spend some time in such fancy places where they met with people who shared the same values (Rubinstein 1981).

A turning point clearly took place after 1980s when the increasing levels of international travel boosted the demand to cater for a wealthier clientele. In that sense, a kind of 'democratization' of luxury hotels can be observed, rendering it difficult to set criteria for the 'happy few'. This turning point was linked to a broader growth which took place in a sound, stability-oriented macro environment as observed in a report by D'Arpizio et al (2015). According to this international consulting firm, the number of 'luxury' consumers worldwide has more than tripled up to 330 million over the past twenty years (D'Arpizio et al 2015). If we see what happened in the hotel sector, we can easily conclude that this trend is confirmed. Despite some difficult economic and political environments – particularly the 2008 crisis –, the market remains in constant growth through the development of tourism in Asia, the Middle East, America and Europe

(D'Arpizio et al 2015). What is considered as the 'global luxury market' exceeded 850 billion euros in 2013, more than one trillion euros in 2014 and 2015, posting overall growth of 7%, mainly driven by cars (10%) and hospitality (9%). If we have a look on the worldwide luxury market, we see that the hotels' segment plays a very important role. According to the same report, the sector represents 24% of the global luxury-goods market (e.g., 278.1m USD) (see in this volume the general introduction).

Therefore, many people from Europe and North America are now in a position to afford this market segment even for a limited period of time but so are the upper classes in other continents as a result of the rapid economic growth in emerging countries (Maud 2011). This is not to say that the segmentation of the market cannot be identified, particularly between what is called business tourism and leisure tourism. As far as the business tourism is concerned, high-quality hotels are requested by business leaders, politicians or artists who are looking for some comfort, calm and privacy after a hard day's work. Leisure tourism concerns a variety of clientele looking for high-quality hotels for their holidays that contribute to meet specific needs. The distinction between these varieties of guests is not always easy to make, however; the same practices, the same feelings and the same expectations can be discerned whatever the status of the client – as was already the case in the nineteenth and twentieth centuries (Crouzet 1996). During a stay in a hotel, people can choose among the same amenities, among the same restaurants or boutiques. Coincidentally, they can meet without being disturbed by the presence of others.

That is to say that the hotels' segments are in a position to influence what is considered as a luxury commodity or, at least, to attract populations convinced that it is the case. The question is how to resolve these tensions between, on the one hand, the fact that luxury hotels are dedicated, in their genesis, to the 'exclusive people', to 'the happy few' or those who considered themselves as being part to this category according to specific attributes and, on the other hand, the fact that firstly the number of these people are constantly growing and secondly these specific attributes (material or symbolic) or values might change according to other expectations, be economic, social, cultural or symbolic (Bauer 2006). Does the globalization of luxury hotels, and consequently the democratization of this segment, mean a unification of tastes and requirements? Does this growing supply in luxury hotels mean a simple reproduction of what has been conceived in the past? Does the globalization mean a hybridization of tastes? As we have already seen, the actors involved disagree over the ways the definitions can

be accepted. What exactly is now a luxury hotel can combine different and even contradictory aspects because this trend is heavily linked to the democratization of luxury as a whole, as already mentioned.

4 The Segmentation of "Luxury" Hotels

What is obvious is the fact that an upscale full-service hotel facility must offer specific amenities, full service accommodation, on-site full service restaurant(s), and the highest level of personalized and professional service. In her work, Yin Chu outlined the difficulty in finding a coherent view. Her analysis is based on a thorough examination of the content of published studies in related fields from 1994 to 2014: marketing, Human Resources (HR), finance, strategic management, technology, service quality, food science, tourism and others (Chu 2014). Through this review of the literature, Chu contributed to establish a snapshot of the state of knowledge in luxury hotel studies. She is, in particular, able to show how the sector itself defines its own references. For example, the former Chief Marketing Officer of Four Seasons Hotels, suggested that there are four key factors that contribute to a luxury hotel experience; style, comfort, service and pampering (Talbott 2004; Chu 2014, p. 11). This means that a hierarchy must be delineated allowing these diverse expectations to become true. This hierarchy is based according to some amenities which are considered as luxurious. The hotel hierarchy is nothing new. This dates from the end of the nineteenth century when some guidebooks allocated stars according to the standard of the hotel (Tissot 2000). What we are seeing now is a very important segmentation of the market. In order to respond rapidly to the variety of expectations, the challenge for the luxury hotel industry is to be in a position to attract people but – this is the great divergence with the 'old-fashioned' luxury type – on the basis of a combination of supply-side policy and a demand-size policy. According to the World Luxury Index, the luxury hotel segment can be divided as follows: luxury major, luxury exclusive, and upper upscale (World Luxury Index 2014). This index reveals that luxury exclusives embrace the largest market share, accounting for 40.5% of luxury hotels worldwide. Upper upscale remains in second place, with a share of 38.0% and luxury majors, are ranked last, accounting for 21.4%. The basis of this classification is exposed in by Chu (2014) in Box 12.1.

Box 12.1: Classification of Luxury Hotels Based on the Forbes Travel Guide

- ***First Class Superior*** ****

The Superior flag is provided when the first class hotel has a proven high quality not only in the rooms. The superior hotels provide for additional facilities in the hotel like a sauna or a workout room. The quality is checked regularly by mystery guesting of an external inspection service.

- ***Luxury*** *****

In addition to the first class (****) hotels:
Reception opened 24 hours, multilingual staff.
Doorman-service or valet parking.
Concierge, page boy.
Spacious reception hall with several seats and beverage service.
Personalized greeting for each guest with fresh flowers or a present in the room.
Minibar and food and beverage offer via room service during 24 hours.
Personal care products in flacons.
Internet-PC in the room.
Safe in the room.
Ironing service (return within 1 hour), shoe polish service.
Turndown service in the evening.
Mystery guesting

- ***Superior Luxury*****S***

The Luxury star hotels need to attain high expectations of an international guest service. The Superior Luxury star is only awarded with a system of intensive guest care.

We see that differentiation modalities in this sector are multiple, but tend towards the same goal satisfaction and customer loyalty. Among the many terms we quote:

(continued)

Box 12.1 (continued)

- Room facilities and amenities spaces: the high-tech equipment and decoration, both innovative and relaxing, the development of more open public areas and conducive to the exchange, a work of art exhibition…
- Hotel services and related services: establishment of concierge service, installation of fitness equipment, bars by theme or in lobbies, restaurants offering world-renowned chef services, ballrooms, spas and fitness rooms…
- The location: the prime locations in the heart of the most prestigious tourist areas close cities, businesses and / or business centres or in so-called 'magical' places. Also, today the hotel groups are moving to new sites known as 'exceptional' such as Dubai, India, Oman…
- The commercialization of the offer: creation of packages or gift boxes stays for developing business by topic, consideration of social life in order to attract more customers.

