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From conspicuous consumption to retail as a point of touch: an analysis of the personal luxury goods industry

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INTRODUCTION

The Luxury goods industry is arguably one of the most attractive and complicated markets in the word. In 2018, according to Bain & Company Worldwide Luxury Market Monitor, it achieved 1.171 Billion of revenues globally. This result is considerably more astonishing if we analyse the singular growth of each of the nine luxury segments, all of which performed positively at a constant rate between 4% and 7%, with the exception of the Private Jets & Yachts sector which incurred a loss of -3% at constant exchange rate. These fascinating numbers, combined with my subjective interest of the personal luxury goods industry, have enthused a thesis with a palpable focus on the luxury world, aiming to provide readers with a clear and complete overview of the market, including alternative opinions and self-derived analyses. Commencing with the first chapter, I will examine the luxury industry from four different perspectives: economic, theoretical, social, and quantitative. This approach has allowed me to explore a plethora of different concepts fundamental in supporting the understanding of the origins, features, and the sheer size of the luxury industry. The economic perspective begins with a focus on the Engel curve and the Engel law, aiming to offer a wider, epistemological framework by referring to psychological theories such as Maslow's Hierarchy of Needs, and sociological concepts, supported by Bourdieu's Habitus. The theoretical perspective will explore luxury as a practice in antiquity, its origins founded and moulded by society, supported by the introduction of two of the most important eras that contributed to this phenomenon: the ancient Egyptians, and the ancient Greeks. The theoretical perspective will conclude with an evaluation of the main forces that continue to shape the luxury industry today. In the third perspective, I will analyse *why* and *how* people invest in luxury goods. To support this analysis, I will introduce the concepts of "conspicuous consumption", and "conspicuous leisure", realized by T. Veblen in The Theory of Leisure Class, arguing how these two concepts, although introduced at the end of the 19th century, have evolved year on year, affecting the qualitative reasons of why people buy luxury goods today.

Ultimately, the quantitative perspective will provide an understanding of types of sectors included in the luxury industry, with a predominant focus on personal luxury goods, evaluating how each market is performing today. The latter will become the main subject of the second and third chapter of my thesis, through exploration of world-renowned luxury brands that historically and continuously shape the personal luxury goods industry, such as Louis Vuitton, Gucci, Prada, and Hermes. The second chapter opens with an initial focus on the main market for personal luxury goods, discovering the leaders and their brand management strategies. China accounted for 32% of the total consumption of personal luxury goods sector in 2018. This data is impressive, and initiates an observance as to where and why Chinese buy luxury goods, introducing a distinction between inland and abroad consumption, and the microanalysis of Chinese consumers as a macro group. I will then provide a deep insight into LVMH, the luxury conglomerate, which in 2018 posted results at more than 46 € Billion. An observation on how the group is enhancing a diversification strategy by managing each department separately will support this. I will focus on the LVMH-Bulgari agreement, useful to understand the importance of acquisition by a luxury group of a marginally smaller sized, family owned brand. Lastly, I will outline the specific strategies related to brand management, one of the most important assets for a luxury company. I will personally define, according to Kevin Lane Keller's idea, what a brand is for, combined with the definition and identification of brand identities through the brand identity prism by Kapferer. Qualitatively, I will focus on the two most important brand extension strategies: the horizontal and the vertical, supporting with two examples by existing luxury brands, subsequently defining the main risks and advantages of these two practices[1]. The final chapter will focus on one of the most important debates arising since the beginning of the 21st century in the personal luxury goods industry: the future of retail. Retail strategies have evolved to become an imperative source of capital for luxury brands, enhancing companies to not only to sell goods, but also to exploit their image and brand identities.

[1] "On how luxury brand management changes over the years see Teri Agins, 1999".

