

LUXURY GOODS

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ABSTRACT

Luxury goods are products that are not essential for survival but are desired for reasons such as status or for the product's quality or craftsmanship. These are goods that a culture or society find highly desirable. Luxury items show positive income elasticity of demand, the higher a person's income, the higher demand there is for these goods. Conversely, with a decline in income, demand for luxury goods will decline. Due to this reason it is usually wealthy people who are the disproportionate consumers of luxury goods. These types of goods are also usually purchased to show off ones wealth. Luxury items are the opposite of necessity goods which people buy regardless of their income level or wealth. Luxury goods can include high end automobiles and expensive garments but also include services such as full time chefs and housekeepers. The definition of a luxury good is also subjective depending on a person's financial circumstances. Some examples of luxury goods are haute couture clothing, accessories such as watches and jewellery, high end automobiles, yachts, real estate and wine. Some of the popular luxury products are –

Gucci- The house of Gucci sells Italian clothing and leather goods.

Hennessy- It is a French distiller of wine started in the 18th century. It is the world's largest producer of cognac.

Chanel- Chanel was founded by Coco Chanel in France; it sells clothing, purses, perfumes and cosmetics.

Cartier- This high end brand sells primarily watches and jewellery.

Keyword: *craftsmanship, demand, counterfeiting, marketing*

1. INTRODUCTION

The luxury goods market encompasses goods such as cars, fragrances, drinks, watches, jewellery, etc. These goods are expensive and justify their price by focusing on the brand, materials used, craftsmanship and aesthetic, and aim to turn everyday items into status symbols.

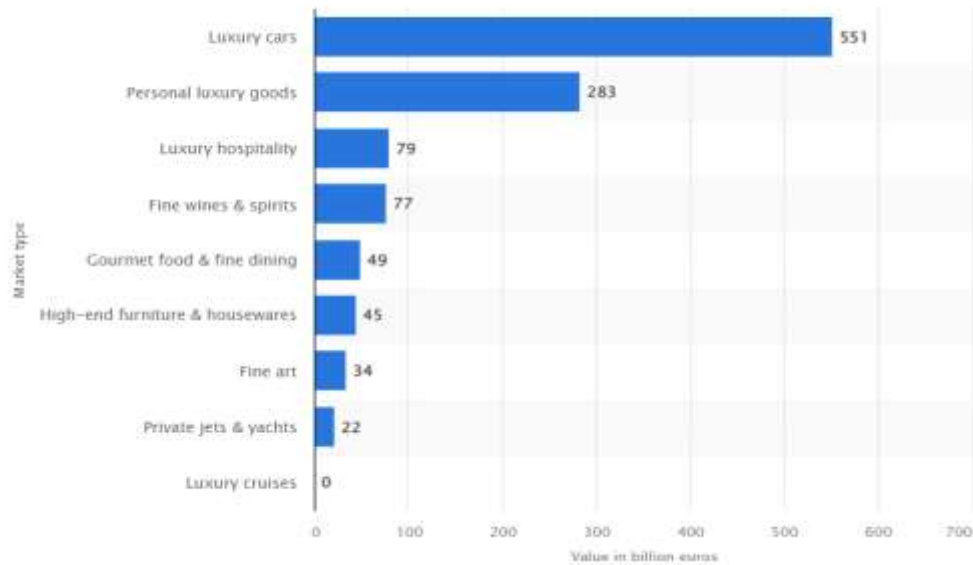


Chart -1

The statistic shows the value of various luxury goods in 2021. According to the chart, the highest valued luxury good in the market is the luxury automobile industry which was worth 551 billion Euros. Personal luxury comes second at 283 billion Euros followed by industries such as Hospitality and Fine Wines & Spirits.

2. HISTORY OF A FEW LUXURY BRANDS

2.1 Louis Vuitton

Louis Vuitton is one of the oldest fashion houses. It started in 1854 when Loius Vuitton opened his first workshop in Paris. He created the bed trunk which was revolutionary as flat trunk could be stacked easily, and soon others began to copy his invention. He and his son also worked together to create the spring buckle locking system which helped revolutionalise luggage safety.

When he passed away in 1892, the company's management was passed down to his son Georges. One of his most famous contributions was the Loius Vuitton monogram which is world renowned as an enduring symbol of luxury fashion. It was in memory of his father as seen in the monogram represented by "LV". Bags for personal use reached the market around 1930, on the request of Coco Chanel.

In 1984, Louis Vuitton became a publicly traded company. It merged with Moet et Chandon and Hennessy in 1987 to become LVMH, which is one of the most dominant forces in luxury and retail till date, In 2001 Marc Jacobs is appointed as artistic director and the brand's fashion line is presented in 1998. After his exit, Nicolas Ghesquire and Virgil Abloh took over as women's and men's artistic directors respectively. In 2019, Louis Vuitton was named by Forbes magazine as the world's most valuable luxury brand.