Source: Chu (2014).

As already mentioned above, the hotels are free to apply these star ratings. A careful and extensive examination ought therefore to be carried on by comparing the different amenities offered by an important number of independent hotel owners as well as by hotel chains. Because of the limitations of space, we will be unable to do that here. We only present a few general examples taken from different situations hoping that some characteristics can already be outlined.

If we look at the way luxury hotels or groups define their customer targeting criteria, the strategies are very diversified (Lynn 2011; Manaux 2008). For example, the Marriott group targets a demanding clientele – the young and easy-going. The hotels will therefore be located towards coveted destinations, but they will also be built in their image, class and relaxed atmosphere (Barnes 2014). The Hilton group targets professional and experienced customers which will result in a renovation of several sites, simple and distinguished. Other differentiation systems are present: the facilities provided to residents and their quality; the diversity of the proposed activities; loyalty programs (Hiltonworldwide 2015).

Another different strategy is applied if we take the example of the Hôtel des Bergues, which was opened at Geneva in 1834. It was considered as one of the first luxury hotels in that sense it created a frame which many others hotels followed during the nineteenth and twentieth centuries. It can rely on a long history (El Wakil 1978). In 2004, the Swiss bank UBS sold it to the Saudi Arabian prince Alwaleed bin Talal for 125 million Swiss francs. One year later, the prince struck an agreement to sell a 50% stake to Ananda Krishnan, a telecommunications Malaysian tycoon, and Mr. Krishnan's holding company, Worldwide Hotel Investments (Mollenkamp 2005). The Hôtel des Bergues is now part of the Four Seasons Hotels and Resorts Group owned jointly by Prince Alwaleed bin Talal and Bill Gates, the founder of Microsoft (Nikolic 2013). On its website, Four Seasons Hotel des Bergues presents itself as a blending of "a revitalized sense of history with comfort, relaxation and warm, genuine personal service." (Four Seasons Hotel des Bergues 2016). It is a five-star hotel and it is interesting to note that it uses the term 'luxury' only once – and then in a very delicate and discreet manner when referring to its personnel. The accommodations aggregate guest rooms and suites. As far as guest rooms are concerned, four types are mentioned: deluxe room, superior room, standard room and loft room. The price range across these categories extends to between 720 and 2035 Swiss francs per night. As far as suites are concerned, things are more complicated. Four Seasons Hotel des Bergues offers eight types of suites. The price range for the junior suite, Mont Blanc and executive suite is between 1750 and 3210 Swiss francs per night. The website does not detail the price range for their more luxurious suites – the Royal suite, the presidential suites and the executive loft suites. People who require this information are asked to call the reception, although some idea of the price can be gleaned when you look at the pictures and the description of the commodity. According to the taste of the customer, this latter is able to afford accommodation in a classic style, in a contemporary style and so on. For the royal suite, a precise definition of the accommodation is as follows:

> "This one-of-a-kind suite soars with high ceilings, large windows and a private terrace overlooking the city and Lake Geneva. It is a glorious suite in which to entertain. The Royal Suite can be extended up to a five-bedroom suite upon request. It offers a spacious marble foyer, a living room with formal dining room for eight and an adjacent pantry, a parlor with double sofa bed and a high-tech office designed as a library. The marble master bathroom features a

double vanity, window-side bathtub offering lake views, separate rain shower, LCD flat-screen television, steam-resistant mirrors and heated towel racks." (Four Seasons Hotel des Bergues 2016).

The price range can be estimated to be between 8000 and 10,000 Swiss francs per night.

The Hôtel des Bergues, as is the case with another example, the Ritz Hotel in Paris, is keen on maintaining a historical touch and its clientele is, broadly speaking, aware of this aspect. No indication is given on its profile and its origin. But all in all, the hotel plays on its long history.

Another example can be taken from another institutional context. *The Leading Hotels of the World, Ltd.*, is a "hospitality company". Founded in 1928 in Egypt, its role consists in featuring and representing hotels, resorts, and spas for "family getaways, romantic escapades, and business meetings worldwide". The company offers online hotel reservation services to luxury travellers and also publishes a directory of its member hotels. It also provides sales, marketing, promotional, advertising and public relations support, distribution, and special programme services for member hotels and their guests through a network of sales and reservations offices worldwide. The company is now based in New York (Blomberg 2016). The company restricts membership to hotels considered to be in the luxury category, which are inspected and voted on by the company's Executive Committee. It is important to note that the company does not own hotels; most member hotels are independent, though some are part of chains. More than 430 hotels and resorts in over 80 countries are member of the company (Corgel et al. 2011, p. 15). This company is more restrictive in the selection of the hotels it wants to support. That is not to say that the amenities selected are homogenous.

5 Conclusion

Far from being exhaustive, the examples given in this chapter concur with those from other sources of information. From a general point of view, tensions certainly exist between the different amenities, not only from a commercial perspective, but also from both social and cultural ones. They reinforce the idea that luxury hotels have, over the course of the past three decades, entered a new era. We can assert from the evidence that the luxury hotel sector has changed from the 1980s as a result of the growing number of people coming from different cultural and social origins in a position to

ask for specific amenities. In this process, the demand side plays a more important role than before. This is not to say that the supply side was inoperative. The concentration of ownership activated larger investments providing a segmentation of luxury hotels and specific amenities according to the tastes and the financial means of these clienteles. We have to take into account the fact that from the beginning one of the main features of this sector has been its ability to innovate and absorb innovation very rapidly. It's more a combination of supply-side and demand-side policy which characterizes it in a context where the market is very competitive and the references very volatile. To have a more complete view, more studies do, of course, need to be undertaken, particularly from an architectural point of view. What kind of styles are adopted, where are the hotels located, how are the inner spaces designed? How are the links between public and private areas managed? To what extent are the private spaces now predominant? The lack of statistical data on these points is also a handicap that further researchers will have to address.

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CHAPTER 13

The Survival Strategy of the Japanese *Kimono* Industry

Tomoko Hashino

1 Introduction

One of the impacts of Western influence on Japan in the middle of the nineteenth century was the adoption of Western clothes. However, many Japanese people did not change their habit of wearing traditional *kimono* in everyday life until the 1960s. Western dress in public and Japanese dress at home remained the general rule for a very long time (Slade 2009, p. 56). As Franks (2012) shows, production for the domestic market, which was dominated by Japanese-style clothing, played a significant part in the crucial stages of growth in the textile industry.