With the advent of the online market at the beginning of the 21st century, brick and mortar stores began to suffer, forced to cease physical trade around famous shopping cities in the world. Although the personal luxury goods industry was one of the least affected by the rapid rise of the online market, luxury companies elaborated tactics to prevent the so-called retail apocalypse, deriving new ways to engage and involve consumers in the purchasing process, eventually developing a real retail luxury experience. The foundation of these newfound strategies are certainly relative to the notion that buying is a human phenomenon connected to the act of discovery, socialization, and human psychology. This is a fundamental realization for retail, obliging brands to reshape their natural purpose, becoming a point of touch from a point of sale, no longer focusing on sales per square foot, but instead on the involvement of the consumer during the purchasing process. It is only through human touch that luxury brands can exploit their main values at the base of their success such as quality, heritage and history, not with technology, but via the one-to-one engagement through client advisors. To support this theory, I have included an elaborated description of Gucci's Retail Strategy: 25.0. During a six-month internship spent in the second largest personal luxury goods company in the world, I fortunately contributed and participated first handedly in many different activities such as The Training Manual, The Human Touch and The Ways to Wear, programs developed with a core belief in an unbeatable customer experience. The Gucci retail strategy 25.0 is completely reshaping the retail experience, empowering client advisors with a multitude of information to enhance the client journey, making use of practices such as cross selling and storytelling, which creative director Alessandro Michele develops behind each Gucci product. Consumers become intimately involved in an incredibly diverse purchasing process versus competitors, through a physical learning journey in-store, impossible to imitate though the online market.

CHAPTER 1: THE LUXURY INDUSTRY IN FOUR DIFFERENT PERSPECTIVES

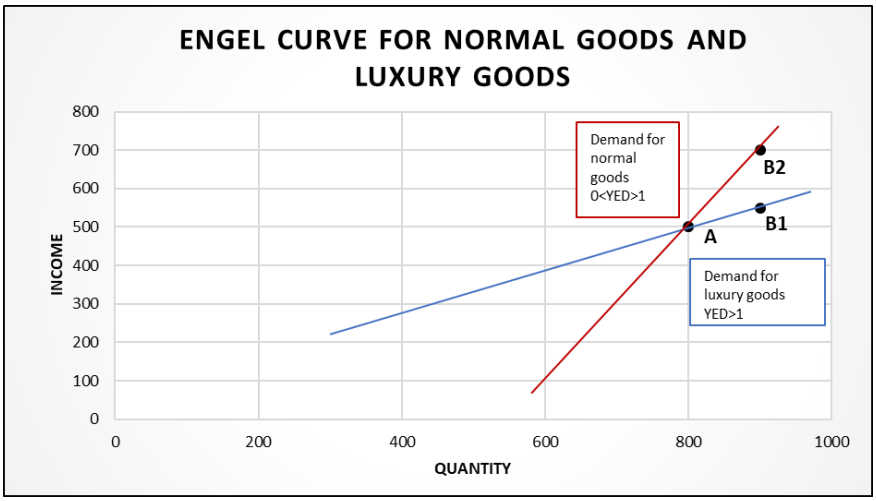
1.1 AN ECONOMIC PERSPECTIVE ON LUXURY GOODS

1.1.1 Introduction to the Engel Curve

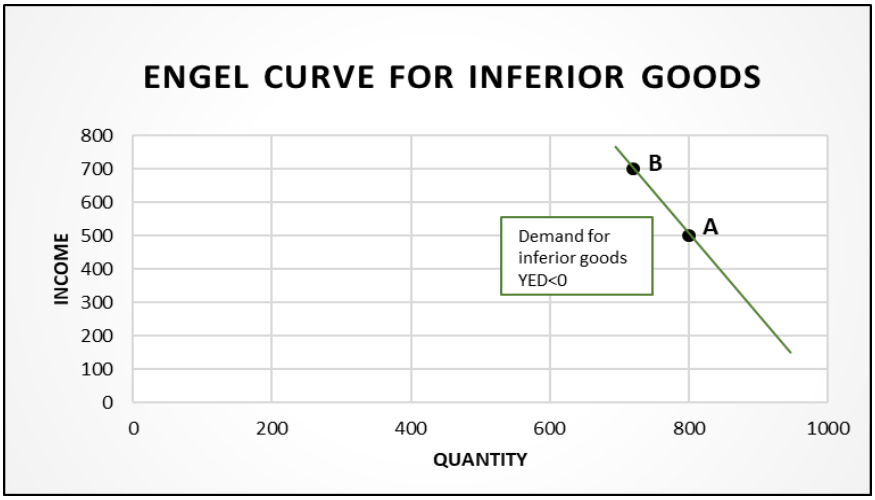
In economy, the consumption of luxury goods is categorically specifiable by a behaviour that differentiates themselves in comparison to normal goods and inferior goods. To understand further, one can refer to the Engel Curve, which "relates the amount of a commodity purchased to the level of income, holding constant the prices of all goods" (Bresanko, Braeutigam, 2010: Pag. 157). Engel curve is obtained by analyzing the Income Consumption Curve of an individual, depicting the different bundles a consumer would choose between two different goods (A and B), as prices remains constant, and income changes. An analysis of Graph 1A, representing the Engel curve for normal and luxury goods, demonstrates that in the case of luxury goods, an increase in income leads to a higher increase in quantity consumed, whereas in case of normal goods, an increase in income leads to a proportionally lower increase in the quantity consumed. An observation of Graph 1B, representing the Engel curve for inferior goods, shows an increase in income leads to a decrease in quantity consumed. Such behavioural patterns are mainly due to the income elasticity of demand (YED), with computation by the following formula, measuring the responsiveness for demand of a specific good in relation to changes in income:

$$\boxed{YED = \frac{\Delta Q}{Q_1} \Big/ \frac{\Delta I}{I_1}}$$

The formula suggests income elasticity of demand for luxury goods is greater than 1, normal goods is between 0 and 1, and inferior goods less than 0.



Graph 1A: income and quantity consumed relationship for normal and luxury goods.



Graph 1B: incomed and quantity consumed relationship for inferior goods.

1.1.2 The psychological and sociological assumptions behind the Engel curve

The following paragraph is supportable by an article published in the "Review of Social Economy" by Andrew B Trigg in 2004. According to Trigg, in fact, moving to the economical meaning of the Engel curve, we can acknowledge a social basis exists, therefore providing a theoretical foundation to it. According to Engel's law, the proportion of total expenditure incurred on food items declines as total expenditures continues increasing.

If income decreases or remains low, only one or few necessary goods can be purchased by the consumers; thus maintaining a constant expenditure on such items. Contrarily, as income increases, additional and diverse luxury goods purchased by consumers proportionally decline expenditure on the previous consumption of goods. In order to attempt to include the Engel's law in a wider framework, we can primarily introduce the Maslow hierarchy of needs theory; in relation to which, consumers start to purchase different goods as income increases, becoming satiated and satisfied with their previous, particular needs. As consumer needs are innate, and often affected by social interactions, and Maslow's theory is characterized by an individualistic approach, a step further is taken referring to the French philosopher Pierre Bordieu, showing how an alternative social basis theory for the Engel curve can be derived, versus Maslow's.

1.1.3 Maslow's theory

In relation to Maslow's theory, human consumption constitutes of five levels of needs, which are realised in the following pyramid, in accordance to priority:

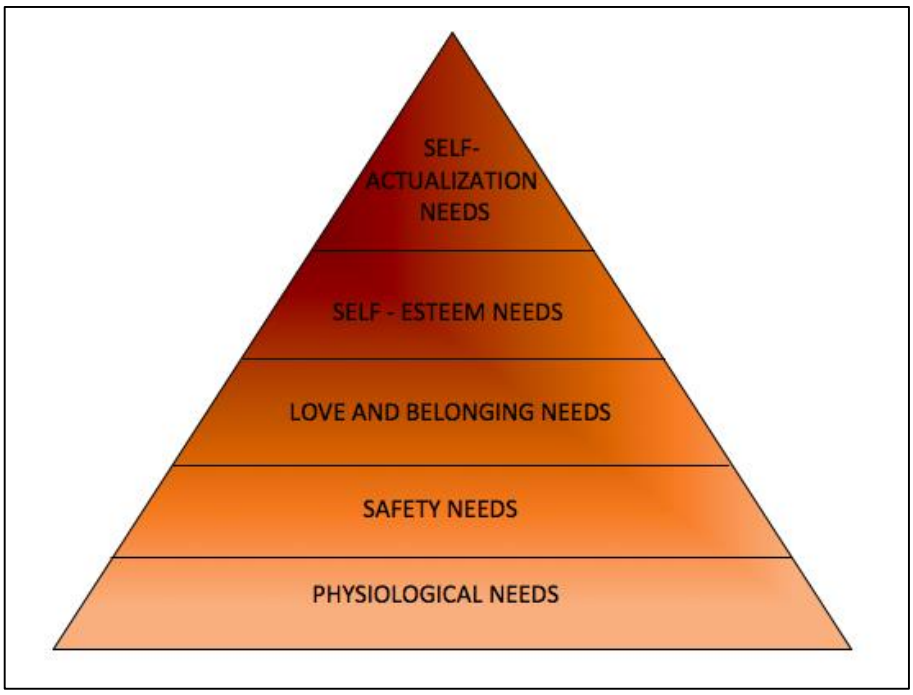


Figure 1A: Maslow's hierarchy of needs

According to Maslow, five main needs, which characterize and affect individuals, reassume into three main groups: basic needs, social needs, and self-actualization needs. Basic needs dissect into two sub-groups: physiological needs; composed of air, water, food and sex, and safety needs, necessities that are mostly related to health care protection, economic safety such as personal security, health, employment, and comfort needs. Once individuals become satisfied and satiated with basic needs, they subsequently move to social necessities, divided further into emotional and belonging needs, including love, friendship, family and affection, and self-esteem needs, such as respect, status, recognition. Debatably, these desires are obtainable upon acceptance into certain societal groups. The concluding category in Maslow's hierarchy of needs is the so-called self-actualization, achievable only once all the four previous needs are wholly satisfied. The aforementioned needs refer to one's desire of becoming the most that he or she can be. However, as we acknowledge from Maslow's theory, individuals can scale the pyramid only if in line with a fortunate increase of income, providing persons the possibility to fulfil each different stage. As soon as an individual begins scaling the pyramid, in conjunction with an increased income, he or she will limit consumption of previously required goods, typically considered as basic needs, and instead will replace such necessities with newly desired consumptions. This is a catalytic idea enforced by Engel law. The main limit to Maslow is mostly relatable to the psychologist's individualistic approach that simultaneously does not reflect the main aspect of consumption: the social interactions. This is why I have decided to integrate his perspective with that of to Bordieu.

1.1.4 Moving to Bordieu

Pierre Bordieu is a French philosopher whom in 1979 wrote his most famous book "Distinction: A social critique of the judgment of taste". Bordieu neglects the concept of taste as an individualistic and innate consumer preference, arguing that tastes are strictly relatable to the social context in which a person interacts with, and that such tastes affect which types of goods and services are investable, assuming a symbolic dimension within the society[2]. In his work, Bordieu does not only focus on goods that possess an obvious aesthetic composition; such as clothing, cultural activities, and home furnishing, but also on daily, functional goods and services, specifically focusing on the relationship between food and social class. According to Bordieu, four types of capital exist: social, cultural, economic, and symbolic, with importance given to economic and social capital. The former is the total amount of income an individual possesses, whilst the latter refers to factors listed, but not limited to, knowledge, skills, linguistic competences, and historical knowledge. Progressively, as humans try to alter or maintain their distribution of capital, their societal relations expand, giving prominence to the society that the French philosopher describes as a field where individuals are categorically characterized according to both volume and composition of capital.

[2] "On Bordieau's thoughts see Andrew B Trigg, January, 2001".

ECONOMIC CAPITAL	SOCIAL CAPITAL	
	+	-
+	LIFESTYLES A	LIFESTYLES B
-	LIFESTYLES C	LIFESTYLES D

Figure 1B: Pierre Bordieu's field

As shown in the image 1B, social space is calculable by the interaction of two different axes, illustrated as economic capital, and social capital, which provide opportunity within lifestyle, relative to the amount and type of capital owned by people. "Implicit in this description of Bourdieu's social space is an assumption that some groups, or class fragments, are made up of individuals with the same amounts and combinations of capital, sharing the same lifestyle characteristics" (Trigg, 2004: Pag. 400). To conclude an explanation of this phenomenon, Bordieu develops the concept of habitus, namely a system of durable and transposable dispositions which, by integrating all past experiences, makes it possible to carry out tasks which are infinitely different (Bordieu, 1972: Pag. 178-179). A habitus is constituted by thoughts, preferences, tastes and actions that a person develops in relation to socialization into the world since birth, predominantly affected by family and environment, coupled with social activities exposed to during growth. In line with Maslow, Bordieu, uses habitus to provide an explanation about why the consumption of some specific goods can fall as income rises, the focus being the behaviour of those individuals at the top and bottom of the society, respectively. For such persons at the bottom, habitus, reinforced as cultural capital, influences the expenditure patterns of consumers by decreasing spending as income increases.

If such individual over the course of their life develops popular tastes, increases in consumption will temper by these popular tastes as income increases. (Trigg, 2004: Pag. 401-402). On the contrary, for those fortunately at the top of society, habitus influences the expenditure patterns of consumers by tempering their consumption of luxury goods. This is because an individual of higher social status typically tends to distinguish their consumption against those of lower social status, culminating in a decrease of consumption of luxury goods as income increases. From this analysis, we can conclude that society both influences and constrains consumption for those individuals at the top and bottom of the society. These two behavioural patterns can provide a social foundation for the Engle curve, and ultimately, an integration to Maslow's theory.