Fig -1: Louis Vuitton logo

2.2 Chanel

The house of Chanel was founded by Gabrielle ‘coco’ Chanel. She started a small hat store known as “Chanel Modes” in 1921. The hats were popular among the well known French actresses of the era. She also started making jersey sportswear, which revolutionized fashion as earlier they were only used for men’s clothing. Her first couture house was opened in 1915; it was located in Biarritz, France and employed 300 people.

In 1921, in association with perfumer Ernest Beaux, Chanel launched the Chanel no.5, which is one of the most famous women’s perfume ever made. The fans of this perfume include actress Marilyn Monroe. Another perfume called Chanel no. 22, also enjoys popularity. In 1924, the first make up collection was introduced. Skincare products were also launched by Chanel in 1929. In 1931, Gabrielle Chanel went to Hollywood to design dresses for films. In 1932, the first jewellery line was revealed. During World War II, Chanel had to close its boutiques except the ones selling perfumes and accessories due to demand from American and Parisian soldiers. In 1955, Chanel created the 2.55 handbag, and also started a Men’s fragrance line created by Henri Robert who succeeded Ernest Beaux as perfumer for the House of Chanel. Another creation, the two toned shoe, was also one of the first designs of its kind.

Many of the prominent women of the era including, Elizabeth Taylor, Jane Fonda, Jacqueline Kennedy, etc. wore Chanel regularly. In 1971, Coco Chanel passed away. In 1983, Karl Lagerfeld was named Artistic Director for Chanel and created the Chanel Ready-To-Wear collection. Chanel also introduced watches to its collection in 1987. In the 90’s Karl Lagerfeld photographed a series of successful campaigns. In 2002, the Metier D’Art collection is launched which was considered to be a classic. Karl Lagerfeld passed away in 2019 and Virginie Viard was named Artistic Director.

2.3 Saint Laurent

Saint Laurent Paris, or YSL was established in 1961, when Yves Saint Laurent founded his couture house in Paris alongside business partner Pierre Berge. It was known for its androgynous style and found a following immediately. In 1966, it released its famed collection, which introduced suits and tuxedos for women. He took traditionally masculine items and introduced them in a womenswear collection. This was meant to empower the wearer and was a time of change in the industry. It had celebrities supporting it including Bianca Jagger, Catherine Deneuve and Nan Kempner. Saint Laurent also places high emphasis on merging art and fashion. It was also the first couturier to successfully launch a ready to wear line.

Hedi Slimane who was creative director in 2012 changed the name of the brand from Yves Saint Laurent to Saint Laurent Paris, and this change is known with the incorporation of an edgy aesthetic. The brand is mostly known for its luxurious biker jackets and rock inspired boots.

2.4 Rolex

Rolex is a maker of watches which was founded in 1905 by Hans Wilsdorf with the help of his brother in law Alfred Davis. The company was initially known as Wilsdorf and Davis. The wristwatches made by Rolex soon began to rival the pocket watches which were until then the norm. In 1926, Rolex came up with the idea of the waterproof and dustproof watch which changed the industry. In 1952, the brand also started making watches intended for professional activities such as diving, aviation, mountain climbing and scientific exploration.



Fig -2: Rolex logo

2.5 Cartier

Cartier is a French manufacturer of high end watches and jewellery. It is regarded as one of the most esteemed jewellery designers in the world. This brand's story began when Louis Francois Cartier took over the jewellery store at which he was an apprentice in 1847. In 1874, Alfred Cartier took over the brand as the son of Louis Francois. He introduced the brand to the royal houses of Europe and beyond. He also designs a crown for Elizabeth II a few years later. In 1899, Cartier opens its showroom in Paris. Alfred's son's also made great contributions to the company as each of the three brothers helped expand the company to Paris and the rest of Europe, United States, and England and the colonies respectively. This would lead to many customers becoming frequent and loyal customers for Cartier.

2.6 Ferrari

One of the most iconic brands of Italian sports cars is Ferrari. It was started by Enzo Ferrari to build race cars for Alfa Romeo. Ferrari started his company in Maranello which still remains the headquarters of the company. The first Ferrari was the 125s, featuring a 1.5 litre V12 engine. Ferrari himself was a race car driver. He focused on his racing team after the war, Scuderia Ferrari, which is one of the most famous Formula One teams. It has competed in every season of Formula One which started in 1950.

