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Taking a brand out of the luxury universe

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When a brand cannot or no longer wishes to respect the constraints of the chosen business model, whether for reasons external to the company or internal reasons, it is time to consider leaving luxury before it is too late.

These are the external reasons:

The market where the highest level of the brand is recognized and expressed is disappearing. It was the case for the silversmiths' trade at Christofle, where the heavy, solid silver products were linked to a way of life that has almost disappeared (ceremonial dinners of the haute bourgeoisie of the 19th century).

In the same way, as analysed in the previous chapter, ST Dupont (like Dunhill) suffered badly from legislation against smoking in public and tobacco advertising, and therefore the cigarette lighter as a prestigious gift no longer had cachet. The brand succeeded in a first evolution towards pens (thanks to the product coherence between the cigarette lighter and the pen), and then with much less success into leather goods and ready-to-wear in the classic British style.

The absence of (technical and image) legitimacy, and therefore of the 'dream part' of ST

Dupont in these latter trades explains the failure of this brand stretching.

It is interesting to note that the same is true for Dunhill: despite its different roots (one brand is French, the other English), different shareholders and different management, the recent history of these two brands has been almost identical. The laws that we have revealed for management of luxury are indeed structural laws.

Without disappearing, the market may be considerably reduced: this was the case for haute joaillerie, which is much less frequently worn in public, hence the evolution of these brands into watchmaking, a legitimate evolution, and then perfume (again), a much less legitimate one.

The creator changes strategy. This is how Pierre Cardin became a brand managing a global business of pure licences, which profitably exploits the afterglow of his prestige among a mass clientele. The stand of shirts, belts and ties at Galeries Lafayette is one of the most profitable of the entire men's department at the Parisian department store.

The death of the creator, when he or she alone embodies the dream and therefore cannot be replaced, often leads to a departure from luxury (the Chanel house is one of the rare exceptions).

Thus Thierry Mugler has ceased to create: all that remains under its name are the Angel and Alien perfumes, and a few accessories, all managed by Clarins. The same is true for Loris Azzaro, Nina Ricci now owned by Puig in Spain, or Guy Laroche, bought from Bic by a Chinese group.

As for internal reasons, there are two. The first is loss of creativity. The second is impatient or greedy shareholders.

In all these cases, it is better to get out of luxury before it is too late, that is, before the brand becomes worthless.

For whichever reason the decision to leave luxury is taken, implementing this strategy is not easy: as we saw in Chapter 1, you can be lastingly profitable either in classic brand marketing (L'Oréal, Procter & Gamble) or in luxury (Louis Vuitton, Cartier, Chanel); very rarely can you achieve profitability in-between the two. Managing the transition is a difficult and perilous art of its own.

However, success of the strategy is possible, as shown by a case of clever management of departure from luxury: that of Dior.

In fact, the man Christian Dior was never really replaced after his death in 1957, despite the talent of the great couturiers who succeeded him as head of design over almost half a century, from Yves Saint Laurent to Gianfranco Ferré.

The arrival of John Galliano in 1997, exactly 50 years after the launch of the "New Look," was a key element in the complete change of strategy: the transition from that of a luxury brand (Christian Dior) to that of a prestige fashion brand (Dior).

Without, of course, admitting it publicly, so as to avoid damaging its superb image, the Maison Dior underwent major change. It passed in a few years from being a haute couture house, in the name of Christian Dior, with a talented designer (Gianfranco Ferré) and superb collections made to be worn, to a brand, simply named 'Dior' (and a set of initials, 'CD'), with an "artistic director" who is admittedly a great couturier, but also and above all a very talented showman (John Galliano), and whose fashion shows are designed to provoke and to highlight the accessories, not to sell dresses.

This strategy proved economically rewarding (after many difficult years, Dior is now profitable), but at the price of a great separation: the Dior name is always mentioned among the first when people are asked to name French luxury brands, but the Dior products are practically never mentioned when people are asked to name French luxury products spontaneously.

It will be interesting to see how long this unstable situation will last, and whether the decision will be taken to return to luxury, or to depart totally from the luxury universe.

Today, both strategies are possible. The decision to pursue outsourcing of the manufacture of products sold under the Dior brand will be one of the key factors in this choice: relocation is an anathema to luxury.

Dior is not the only couture house in this situation: Yves Saint Laurent is in a very similar state to Christian Dior's before it became Dior; it could become the prestige fashion brand Saint Laurent, and a set of initials, YSL [*Editor's note: The brand is now known as Saint Laurent Paris under creative chief Hedi Slimane.*]. As seen above, the sale of Yves Saint Laurent Parfums to L'Oréal is a big step in this direction.

We have already analysed this subject several times. Luxury and fashion are both economically significant universes, but completely different (the "luxury streets" are not in the "fashion quarters") and have only marginal overlap.

While the creator is alive, a fashion brand, even if it is not a luxury house (Ralph Lauren, for example), can sell luxury products, if they are given legitimacy by the creator.

Once the creator is gone, in order to remain a profitable luxury brand, it must succeed in forming a "tandem": of the brand (which guarantees luxury) and the designer (who guarantees fashion), as Chanel succeeded in doing with Karl Lagerfeld. But success rarely follows, since it is markedly similar to a mixture of water and fire, so strong is the deep opposition between a luxury brand and a fashion designer.

We have taken our last examples from the universe of fashion, because it is there that the question is the more frequently aroused, but we have previously seen another example: the Daimler group and the Mercedes brand.

At the beginning of the 1990s, the decision of the Daimler group to have Mercedes brand leave luxury was motivated by the too small size, according to the shareholders, of the luxury market. They thought that small players had no future on the car market and wanted to grow far bigger than they were at this time. To do so, they had to trade down and reach mass markets; so, the launch of Smart (1994), then of the Mercedes A-class, (1997) followed by the acquisition of Chrysler (1998).

Then, in 2002, Daimler tried to reconquer the luxury segment with the revival of the Maybach brand. The decision to leave luxury has shown less financial success than the one of BMW, which decided to stay in luxury. Smart and A-Class have been severe cash-drains and never broke even. Chrysler, bought for $36 billion, was sold in 2007 to Cerberus (at $7.4 billion for 80 per cent of the shares).

Interestingly enough, this huge financial disaster was the consequence of the decision to leave the luxury strategy for growth reasons, and not for profit reasons. This is the reason why we recommend that, as long as the luxury strategy is profitable for a brand, you had better to stick to it: the cost of leaving it is usually very high – and strongly underestimated. Worse, a comeback to luxury is painful and costly.

In 2011, Daimler announced the closure of Maybach planned for 2012.

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