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MARKETING

How Louis Vuitton, Nike and Sotheby's tamed the metaverse

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The metaverse will be even more unforgiving to bad brand storytelling. Fortunately, Louis Vuitton, Nike and Sotheby's have this figured out. Image credit: Louis Vuitton

By Daniel Langer

Luxury is much more than fine materials, savoir-faire and brilliant craftsmanship. It is, at its essence, the ability to create extreme value for the client.

Therefore, when a luxury brand or collaboration creates high desirability, consumer willingness to pay increases to levels that seem to defy logic.

When I started my first research projects on decoding luxury a little more than a decade ago, one aspect practically no one could explain or quantify was the gulf between what consumers would pay for "normal to premium brands" versus "luxury brands."

Typically, when you analyze prices, luxury starts where the willingness to pay goes non-linear. In other words, the value of a relatively "normal" brand comes from its functional and emotional value components, which tend to be similar to other brands that offer equal functional or emotional values.

Take bottles of branded sparkling water such as Perrier or San Pellegrino. The price for a 750ml bottle from both brands will be somewhat similar around $2. In their field, price points may vary, but rarely by more than a few percentage points. If you increase the size hence the functional value then the willingness to pay increases linearly. If you compare one brand with another that can do the same in a slightly better fashion, you may pay a little more. However, we will never fundamentally pay anything significant outside of what many call the "reference price range," or what I call the linear pricing model of non-luxury categories.

To the confusion of many, these rules do not seem to apply to luxury at first glance.

Chanel recently launched a water bottle as part of its No. 5 collection for around $80. The size was tiny, and it contained no water. Hence, from a functional value, the product seems inferior. Some may argue that I am comparing apples to oranges. But from a pure product category perspective, the former brands sell a glass bottle with water and the latter a smaller glass bottle without water and the price premium of the Chanel bottle is 40 times more than the Perrier and San Pellegrino prices. A traditional value model cannot explain this huge gap.

Therefore, I developed the concept of Added Luxury Value (ALV), which I published for the first time in 2008 and described in detail in my book, "Luxury Marketing and Management." It is a third value component one that is exclusive to luxury brands and explains differences in value perception.

Normal or premium brands have close to zero ALV, while luxury brands have enormous ALV, in most cases, dramatically higher than the functional and emotional values found in regular products.

In the case of Chanel, the ALV of its water bottle is around $79, and the sum of its functional and emotional value components tops out at $1. Hence, the "intangibles" of luxury are drastically more valuable than what we can see, touch, or use.

When I analyzed hundreds of luxury categories and brands, the driver of the highest ALV always came with a combination of rarity and a unique story. These elements intrigue consumers and drive desirability up. These findings have a fundamental management implication: To create ALV, brands must make storytelling their most important component because it is responsible for most perceived customer value. While part of the story, the product is only a proxy it is never the story.

Here is where so many luxury brands make major mistakes. They put too much of a focus on products and functions and forget that value is a unique, insightful, inspiring and relevant story that creates desire.

In our category and brand audits, we find up to 90 percent of brands have massive storytelling deficits, which means they can never be successful, at least not to their potential. Billions of potential revenues and profits get left untapped because brands forget to tell a compelling story beyond facts and features. That puts demand and pricing under pressure, and many brands try to grow sales through promotions or other short-term measures that destroy equity rather than building it the so-called easy growth trap.

In our new metaverse reality, where customers and brands interact fluidly between digital and physical realms, storytelling is even more critical.

So, it is worthwhile to take a closer look at some of the best storytellers in the world such as Louis Vuitton, Nike and Sotheby's. They are each category leaders, and when they collaborate, fusing their distinct, individual stories creates even more extreme uniqueness.

These three brands collaborated on the Louis Vuitton and Nike Air Force 1, created by the late Virgil Abloh. Since Mr. Abloh's recent passing, his collection has become a once-in-a-lifetime event. In this exclusive collaboration with Sotheby's, one of the leading auction houses and a pioneer in digital metaverse auctions, a total of 200 pairs got auctioned off as an homage to streetwear. They are made from leather and feature Louis Vuitton's emblematic Monogram and Damier patterns and natural cowhide piping, accompanied by a specially made Louis Vuitton pilot case.

The auction took place in the metaverse, and many bids for a pair of sneakers exceeded $60,000 with the rare size 5 leading the auction and fetching $352,800. This market instance is one worth analyzing.

A "normal" Nike Air Force 1 retails between $150 and $200. But the combined storytelling of these brands catapults the willingness to pay by more than 200 times the usual amount. That is an enormous premium for an already premium-priced, iconic sneaker.

While, undoubtedly, the shoe has unparalleled artistry, the value driver is its unique storytelling, making its sale a historic event. I do not doubt that, over time, the value of a single pair will easily exceed $1,000,000, or more, as the value of a once-in-a-lifetime-stories tend to increase. Remember: that is for a sneaker. Without the story, it would just be a commodity with little ALV. But with the combined brand story, its value skyrockets in a non-linear way.

It is worth noting that the metaverse played an important role. As pointed out, the auction was held in a digital format and the average age of the bidders was 35 with Asian Gen Z leading the group. This is a preview on the future of luxury.

Luxury brands should take notice.

The metaverse adds complexity and noise to the customer relationship, and value is only perceived if the storytelling is crystal clear. And since 90 percent of brands have significant storytelling issues, their value will decrease significantly in this more complex world if they do not address their story failings swiftly.

So, ask yourself: Does your brand have a story? Is it unique, insight-driven, relevant and desire-creating? And does the story make your brand distinct emotionally from all your competitors? Or is your story, in reality, just a category story, like: "We make the best products with the highest innovation and most extraordinary materials." If your story sounds like that, you need to act fast because the metaverse will be unforgiving.

This is an op-ed article that reflects the views of the author and does not necessarily represent the views of Jing Daily.

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