1.1.5 Veblen goods

Revisiting luxury goods and their behavioural relationships, we can affirm that there are only two other types of goods that behave as the reverse law of demand (as the price of good X increases, the quantity demanded increases conjunctively), the Giffen Goods, and the Veblen Goods.

Giffen goods can be described as strongly inferior goods such as bread, potatoes and rice, which in relation to the Giffen Paradox as their price rises, so does their consumption. This is considerably due to the fact that low income households, having a very low-income capacity, prefers, as the price of these inferior goods rise, to consume more of these instead of more expensive goods, such as meat and fish. Giffen goods have three necessary conditions in order to exist:

1) They must be inferior goods.

2) There must be a lack of close substitute goods.

3) The goods must constitute a substantial percentage of the buyer's income but not such a substantial percentage of the buyer's income that none of the associated normal goods is consumable.

In comparison, Veblen goods; introduced by Thorstein Veblen in his book "The theory of leisure class", are luxury goods consisting of a very strong appeal, considered by society as a status symbol. Veblen goods are completely different to Giffen goods, as high-income households consume them. Giffen goods increase their quantity of consumption as prices increase because families are not able to afford alternatively cheaper, substituted goods. Veblen goods catalytically increase their consumption quantity as price increases, enjoyed by consumers as goods of higher quality and status.

1.2 A THEORETICAL AND HISTORICAL PERSPECTIVE ON LUXURY GOODS

1.2.1 The religion and the Egyptian society

The first known Homo sapiens practiced death rituals, attributable to many thousands of years ago. Throughout human evolution, resting places indulged with ornate objects and offerings, suggested an importance the unfortunate individual had in their family, and even society. Such objects possessed a symbolic and affective meaning, and even an economical value. Throughout humanity, there have been many creations of societies within organized groups, differentiating themselves from others through the adoption of different symbols, lifestyles, behaviours and objects, socially contributing an idea to the origins of luxury. Accordingly, luxury is considerably a present part of our society since human beings bore awareness of their own mortality. We explore this sensation as a periodical point human began to increase their interest of status and symbols, also providing a desirable afterlife. A fascinating example of this approach to luxury begins with the ancient Egyptians. Fortunately, we are able to study this era due to the preservation of objects, sculpture and architecture. The ancient Egyptians were indeed organized in a highly hierarchical and extremely sophisticated code bearing society, supported by T. Veblen in his book "The Theory Of The Leisure Class", published in 1899, defining conspicuous consumption as a kind of behaviour with the intention to show off and externalize one's possession and wealth to the rest of the members of society.

Kapferer, in his book, affirms that "Egypt clearly practised all the codes of luxury, and apparently invented many new techniques for doing this, the best known being the discovery of glass to protect perfumes" (Kapferer, Bastien, 2012: Pag. 7). The two essential pillars of Egyptian society can be described as magnificent and elegance during life, and a strongly symbolic ceremonial approach to death. Concurrently, according to Egyptian belief, extremely costly and prosperous techniques (pyramids, monuments, mummifications) were vital in order to guarantee the survival of the soul after death. This luxurious practice was initially for a marginally small elite, such as the Pharaohs and their families, however, through further studies and discoveries we can affirm that the evolution of luxury in the Egyptian society continues to echo in our own modern society, giving prominence to the democratization of luxury. In ancient Egypt, over time, the practice of death rituals like mummification, and the laborious creation of lustrous tombs, dispersed among middle and low hierarchical classes, and even included sacred domestic animals.

1.2.2 From Greeks to the 19th century

The ancient Greeks were another important population that strongly contributed to the rise and consolidation of luxury as a practice that found its origin within society. Arguably, the most important aspect of the ancient Greek society was the debate over the meaning of luxury; dividing those who considered luxury as a force for the society, and those who considered luxury as an enemy of virtues. This debate, opinionatedly still present in modern society, is representable by the conflict between Athens and Sparta during the Peloponnesian war in ancient Greece, around 400 BC. In ancient Rome, when the enemy was defeated, a civil war erupted between those wishing to maintain the city's austerity, versus those desiring a more sophisticated, luxurious, and prosperous Republic. Simply by walking though the city and observing the magnificence of buildings, you can easily understand the latter won the conflict.