In fact, the *kimono* market, in particular, continued to expand even after the end of the period of rapid industrial growth. Products in the *kimono* market mainly consist of the *kimono* and the *obi*, or sash belts, with which it is tied. A *kimono* is an unfitted garment usually sold as a fixed length of cloth and cut and sewn at home or by a tailor. The basic forms of the *kimono* were essentially standardised early on in the Tokugawa Period, and the market was historically divided into two parts: a *haute couture* sector, centring on individually dyed lengths produced to order on the basis of pattern books, and an off-the-shelf sector, which involved lengths of dyed and woven silk

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or cotton in stripes and other patterns. *Kimono* were sold by travelling salespeople and draperies, which would later become department stores. At the same time, there was also an active second-hand market (Franks 2012, p. 158). Many Japanese women continued to wear *kimono* even after WWII.

The Westernisation of clothing came much later than that of other aspects of Japanese society. Only around 1972 did Japanese people start using the term 'apparel industry'—a phrase that equates to the garment industry and refers to the manufacture and distribution of Western clothes, whose industrial foundations took shape in the 1960s (Kinoshita 2009, p. 191).

What has happened in the *kimono* market, then? Certainly, the *kimono* market has shrunk because many people no longer wear *kimono* as often as they used to. The market scale of *kimono* was 296 billion yen in 2012 (Yano Research Institute 2013, p. 15), having fallen from a peak of 1800 billion yen in 1981 (METI-Kansai Bureau of Economy, Trade and Industry 2009, p. 3). Changes in the use of the traditional cloth are also apparent. Today, most Japanese women wear *kimono* as formal wear for special occasions such as weddings and coming-of-age ceremonies, although some people engaged in Japanese traditions like tea ceremonies, flower arranging, and Japanese dancing still wear *kimono* on a regular basis. According to an interesting survey by the Japan Chemical Fibers Association (1989, p. 46), 47% of retail customers, including those at *kimono* shops and department stores, buy *kimono* for ceremonial occasions; 29% use *kimono* for traditional hobbies and parties; and only 2% wear *kimono* as normal, everyday apparel.

However, Yoshida (2013) argues that *kimono* and *kimono*-related industries declined not only because of these changes in consumer lifestyles but also because of producers deciding to shift production toward the higher price range in the market. Moreover, their strategy resulted in decreased demand for *kimono* worn only by wealthier people for special occasions (Yoshida 2013, p. 435). Given that it was faced by declines in demand, the Japanese *kimono* industry's move to concentrate production on the higher-priced range of the market makes sense. In fact, Nishijin, traditionally the most advanced silk-weaving district, changed its primary product from the popular *kimono* using synthetic fibres or worsted yarns to silk *obi* for women—the highest-quality segment of the *kimono* market. In addition, Nishijin's share of the overall Japanese silk *obi* market rose dramatically from 69.9% in 1966 to 99% in 1978 (Furumai 1982, pp. 41–42). These trends

suggest that Nishijin shifted its production from common consumer goods to luxury items.

The aim of this chapter is to explore how the *kimono*-weaving industry converted production from the popular *kimono* to the luxury *kimono* and *obi* for women in the face of growing demand for the Westernisation of clothing. Although Western clothes replaced traditional dress in everyday life, the higher-quality *kimono* industry, especially for women, has been able to survive today by being both an asset—as a property or an inheritance for future generations—and a luxury good. Operating on the premise that the luxury market for *kimono* grew as the Westernisation of clothes reshaped demand, this chapter analyses the historical survival of the Japanese *kimono* industry and its structural changes in the second half of the twentieth century. It also discusses the limits of this strategy concerning the luxury strategies that other industries adopted, particularly in Western Europe, during the same period.

The chapter comprises several parts. In Sect. 2, I discuss changes in demand for clothes and the growth of the Japanese *kimono* market at the expense of Western clothes in the period of rapid growth after WWII. Section 3 examines the changes in *kimono* production and demand for *kimono* in Nishijin, which made efforts to switch its market from the popular *kimono* to higher-quality luxury goods. The chapter concludes with a summary of my main findings and possible implications for future research into the luxury market.

2 The Japanese *Kimono* Market During the Years of Rapid Growth

2.1 *The Rapid Change from Kimono to Western Clothes*

The introduction of Western clothes was one of the largest effects of Westernisation in modern Japan. However, it was only after WWII that Western clothing became popular among Japanese people. Western clothing was first adopted in the Japanese public sector through, for example, the use of military uniforms. Western clothing had become a symbol of social dignity and progress in Japan by the early twentieth century (Slade 2009, p. 53), although the pace of adoption was quite slow, especially among women. Until the 1930s, the majority of Japanese people continued to wear *kimono*, and Western clothes remained largely restricted to public or

non-domestic use by certain classes (Slade 2009, p. 57). By the outbreak of WWII, however, most working women in Japan and quite a few home-makers wore Western dress. During WWII, most Japanese women became familiar with Western clothes by wearing work pants or loose trousers to accommodate the needs of the war system, which women were mobilised for military production.

After the end of WWII, Japanese women preferred to wear Western dress in everyday life. According to a nationwide poll by the *Yomiuri Shimbun* newspaper in 1950, 61% of respondents continued to wear both Western and Japanese dress, while 29% had turned completely to Western wear (Gordon 2012, p. 61). Even though the fashionable, spun-silk *meisen kimono* became popular in the early 1950s, it was eventually replaced by 'wool *kimono*' woven with worsted yarns. People preferred the cheaper wool *kimono* for normal dress in everyday life because it was warmer, more comfortable, and easier to tailor and keep than ordinary silk *kimono*, including *meisen*. This wool *kimono* boom accelerated the shift away from *kimono* and toward Western dress as chemical- and synthetic-fabric based mass production techniques for ready-to-wear clothing developed (Koizumi 2006, p. 52–67; Nakagawa and Sone 1983, p. 20). Although a lack of sufficient data makes it difficult to compare the price differences between wool *kimono* and Western dress, it appears that people tended to choose the easier and affordable option. In addition, Japanese people were so keen to adopt the Western lifestyle that they preferred Western dress, especially in daily life, to wool and cotton *kimono*. As a result, *kimono*—both as a formal and everyday garment—fell out of popular fashion in favour of Western clothes.