2.7 Rolls Royce

Rolls Royce is one of the most famous names in engineering over the world. It was started as an electrical and mechanical business established by Henry Royce in 1883. The first motor car was built by Royce in 1904. He met Charles Rolls in May of that year who sold cars in London, and they came to an agreement for Royce limited to manufacture a range of cars. The cars found huge success and led to formation of the Rolls – Royce Company in March 1906.

Royce designed his first aero engine at the start of the First World War which provided half of the total horsepower used in the air war by the allies. In 1931 Rolls-Royce acquired Bentley. The company became a major contender in aero propulsion during the Second World War due to their Merlin engine. The aero gas turbine was also created in 1944 pioneered by Sir Frank Whittle while the company entered the civil aviation market in 1953. In 1973, the motor car business became a separate entity. It was sold to Volkswagen in 1998 but it did not have the rights to the trademark name and the logo. A new agreement between Volkswagen and BMW came into effect in 2003 with Volkswagen retaining the name Bentley while BMW acquired the name Rolls-Royce. BMW produced their first Rolls-Royce later that year named the Phantom.

2.8 Maserati

Maserati is a sports car brand that has been an innovator in the sports car category. It started when the eldest of the Maserati brothers, Carlo, was designing single-cylinder engines while working as a test driver. After his death in 1910, his brother Alfieri founded a workshop with his two brothers Ettore and Ernesto. Ernesto ran the workshop while Alfieri and Ettore enlisted for the war. After the war the three brothers moved their workshop to larger premises and this where their legacy started to take shape. The Maserati logo was designed by the fifth brother, Mario.

Maserati also launched their first road car to go into production after years of participating in races. By the end of the 50's it had began to focus on luxury road cars. Italian president Sandro Pertini, at the time adopted a Maserati as his state car in 1978 as did many other political and Hollywood figures. Maserati was purchased by Fiat in 1993, who also controlled Ferrari, who were a longtime rival of Maserati.



Fig -3: Maserati logo

3. WHY THERE IS A DEMAND FOR LUXURY GOODS

Luxury goods are an exceptional market in the sense that when a luxury goods manufacturer sells a product for a higher price, it triggers the demand in the market for the goods. Demand for a product plays a huge role in this type of market, as it attracts people to the product. Trends also play a role in this type of market, especially in industries such as fashion where in the short term, high prices increase demand for a particular product. People may buy the product because of the uniqueness or innovation of the product or even because it may act as a status symbol in a society. The price of the product also helps to allocate the product, as usually there is less quantity of this type of product made.

3.1 An interview with Bernard Arnault

(Taken from a Q&A with Bernard Arnault at the Oxford Union)

Bernard Arnault is the Chairman and CEO of LVMH, which is the world's largest and most successful luxury goods conglomerate. It controls brands such as Louis Vuitton, Fendi and Bulgari. According to Arnault, A luxury product is a combination of quality and creativity. These products are expensive because of the quality and the high level of innovation they engage in. His group under his leadership focuses on how they can create the most innovative product. He makes a very interesting point in how his company does not engage in marketing. According to him, marketing focuses on analyzing what the customer wants, and persuading the customer to buy the product. But companies such as LVMH create their products first, and customers desire these products because of their innovation.

He also believes that the way a brand is presented is very important and the internet has changed the way brands view luxury products. The website of a brand is also very important, and often we see things such as the information about the product and the history of the product which helps the consumer connect with the product and the brand. According to him, for a product to be successful it should be modern as well as timeless. Most of the products from LVMH show this characteristic as brands such as Louis Vuitton were started in the 1800's and have been the same for many years but at the same time show their modernity with innovation.

3.2 The Problem of counterfeit goods when looking into the luxury goods sector

There is a huge market for counterfeit goods when it comes to the luxury sector due to the affordability of the products. LVMH tackles this in markets such as China by working with the government to shut down factories producing counterfeit copies of their goods but it is a very difficult task to deal with counterfeit goods as such industries also tend to fall in the domain of organised crime, and with the advent of the internet, it has become even more difficult. A significant portion of the budget for LVMH is spent in fighting production of counterfeit goods.

4. CONCLUSIONS

Luxury goods use the price factor to increase demand for their product. The category of luxury goods goes against the thinking of classical economists where high price results in low demand. When purchasing a high priced product, consumers' psychological needs for status and exclusivity are fulfilled. This exclusivity leads to the consumer feeling as if they are part of an exclusive group and luxury goods help the consumer fulfil the need for

status goods. The study into luxury goods is as much a psychological study as it is an economic one and it also ranges across cultures and demographics. The value of the luxury goods are indicated by their high prices and the tactics brands use to justify the prices such as craftsmanship, quality, etc are not nearly as important as most people think.

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