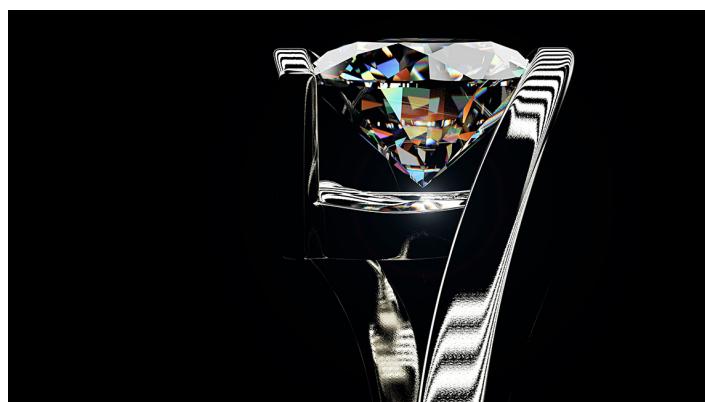


Insights and thoughts from our Partner Markus Kramer on core branding principles with broad applicability for any marketer, communications professional or business leader. Views are subjective and our own. December 22nd, 2017. © Brand Affairs AG.

Why Has Luxury Got It Right?

Not all industries are equal. Or as in the words of François-Henri Pinault, CEO of Kering, “In luxury, the rules are very different to any other industry”. Signs indicate that all other industries have more to learn from the luxury industry than the other way around. In luxury brand management, instead of the business pushing a brand’s growth, the brand yields growth for the business.

Luxury brands are accepted as the epitome of branding. From standing the test of time, to creating desire, to leveraging models of scarcity for better margins and increased customer retention: learning-from-luxury (LFL) is a spreading tendency in brand management. The question, then is – why are they best in class? Why has luxury got it right?



Antidote For Commoditisation

The global personal luxury goods market held steady at €249 billion amid geopolitical uncertainty and during a 15-year period the global luxury market has tripled according to Bain&Co. Over the period of 15 years of Interbrand's Best Global Brands list, the brand value amassed by luxury businesses has grown from \$25.8 billion in 2000 to \$143.7 billion in 2015. Surely, there are many differences between luxury brands, but in order to understand why luxury brands have got it right, it's handy to take a closer look at some of the shared characteristics.

The chairman of Richemont, Dr. Johann Rupert explained that "ultimately, luxury is not something made by a machine in a repetitive fashion." Instead, it is an antidote of commoditization. However, it is necessary to be aware of the fact that the luxury market is not an arch nemesis of the mass market. In other words, it is not at war with mass production, since it is not in competition with it. Luxury brands operate within a completely different universe. They reside and preside in the economies of quality rather than quantity. It is almost a separate economy on its own. As the CEO of Rolex once said:

***“Why would I need to know how
the watch industry is doing?
I’m in the luxury business.”***

Being a counterbalance to the mass-produced goods of single-use, throw-away-fast, the cultured luxury brands continue preserving the existence of human values within. Perhaps the most important thing luxury brands have got right is that they prioritize the human element over almost anything else. Real luxury manages, in a sense, to stay away from consumerism and materialism. True luxury is about sophistication and the deep appreciation for its creator. So it isn't incidental then that meaningful luxury brands are deeply guided by a higher purpose. In his studies Dr. Clotaire Rapaille, a market researcher and anthropologist, has found that:

***“Luxury has a higher purpose:
the achievement of real global value.
The elevation of the mundane into
a higher and more educated level of beauty,
sophistication and talent.”***



Economies Of Quality

The current global economy is experiencing a paradigm shift from prioritizing volume to prioritizing value. There are many indicators that show the return of the economies of quality. The need for quality is rising partly because of the growing criticism on mass production, a new generation of educated consumers looking beyond the materialistic demonstration of wealth, informational pollution, lack of uniqueness and over-industrialization.

The other reason behind this shift is that, evidently, raising the quantity of connections doesn't proportionally raise the quality of connections in everyday life. If you want to see a humanized approach to 'relationships', look at the high-end luxury goods industry. The quality of relationships and bonds is prioritized over the quantity of relations. *Powerful Relations* in the world of luxury has to do with maximizing the quality (not quantity) of messages in communications in order to build stronger bridges.

That's what the near-recession-proof world of luxury can teach us about building a cultured brand organically from within. It is based on refusing to sacrifice quality for quantity. Luxury brands such as Patek Phillippe or Brunello Cucinelli that are guided by a higher purpose are also the luxury brands that are meaningful, cultured and profitable. Brunello Cucinelli, for instance, has an implicit purpose of "humane capitalism" that led it grow into a 1.34 billion dollar business. In the economies of quality, humanization is the measure of all processes.

Mastering Longevity

Many of the niche (or cult) brands like Harley-Davidson, Moleskin, Mini or Aesop are thriving in today's economies of quality simply because they keep learning some of the key lessons from luxury brands. The economies of quality are part of a larger cultural shift toward the inner paradigm of authenticity, purpose and timelessness. In the economies of quality, product design is not based on making something that is the best today and insignificant tomorrow, but rather something that is the finest – even if its time has passed (i.e. an old S.T. Dupont pen or a classic car). Durability doesn't exist in many other industries, but it most definitely exists in the eco-system of luxury brands.

Luxury brands might correct their economic course, but they never go off their red line. Over time the structural strategies of luxury brands that translate into profitability have remained largely the same. According to a recent study, the global hard luxury goods market's opportunity is projected to rise at an exponential CAGR of 10.90% during the period from 2017 to 2022.

For luxury brands, sophistication, passion, timelessness and meaning are the components of a long-term economic engine. Real luxury has time – quite literally. No matter how fast-paced the business world is, luxury brand management is a very delicate matter. Ten



years is nothing in the grand scheme of how some of the greatest luxury brands have evolved. So, unlike many conventional brands, luxury brands avoid short-termism and quick fixes. In the words of Patrick Thomas:

***“If you tell me I have to double
the profit of Hermès,
I’ll do it tomorrow.
But then you’d have no Hermès
left in 5 years.”***

In Luxury, growth comes from the strategic decisions that are made based on the brand's inner know-why, a deeply rooted long-term orientation and a conscious, holistic approach to management. Individuals and companies with a clarity of Purpose are changing the world. The leaders, marketers, entrepreneurs, and individuals who understand this will be the positive change-makers of tomorrow.