2.2 Changes in the Consumption and Production of Kimono

Based on the literature survey in Sect. 2.1, it appears that most Japanese people regard *kimono* as luxury goods for formal and special occasions. That product upgrading has, as a result, shrunk the *kimono* market. The next question to address, then, is whether Japanese people stopped buying *kimono* as a result of the rapid income growth after WWII. Figure 13.1 shows the growth in disposable income and the stagnation of *kimono* consumption. The indicator of disposable income rose dramatically in the years leading up to 1975 and increased at a stable pace after the mid-1970s. On the other hand, the indicator of *kimono* consumption stagnated in the mid-1970s, despite rising sharply along with the rapid increase in disposable

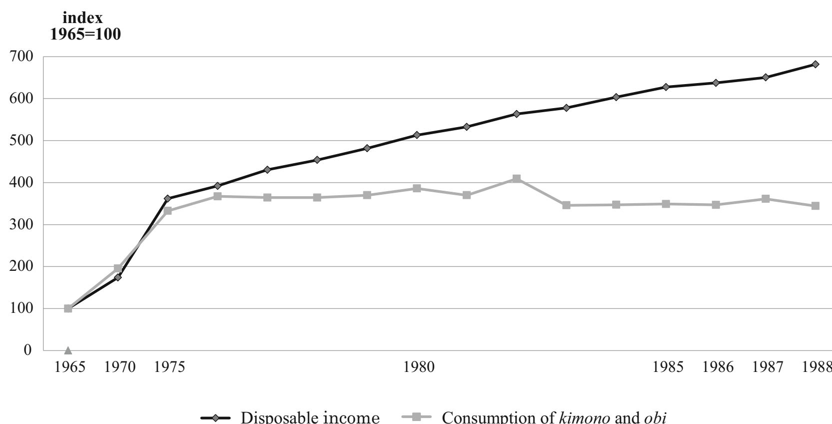

Fig. 13.1 Growth of disposable income and consumption of *kimono* and *obi*, 1965–1988 (Index: 1965 = 100) (Source: Japan Finance Cooperation (1990), p. 185. Original data are based on the Household Survey conducted by the Ministry of International Affairs and Communications)

income. It is worth noting that the consumption of *kimono* expanded during the period of rapid growth despite the rapid Westernisation of clothes.

As Table 13.1 shows, the share of clothing and footwear relative to total consumption expenditure was 10.4% in 1965, 9.5% in 1975, and 7.5% in 1985.[1] The share of Western clothes among total clothing and footwear expenditures was 27.2% in 1965, after which it jumped to 36.4% in 1975 and 38.4% in 1985. On the other hand, the share of *kimono* expenditures was 9.2% in 1965 and then rose to 10.2% in 1975. It is surprising that the share of *kimono* expenditures remained stagnant until the late 1980s regardless of the growing share of Western clothes.

How did *kimono* production in Japan change around the 1970s? The production of both yarn-dyed and piece-dyed silk fabrics show decreasing trends in Fig. 13.2. In particular, there was a dramatic decline in the production of piece-dyed fabrics. This downward trend came about not only because *kimono* demand fell, owing to the Westernisation of clothes, but also because the import of silk fabrics—especially from Korea—grew rapidly as the government promoted silk production and exports in order to acquire foreign currency (Maekawa 1982, p. 105). Some weaving districts attempted to tackle these challenges by concentrating on the production of

Table 13.1 Changes in *kimono* consumption among all households (thousands of yen, %)

Year	*Total consumption expenditure*	*Consumer expenditure on clothing and footwear*	*Expenditure on* kimono	*Expenditure on Western clothes*	*Share of clothing and footwear in total consumption expenditure (%)*	*Share of* kimono *in expenditure on clothing and footwear (%)*	*Share of western clothes in expenditure on clothing and footwear (%)*
1965	580.8	60.3	5.5	16.4	10.4	9.2	27.2
1970	954.4	93.6	10.8	28.4	9.8	11.5	30.3
1975	1895.8	180.6	18.4	65.7	9.5	10.2	36.4
1976	2097.5	200.7	20.3	74.7	9.6	10.1	37.2
1977	2286.0	205.6	20.1	75.9	9.0	9.8	36.9
1978	2420.6	212.5	20.1	79.6	8.8	9.5	37.4
1979	2576.4	220.8	20.4	84.5	8.6	9.3	38.3
1980	2766.8	228.9	21.3	86.2	8.3	9.3	37.7
1981	2880.2	225.4	20.4	85.1	7.8	9.1	37.7
1982	3038.0	233.7	22.6	87.2	7.7	9.7	37.3
1983	3114.2	234.2	19.1	89.7	7.5	8.2	38.3
1984	3195.8	234.7	19.2	88.8	7.3	8.2	37.8
1985	3277.4	247.4	19.3	95.0	7.5	7.8	38.4
1986	3316.5	249.5	19.2	97.0	7.5	7.7	38.9
1987	3371.3	253.8	20.0	97.7	7.5	7.9	38.5
1988	3493.5	265.4	19.0	106.1	7.6	7.2	40.0

Source: Japan Finance Cooperation (1990), p. 181. Original data were gathered from the Household Survey conducted by the Ministry of Internal Affairs and Communications

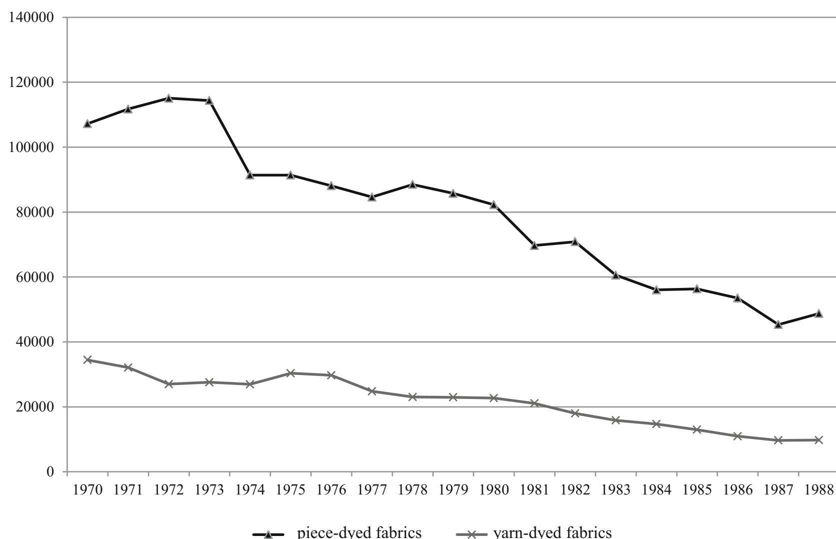

Fig. 13.2 Decreasing trend in production of silk fabrics for *kimono*, 1970–1988 (m^2) (Source: Japan Finance Cooperation (1990), p. 188. Original data is based on the Household Survey conducted by the Ministry of International Affairs and Communications)

higher-priced textiles or luxury goods. Table 13.2 shows the changes in real average prices and the quantities of *kimono* and *obi* for women over the same period.[2] Interestingly, the prices of both *kimono* and *obi* more than doubled from 1970 to 1988 while the purchase quantities plummeted by around one-half (*kimono*) and one-third (*obi*). According to Table 13.2, each household purchased an average of 0.45 *kimono* and 0.21 *obi* in 1970, pointing to the prevailing Westernisation of clothing in Japan.

