MARKETING

Defining what is and what is not a luxury brand and why it matters

October 16, 2020

Bottega Veneta: luxury without ostentation? Image credit: Bottega Veneta

By Bill D'Arienzo

Defining luxury as a concept for measuring and monitoring business is at a tipping point. It has become either a marketing tool calling anything "luxury" or a journalistic catchall, especially when reporting on fashion brands.

When the latter occurs, luxury brands are lumped together and reported as if they were simply fashion brands, with their short-term strategies, seasonal trend dependency and value propositions. This leads to useless data sets and misleads the market.

Managers and marketers with differing views of who their true competitors are will have no reason to use the data. I think this is a mistake, but it can be corrected.

First, let us take a look at how this shows up in the marketplace.

As far back as 2016, *WWD* published a so-called luxury market share report that ranked Ralph Lauren first and Michael Kors second, followed by the leading "luxury" brands.

Again, in a 2018 *WWD* edition, the lead article summarized a trend report by the PMX Agency, a trend service with this headline: "Michael Kors, Ralph Lauren Take Top Spots in Online Luxury Market Share."

Inside both stories, Coach, Louis Vuitton and Gucci were listed as coming in third, fourth and fifth in *"online traffic."*

So as not to indict only *WWD* and PMX, Statista, a widely used market research firm falls into the same error, that is, comparing non-competitors.

As recently as August, Statista reported market share results of "luxury" brands, and included in the mix were Coach, Ralph, Michael Kors, Calvin Klein and Tommy as well as Gucci, Louis Vuitton and others.

What we have here is a classic problem of comparing apples with oranges just because they are both fruit. What is needed is a way to objectively distinguish fashion brands from luxury brands even if the luxury brands market fashion products. Here are some ideas that can get us there.

1. McKinsey's The State of Fashion 2020 organizes fashion/luxury comparatives into six classifications, three of which are *"Luxury,"* "*Affordable Luxury*" & "*Premium/Bridge*"(https://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion-2020-navigating-uncertainty) (Exhibit 19) How do they derive this?
2. Luxury brands have "market capital" market resiliency and "social capital" cultural leadership. Fashion brands have neither (explanation/implications to follow)
3. Re-visit McCann Worldgroup Truth Central senior vice president and director Nadia Tuma-Weldon's insightfully detailed article on Luxury Daily, "For one's own pleasure, luxury's return to discretion" (see story). With its nuggets of luxury understanding, she paid homage to Coco Channel's enduring definition of luxury as a form of discretion as she calls out for and suggests how we might anchor luxury in unique and deeper waters.

Towards meaningful metrics

1. In McKinsey's "The State of Fashion 2020" the classifications of competitive brands for companies from luxury to mass, is based on the following and I quote:

" *... The companies are categorized in six segments, which are based on a price index (not price perception) across a wide basket of goods and geographies ...*"

This is good beginning. However, it does not tells us why consumer perception is excluded, or which brands are included in each segment.

2. To complement this, I suggest that luxury brands have market capital and social capital and fashion brands do not. Here is how these concepts show up in the marketplace:

Market capital

Using Coach/Tapestry as an example, stock market pundits most often see it and describe it as luxury brand and therefore, given its numbers, down almost 50 percent in 2018 from its high and showing 12x forward earnings while continuing to pay a dividend of $1.35 per share for a yield of 4.5 percent a great pre-COVID-19 buy.

But on analysis, in the years 2009 to 2018, company operating income decreased and profits remained stagnant and in the context of its true competitive market, but it lacks what Warren Buffet has called "business moats" unique competitive advantages which enable the valuable "castle" inside to be free from having its walls breached.

Luxury brands have this, which shows up as profits, market share and on balance sheets. So as a small example, in the last quarter of 2019, Tapestry's share price fell 26 percent from January, while Louis Vuitton's market share increased to 14 percent in an overall United States market which saw handbag sales as reported by NPD decrease by some 20 percent. This is market capital, which they can always draw upon if needed.

High margins, controlled distribution and deep pockets all enable luxury to ride out disruptive market conditions to which the fashion brands succumb and for which the fashion brand solution is weekly sales, outlet stores and special collections made to order for off price discounters. They have little market capital and thus find it difficult to achieve sustained growth. Their protective moots are narrow, shallow and short.

Social capital

The second asset that luxury has is social capital. True luxury brands have the communicative and symbolic power (stories, logos and brand codes and symbols) to appeal to vast blocs of consumers and to forge tribal-like communities.

Luxury brands have become global cultural icons. By creating new aesthetics and thereby acting as thought leaders, they have achieved this by breaking the rules and taking the risks Louis Vuitton with Supreme and Gucci, for example, with its cornucopia of stunning brand imagery or its current "The Ritual" COVID-19 response ad campaign and projecting their brand elements and values into the arts, theatre, museums and music.

These brands are constantly re-tweaking their brand Identity without compromising their brand integrity. They do so by influencing the brand image perceptions of online communities as confirmed by their consistently high ranking by Lyst, the online social media/popularity research firm, which, in turn, validates their market leadership.

This is made possible by creative directors such as Gucci's Alessandro Michele who are anchored in the brand's DNA, but are not tethered to the brand's traditional messaging.

Fashion brands still struggle with striking the balance between their own brand identity and the perception or brand image that their customer base has, which may differ.

For luxury, the depth of their social capital enables them to bridge this divide and integrate identity with image by creating an ideology and cultural codes giving their products a new source of meaning and with it a more intense customer loyalty that stands the test of disruptive markets, including e-retailing and the likes of Amazon.

Fashion brands can take no such liberties and have no such latitude and this and the above is what distinguishes luxury from fashion.

3. Rarity, privacy and discretion: We find an added dimension to luxury by re-visiting Nadia Tuma-Weldon's article. She strikes a note as to the essence of luxury reminiscent of Coco Chanel's definition: "Some people think that luxury is the opposite of poverty, but it is not. It is the opposite of vulgarity."

By implication "vulgarity" is any excess in style or "signaling," as Ms. Tuma-Weldon describes it logos and the like a form of communicating to seek entry into a select group or at the very least, informing others that you have arrived.

This always teeters on the brink of reducing luxury to a vanity which can never be satiated and often leads to acquisitiveness and its eventual complement mass production to both complement and stimulate this purchase driver.

Enter rarity as a core luxury value and discretion as the consumption attitude which makes it and the value of privacy primary to the key/core luxury loyalists or as Ms. Tuma-Weldon describes them, *"...a small group of high valued customers."*

Sounding perhaps as a re- introduction to Pareto's 80/20 law, that every successful business usually has at its foundation 10 percent to 20 percent of loyalists who are brand advocates, her article goes on to offer examples of how luxury businesses prosper by embracing this cohort and their values of privacy and discretion, including in home experiences which redefine "white glove" bricks-and-mortar boutiques personal shopping elevated.

Ms. Tuma-Weldon describes this as "a new type of luxury," enjoying for one's own pleasure in the privacy of one's own surroundings, the inherent beauty of the luxury experience.

Drawing on how creative directors have subtlety infused this into past products, she cites Bottega Veneta's sumptuous suede handbag interiors whose luxuriousness was belied by the bag's "un-remarkable looking exteriors." She could have added the Bottega Veneta brand promise as its commitment to privacy and logo-free discretion captured in its iconic tag-line: "...when your own initials are enough."

What remains to be done is to weave together these dimensions of defining luxury into one meta-metric. I am working on it in the privacy of my home.


Bill D'Arienzo

Bill D'Arienzo is founder of WDA Brand Strategies, Skillman, NJ. Reach him at wmdarienzo@gmail.com.