The consumption of *kimono* and *obi* was still supported by particular groups of people, however. Table 13.3 shows that the purchase results vary significantly between two segments in the survey: all households, which include both households that purchased *kimono* and those that did not during the given year, and households that purchased *kimono*. The average number of silk *kimono* purchased by all households was quite small, falling between 0.22 and 0.32 in both seasons in 1970, and sunk to less than 0.2 in the mid-1980s. From these small average purchases, one can surmise that the general population did not wear silk *kimono* in the way that it previously

Table 13.2 Changes in real average price and women's *kimono* and *obi* purchases per household (thousands of yen, %)

A. Real price of quantity purchased per household per year (pieces, thousands of yen)

	Average price of kimono	*Average price of* obi	*Number of* kimono *purchased per household*	*Number of* obi *purchased per household*
1970	60.8	37.9	0.45	0.21
1975	59.7	44.3	0.33	0.21
1980	88.8	59.9	0.18	0.11
1985	102.9	69.2	0.12	0.08
1988	138.3	88.8	0.09	0.06

B. Indexes of price and quantity (1970 = 100)

	Average price of kimono	*Average price of* obi	*Number of* kimono *purchased per household*	*Number of* obi *purchased per household*
1970	100.0	100.0	100.0	100.0
1975	98.1	116.9	72.3	98.6
1980	146.0	158.1	39.9	53.8
1985	169.2	182.8	25.9	38.1
1988	227.3	234.6	18.8	28.1

Source: Japan Finance Cooperation (1990), p. 182. Prices are deflated based on the consumer price index, which is calculated by Ministry of International Affairs and Communications

had. By contrast, the average number of *kimono* purchased by the second group—households that purchased *kimono*—was stable at more than 2.0 across all the periods. In fact, the average grew in the late 1980s. This uptick probably has roots in the 'bubble economy', a context in which *kimono* and *obi* sold very well as luxury goods. As is evident in the declining ratio of households that purchased silk *kimono* to all households, however, the numbers of people who wanted to buy *kimono* were increasingly limited. Unfortunately, the available data do not indicate the extent to which these households were wealthy. Judging from the increasing average prices of *kimono* and *obi* in Table 13.2, one can conclude that the market of silk *kimono* became a market of luxury goods from the 1970s to the 1980s.

The figures for the total production of silk fabrics in three major prefectures (Kyoto, Fukui, and Ishikawa) show that about 30% of silk fabrics came from Kyoto Prefecture, which was home to popular weaving districts such as Nishijin and Tango. Nishijin was the most advanced silk-weaving

Table 13.3 Changes in the number of pieces of silk *kimono* purchased per household

	Spring–summer season (from March to August)			*Autumn–winter season (from September to February)*		
	All households (pieces)	Kimono-*purchased households (pieces)*	*Ratio of silk* kimono-*purchasing households to all households (%)*	*All households (pieces)*	Kimono-*purchasing households (pieces)*	*Ratio of silk* kimono-*purchasing households to all households (%)*
1970	0.22	2.09	10.5	0.32	2.12	15.0
1975	0.22	2.14	10.3	0.28	2.04	13.5
1980	0.20	2.26	8.7	0.24	2.24	10.6
1983	0.16	2.24	7.1	0.19	2.20	8.8
1984	0.15	2.17	6.8	0.19	2.22	8.5
1985	0.14	2.18	6.5	0.17	2.32	7.5
1986	0.15	2.51	6.1	0.18	2.33	7.5
1987	0.15	2.62	5.9	0.17	2.48	7.0

Source: Japan Chemical Fibers Association (1989), pp. 47–48. Years correspond to fiscal years in Japan, which start in April. Original data was based on the survey conducted by the Japan Raw Silk and Sugar Price Stabilization Agency in 1989

district and boasted a long tradition of production, centring production on more luxurious goods as demand for popular *kimono* and *obi* decreased. The rest of this chapter focuses on the changes in Nishijin's production to elucidate the types of survival efforts that the area made amid the challenges of Westernisation in the clothing arena.

3 Focus on the Luxury Market: The Case of Nishijin

Nishijin had forged a strong reputation for producing luxury *kimono* and *obi* for a limited market audience. That history enabled Nishijin to return to the production of luxury goods after the market started to shrink due to the rapid Westernisation of clothes. Therefore, an explanation of Nishijin's long history will provide a deeper understanding of their luxury-market strategy.

3.1 A Brief History of Japan's Most Advanced Silk-Weaving District

The history of textile production in Kyoto dates back more than 1400 years to the time when Kyoto was the capital of Japan. The government launched

textile production to produce high-quality goods exclusively for privileged people, and private weavers gradually began to produce silk fabrics as government control eventually loosened. During the Ōnin War (1467–77), craftsmen and weavers escaped from Kyoto, which was ravaged by fire, but they returned after the war and started production again. During the Tokugawa period (1603–1868), Nishijin grew and flourished as the most advanced weaving district in Japan. After the Meiji Restoration (1868), Nishijin promptly introduced advanced Western weaving technologies and knowledge in hopes of modernising the production of *kimono* and *obi* (Uruma and Tominomori 1992, p. 58) and played a significant role in spreading the innovations and expertise to other districts. Despite the emergence of weaving districts trying to catch up, Nishijin maintained its leading position in silk-weaving production in pre-war Japan (Hashino 2016, p. 47).

During WWII, Nishijin producers had to stop production owing to a ban on the production of luxury goods, but the district resumed production as soon as the war ended. Production increased significantly during the recovery process and the period of rapid growth. According to Maekawa (1982), there were two phases in Nishijin's growth process: (1) rapid expansion in the production of popular *kimono* and *obi* from the late 1950s to the early 1960s; and (2) an increase in sales as producers shifted from popular goods to luxury goods from the late 1960s to the early 1970s (Maekawa 1982, p. 125). In addition, the increase in Nishijin's production had a substantial effect on the production of other weaving districts. First, the development of Nishijin induced an increase in the production of piece-dyed fabrics in other districts, which became out-weavers for Nishijin and curtailed production in other districts as they competed with Nishijin in the same markets. Second, growing production of *kimono* and *obi* made of wool and synthetic yarns in Nishijin from the late 1950s to the mid-1960s accelerated the decline of other intra-market rival districts (Maekawa 1982, p. 121). As a result, Nishijin's share of production grew to 74.2% of *obi* and 25.9% of *kimono* in Japan in 1978 (Maekawa 1982, p. 120).

3.2 Changing Production: From Popular Goods to Luxury Goods

With Nishijin holding a significant share of production in the sector, *kimono* and *obi* began the transition from popular goods to luxury goods. In the 1950s and early 1960s, popular *obi* was not high-quality silk *obi*, in which Nishijin had a traditional skills advantage, but rather union (silk and rayon) *obi*, rayon *obi*, and synthetic-yarn *obi* (Sasada and Yoshida 1982, p. 180).

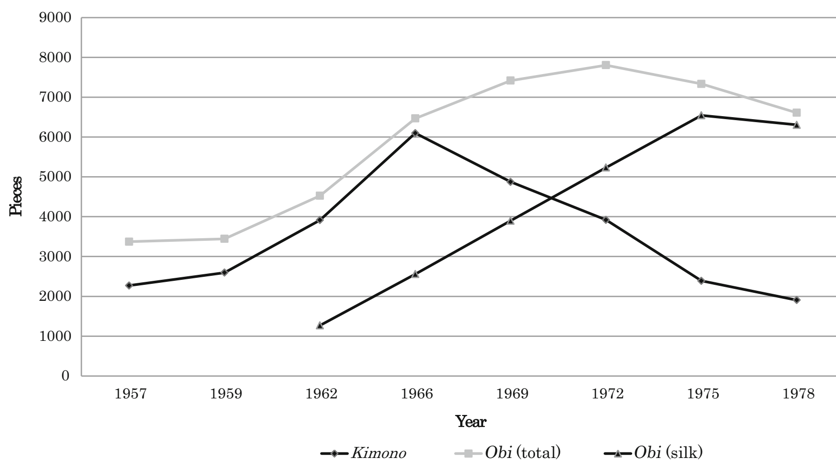

Fig. 13.3 Production of *kimono* and *obi* in Nishijin, 1957–1978 (pieces) (Source is Sawada and Yoshida (1982), p. 178)

The boom of popular *kimono* and *obi* was almost simultaneous with the rapid Westernisation of clothes. People preferred cheaper *kimono* to more expensive high-quality *kimono*, but Western dress quickly replaced the lower-priced offerings.

Figure 13.3 shows the dramatic changes in the production of *kimono* and *obi* from the late 1950s to the late 1970s, a period that saw a structural change in Nishijin's production. First, the production of *kimono* increased toward the middle of the 1960s before declining rapidly in the latter portion of the decade. In 1978, the production of *kimono* dropped to a level lower than the output in 1957. In contrast, *obi* production grew remarkably between the early 1960s and the early 1970s. In other words, Nishijin producers changed their strategy: They converted from the production of *kimono* to the production of *obi*, especially high-priced silk *obi*. As Fig. 13.3 shows, almost all Nishijin *obi* were of the silk variety by the end of the 1970s, which means producers changed their main products from popular goods to luxury goods for survival.

It seems that Nishijin's strategy was quite appropriate, considering that the demand for *kimono* and *obi* for formal occasions, such as *furisode* (long-sleeved *kimono* for unmarried women) and *tomesode* (black *kimono* with designs for married women), was expanding rapidly at this time (Koizumi

2006, p. 53). In short, Nishijin immediately abandoned the production of cheap and popular *kimono* and *obi*, which were destined to be replaced by Western clothes. The intensive production of *kimono* and *obi* exclusively for formal occasions accelerated the formation of a luxury market for particular groups of people. As the estimated total demand for *kimono* and *obi* in Japan from 1963 to 1978 (Kakino 1982, p. 403) suggests, the demand for cotton *kimono* continued to decline from the mid-1960s onward—but the demand for other popular *kimono* increased remarkably until peaking in 1970. In the 1970s, the demand for *kimono* and *obi* started to decline amid the qualitative shift in demand from popular goods to luxury goods. It was after the 1970s that Japanese people came to recognise traditional Japanese dress as a luxury good (Kagami and Sen'nen 2013, p. 37).

In order to survive, then, Nishijin returned to becoming a silk-weaving district producing luxury textiles, especially sophisticated *obi*. The luxury market for *kimono* and *obi* grew steadily after the period of high income growth. For example, the quantity of highest-quality *obi* grew by a factor of 2.6 in Nishijin from 1966 to 1978 (Sasada and Yoshida 1982, p. 24). Figure 13.4 shows the rise and fall of shipments from Nishijin between 1975 and 2008. As the figures indicate, production across all fabric types

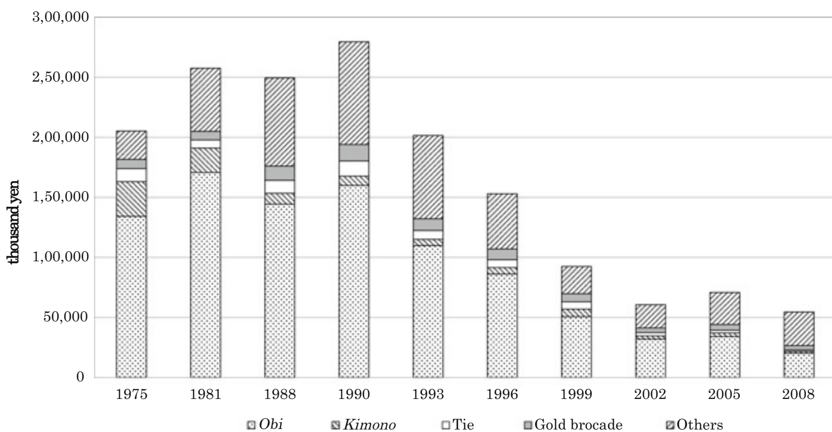

Fig. 13.4 Growth and decline in shipments from Nishijin by product, 1975–2008 (Source: Nishijin Textile Industrial Association (2008), p. 3. Figures are nominal values. Kofuji and Shinohara (2006) analyse the real value of production from 1975 to 2002)

declined significantly after the boom in the late 1980s and had become quite stagnant by 2008. The share of *obi* as a major product was around 60% until 1990, but the percentage has dropped to less than 40% in recent years. On the other hand, the share of production of 'other fabrics', including interior decoration, scarves, and cloth for Western dress, grew to around 50%. Obviously, the Japanese luxury market under examination in this study is dwindling in size.

3.3 New Challenges in New Markets

In fact, the Nishijin community and other traditional industries have faced a variety of problems such as stagnation of sales, a shortage of successors, the unavailability of raw materials and instruments, and the relocation of factories away from Kyoto (The Committee for the Revitalization of Traditional Industry in Kyoto City 2005, p. 10). For example, the peak years of *obi* and *kimono* shipments in Nishijin were 1983 and 1980, respectively. As discussed above, the rapid growth of the Japanese economy after WWII generated increases in income and boosted the demand for *kimono* and *obi*. As the luxury market was so active during the boom years in the late 1980s, the demand for luxury Nishijin *kimono* also increased. While the boom was in full force, the value of production in Nishijin was approximately 200 billion yen (Kyoto Prefecture 2016). Nishijin accelerated the production of higher-quality and more expensive goods, compensating for the falling consumption of *kimono* and *obi* in terms of quantity (Murayama 2008, p. 114). As a result, Nishijin enjoyed growth in spite of the fact that the market was shrinking in total volume-based size. With the collapse of the bubble economy, though, that demand for luxury *kimono* and *obi* rapidly dissipated.

However, it is difficult to judge whether the strategy to focus on the high end of the domestic market has been a failure. The highly sophisticated skills for producing traditional goods such as *obi*, which had a long history of development, also played a role in the creation of new fabrics for various purposes.[3] The case of Hosoo, a Nishijin-area wholesaler and producer of *obi* that dates back to 1688, is illustrative in showing how accumulated skills created new types of fabrics for interiors. According to an interview with Masataka Hosoo (Director, April 15, 2014), the company's product, woven on power looms for wider fabrics invented by craftsmen, is now used for interior wallpaper in the shops of luxury brands overseas to enhance the appearance of exhibited luxury goods and products. In addition to

wallpaper, Hosoo also produces other interior fabrics for chairs and cushions—another application where they successfully utilise the high-level expertise that they had originally used for producing traditional *obi*. Hosoo's collaboration with an Italian designer to produce shoulder bags also drew on its skills to produce luxury fabrics (Murayama 2008, p. 142). Although the demand for traditional luxury *kimono* and *obi* was waning, some other textile companies in Nishijin also attempted to explore new markets where their luxury fabrics can be a valuable asset.

Not only private companies such as Hosoo but also the Kyoto Chamber of Commerce and Industry (KCCI) plays a leading role in revitalising traditional industries, including the textile and dyeing industries. KCCI has supported a private sector initiative to establish a new 'Kyoto Premium' brand. In this project, three or more companies in different industries collaborate to produce high-quality new products bearing both traditional Japanese and modern elements. The pilot program for Kyoto Premium was to produce Japanese *futon*, interiors, cushions, and lights that utilised traditional skills for practical use in contemporary life. The resulting products were exhibited at the 2006 Maison & Objets, a famous international trade fair held in Paris (Murayama 2008, p. 128). The member companies continued to collaborate on the production of new luxury goods, aiming to strengthen the brand by inviting creative planners with a thorough knowledge of the European market and interior designers for the development of new products with strong marketability in the international arena. As a result, Hosoo made luxury cushions featuring Nishijin fabrics and traditional patterns with gold and silver leaf. The cushions were also part of the exhibition at Maison & Objets, and Liberty (a department store in London) decided to sell them at its shop on Regent Street (Murayama 2008, pp. 131–132). These types of attempts at collaborations between the traditional textile industry and other traditional industries to produce new luxury goods have continued since 2006. Thus, the survival of the luxury industry—including traditional industries—requires the cultivation of new markets and the creation of innovation not only by utilising traditional skills and knowledge but also by collaborating with other channels.

4 Conclusion

This chapter focused on the growth of the traditional *kimono* and *obi* market in the midst of the rapid Westernisation of clothing in Japan after WWII. As Western ways of life began to supplant different facets of the Japanese

lifestyle during the miraculous growth period of the 1960s, traditional clothes saw growing demand as luxury goods. Nishijin, the most advanced weaving district in Japan, chose to centre its production on high-quality textiles for luxury-good applications. The case of Nishijin demonstrates that this new approach was a means of survival for the district's producers: After the demand for luxury *kimono* and *obi* declined, the private sector and KCCI attempted to create new products or new brands using luxury Nishijin fabrics.

At the same time, the case in this chapter indicates that the producers who focused on the production of luxury goods for the domestic market, faced difficulties in shifting to production for the international market. In general, it is hard to define market changes in exact terms; any attempt to project how quickly demand and consumers' preferences will change is particularly challenging. When demand for *kimono* started declining, producers did not think the market would shrink so rapidly. If they had had an accurate gauge of future demand, they might also have endeavoured to produce luxury goods for the global market. Historical experience shows that strategies for the global market are critical to the survival of luxury industries that originally developed as traditional industries for domestic market.

Therefore, the industry implemented the luxury strategy as a reaction against declining sales and the collapsing domestic market. To the producers, the strategy was not as much a new strategy for growth as it was an additional plan to extend sales. Yet, despite boasting a mastery of traditional techniques, a long history, and a famous reputation in the domestic market, Nishijin weavers were unable to shift successfully into the luxury segment and precipitate a new phase of growth. In order to explain this relative failure, one can emphasise the major differences that exist between the Japanese firms and European luxury companies—even though they all possess traditional know-how. There are two key dissimilarities in play.

First, the cultural identity of *kimono* has frustrated efforts to transform the clothing into a luxury good for global markets. European fashion, leather goods, and accessories benefit considerably from the high value that people around the world ascribe to the European lifestyle; given that reputation, there is a growing global demand for such goods. However, *kimono* is part of a culture strongly anchored in a specific country: Japan. This is an important barrier impeding access to the global market, particularly for accessible, mass-produced luxury, mainly because the demand is

limited. This obstacle toward globalization is undoubtedly the reason why the large luxury conglomerates like LVMH and Richemont did not invest in the *kimono* business in Japan while they took over tens of companies throughout the world.

Second, in comparison with European luxury companies, Japanese *kimono* makers did not transform their traditional know-how and history into 'heritage'—a resource for marketing strategies. The ability to manufacture traditional goods must be part of a broader framework that includes brand management, storytelling, and global-scale distribution. Japanese managers' difficulties in understanding global markets and customers exacerbated the weakness of a strongly culture-anchored product.

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Notes

1. The original data in this table are based on the *Household Survey*, which was conducted by the General Affairs Agency (now the Ministry of Internal Affairs and Communications).
2. Both prices are deflated by the consumer price index of 'Women's *kimono*' and 'Woman's *obi*', published by the Ministry of Internal Affairs and Communications. For further information, see http://www.stat.go.jp/data/cpi/historic.htm
3. http://www.hosoo-kyoto.com/

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CHAPTER 14

Conclusions

Rika Fujioka and Pierre-Yves Donzé

The various chapters in this volume have offered a multi-angled perspective over the evolution of the luxury business during the last decades, with a common objective: shedding light on the dynamics of this industry to understand its organization today. It has focused on three major topics.

First, this book focused on the *evolution of the organizational structure* of the luxury industry since the 1970s. Donzé has emphasized that most of the largest luxury companies today are groups that were founded during the 1980s (LVMH, Richemont and Kering), or companies that entered stock exchanges during the 1980s and the 1990s (Chap. 2). Money became the major resource of luxury business as it enables to merge smaller and independent family firms, and to invest in the distribution system around the world. The emergence of big business in this industry is its most important long-term feature, as large multinational enterprises did not exist in luxury until the 1970s.

However, despite this overall trend, one must not underestimate the persistence of small and medium-sized enterprises (SMEs). This is particularly

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the case in luxury fashion in Italy, in the UK and in the US. For Italy, Merlo demonstrated that textile SMEs succeeded in repositioning to luxury through the cooperation with designers and a proper use of global value chains, to relocate production abroad and to launch into distribution and retailing (Chap. 3). Yet, after 2000, several of these family SMEs face difficulties in coping with the necessity to engage in worldwide distribution to keep competitive on global market and their own financial means. Many of these firms have been purchased by the large conglomerates, the best-known example being the takeover of Bulgari by LVMH in 2011. With regard to American and British luxury fashion, Doyle and Moore discuss the emergence and the growth of entrepreneurs in the female luxury goods market since the end of the twentieth century. They show that this new generation of luxury business has developed differently from the traditional male luxury goods market, particularly through the extension of the market beyond formal wearing settings to include casual and accessible luxury products such as lingerie, casualwear, non-precious jewelry, sportswear, and perfumes (Chap. 4).

The business of champagne is another sector which is not completely dominated by large luxury groups – at present, they still account for only a minority share of production (Chap. 5). At the same time, however, Tesson stressed that small independent French winemakers sell their champagne on the domestic market as a terroir product, rather than as a luxury good. Actually, the relationships between large groups, on the one hand, and small companies and individuals like artisans, on the other hand, is very complex. Large groups need small actors to provide them some knowledge, goods, and brands that they do not hold. Champagne is again a case in point. The world-famous companies like Moët & Chandon do not produce all the grapes and the wine they sell; rather, they buy it from independent winemakers and rebrand them for distribution on global market.

The Swiss watchmaking industry is a similar case (Chap. 10). Munz showed that, since the 1990s, the producers of luxury watches, which mostly belong to large conglomerates, used the technical knowledge of independent artisans to relaunch highly complicated mechanical watches as luxury goods. Yet, at the same time, small companies and independent artisans benefit from the financial and organizational resources of large companies. A strong cooperation, or a takeover, can allow them to access for example a global network of shopping spaces and consequently to enlarge dramatically sales. Independent fashion makers, like Calvin Klein

and Tommy Hilfiger, were also acquired by conglomerates specialized in fashion (PVH), as discussed in Chap. 4.

Second, this volume discussed the *global expansion and the diversification of markets*. The opening and the development of new outlets, particularly in East Asia, were a major engine of the growth of luxury business since the 1970s, even if the US are still the largest market for most of luxury goods, particularly fashion. Pouillard demonstrated that the French fashion brand Dior strengthened its position as the largest luxury fashion designer in the US through the introduction of a series of license contracts during the 1970s and 1980s (Chap. 6). The cooperation with American producers made it possible to answer the needs and tastes of American customers. It enjoyed also a long-standing presence in New York City, which became the world's capital of luxury consumption after World War II, and benefitted from LVMH's investments in real estate to open precociously flagship stores in the most important American cities.

In East Asia, the first major market that had a strong impact on the growth of Western luxury business was Japan. Yet, as Fujioka, Li and Kenako argued, this not a mere result of the raise of the average income and the Westernization of Japanese society (Chap. 7). Indeed, most of European luxury fashion companies cooperated with local department stores and apparel companies to access the Japanese market through production under license of accessories, as early as the 1960s and 1970s. Hence, Western luxury companies experienced a so-called "democratization" of luxury consumption: they enlarged their consumer basis with cheaper accessories. This strategy was later adopted by headquarters for the global market. Baek and Fujioka investigate another example, Korea (Chap. 8). Retailing in Korea is characterized by a high concentration through the control of the market by five major companies. They adopted a strategy of multiple format portfolios, including department stores, hypermarket, convenience stores, and online shopping. They were ideal partners for the Western luxury companies and contributed to attract luxury shoppers in Asia. Some of them, such as Lotte and Shinsegae, expanded the Korean luxury market not only through department stores, but also duty free stores. Then, Korea became the largest duty free market in Asia and Pacific in 1995. Finally, since 2000, China became an essential market for the majority of luxury brands. The growth rate of per capita income, urbanization, the lack of distribution networks for luxury goods before the 1990s and the size of the market are all factors that led Western companies to invest massively in retailing in this country during the last

fifteen years. Focusing on the example of the Swiss watch company Omega, Donzé emphasized that the cooperation with local distributors is a key determinant for success, particularly to be able to access shopping spaces (Chap. 9). The Chinese case shows that the development of luxury business on global market is intimately related to real estate issues, as new shopping centers are the a major place to buy luxury goods in emerging countries. Here also, the most important resource is money – what explains the strong presence of large groups in China.

Third, this book analyzed various *new marketing strategies* adopted by luxury companies to establish competitive advantages in the context of the globalization of markets. Storytelling appears to be now one of the most important tools for brand management and the source of value-added for luxury goods sold worldwide. Tradition, heritage, history, craft, creativity and know-how have all their intrinsic value and contribute basically to make luxury goods. But, at the same time, they constitute also major arguments for building luxury brands through advertising campaigns and promotion. This twofold dimension is particularly clear in the case of the Swiss watch industry, approached by Munz (Chap. 10). The knowledge linked to the development and manufacture of complicated mechanical watches by few artisans is, in itself, a source of competitive advantage, as it allows the company that controls this resource to market specific products. At the same time, however, watch companies make extensive use of their control of such know-how to strengthen their brand image as a holder of a long tradition. Giving brands a legitimacy to belong to the world of luxury is also a strategy which goes through the cooperation with external actors who hold an authority. Pronitcheva showed that the development of private exhibitions in world-famous museums by luxury companies contributed a lot to fortify the luxury image of brands in the public (Chap. 11). Private firms profit here from the academic legitimacy of established cultural institutions.

However, tradition and heritage are not necessarily ways to success in luxury business. Some sectors, such as hotels, base their distinction as luxury establishment on the quality of services provided, as showed by Tissot (Chap. 12). Individualization of services, high-tech environment and the use of rare materials (e.g., marble, gold) are among the elements which characterize luxury hotels. Finally, some craft industries which were originally not producing only luxury goods failed to reposition in luxury business since the 1970s. The example of the Japanese kimono industry, tackled by Hashino, embodies perfectly this situation (Chap. 13). Kimono used to be

worn as daily clothes but experienced a strong decline, in the context of the Westernization of fashion. At the end of the twentieth century, some kimono makers attempted to reposition their products as luxury goods, using high-quality materials and a traditional know-how. It was, however, an unsuccessful strategy in terms of continued growth in sales, essentially as a result of its strong cultural identity and also due to a lack of brand management.

The most important implication of this work for academic research in luxury business is to have demonstrated the necessity to contextualize more strongly the evolution of this industry over the past few decades. Although most historians and management scholars stress the continuity of luxury brands and companies, emphasizing that their roots go back sometimes to the eighteenth or early nineteenth centuries, the approach of business history offered in this volume has demonstrated that changes – industrial organization, markets, and marketing strategies – were much more important than continuity in promoting the understanding of the dynamics of today's luxury business.

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