"The recurrence of this conflict between two fundamentally different kinds of society (one warlike, masculine and austere, the other pacifist, feminine and sophisticated), with a definite taking of sides for or against luxury even culminating in civil war, shows just how important is the idea of luxury" (Kapferer, Bastien, 2012: Pag. 12). These kinds of conflicts, fortunately without reaching the same degree of violence, are still present in our modern society, concluding that luxury is a social phenomenon, dealing with social stratification and distribution of wealth. Today, luxury is becoming more and more socially oriented, and even with an incomplete process in the most developed western societies, it is irreversible. Conclusively, what are the main driving forces behind luxury?

1.2.3 The driving forces for luxury

Two impressive sociological factors identify major change in the luxury market. Female emancipation "Process, strategy and myriad efforts by which women have been striving to liberate themselves from the authority and control of men and traditional power structures, as well as to secure equal rights for women, remove gender discrimination from laws, institutions and behavioural patterns" [3], and world peace. These two phenomena, starting from the second half of the 20th century, expanded and reinforced due to new driving forces, fundamental in understanding the pillars that are at the base of the rise and expansion of the luxury market. The most important factor for change identifiable in order to explain the current success of the luxury market is the democratization. Democratization, described as the act of making something accessible to everyone, has two fundamental consequences. Firstly, it suggests that all persons present in society can have access to luxury, in accordance with two other consequences; the incremental of spending power in households, and the trading down of the luxury market through brand stretching, and brand extension.

[3] https://eige.europa.eu/thesaurus/terms/1098

Democratization is not the sole opportunity for the luxury market; instead, it is also one of the major risks. Luxury brands must pay attention to prevent loss of key features such as high price, quality, and exclusivity. Democratization, however, implies the vanishing of the social stratification in modern society. This appears illogic, as outlined in the introduction chapter, as we consistently associate social stratification as the main field for creation and expansion of luxury products and services. Nevertheless, as Kapferer writes, "the democratic process which encourages transparency and levelling out of the society both in relation to cultural and economic capital, should have affected negatively the luxury sphere by making disappear the transcendent leading class. Instead, paradoxically, luxury, the main driver of social stratification and the symbol of the transcendent leading class, has not die because of democratization but instead has been the main driver and creator" (Kapferer, Bastien, 2012: Pag. 9). The second and most logical factor of change within the luxury industry is the increase in spending power, and so, the degree to which people have money to buy products and services. There are four main aspects affecting the purchasing power of a population, listed as:

1) Price inflation

Price inflation, a general continuous increase in prices, and price deflation, a general continuous decrease in prices, affect, the former negatively and the latter positively, in relation to the purchasing power of households.

2) Wages and Employment

Another important factor seemingly affecting the purchasing power of a population: the more money households earn the more disposable income enables spending among goods and services. The achievement of higher earnings sought through employment.

3)Currency

Fluctuation on currency can produce a strong effect on purchasing power amongst households, notably if there is a devaluation of a currency in country A) in relation to country B), goods in the latter will become more expensive. This directly affects businesses as an increase in prices for imported goods subsequently influences the purchasing power of households by creating inflation.

4)Bank Credit

The disposability of banks' lending money to households can affect the purchasing power of a population often as much as the previously cited factors. This is mainly due to banks' willingness to loan money, therefore increasing purchasing power, allowing consumers to spend more than they actually have.

A third factor driving luxury market is globalization. Through a similar effect of democratization, globalization levels out social stratification, not only at individual level, but also at an entire cultural level. In fact, globalization not only deals with social stratification, but also with roots and culture. Culture is a fundamental element for luxury products; once a consumer invests in a British or Italian luxury product, they are not only buying a good or service, but a little bit of British or Italian heritage as well. This means that even if globalization makes it possible to manufacture products in many different countries, it is essential for a luxury brand to maintain its origins, claiming production in a country that has some meaning or relation to it. This exemplifies why a luxury brand, even though globalization enables the possibility to delocalize production everywhere, must resist this temptation in order to remain consistent with its offerings. In fact, "a product whose production centre has been relocated loose its right to be called a luxury product" (Kapferer, Bastien, 2012, Pag.13). What does globalization mean for luxury products? Indeed, globalisation gives access to worldwide sources with an affluent heritage; denim in Japan, silk in China, cotton and embroideries in India, and leather in Italy. Alternatively, it provides an opportunity for luxury brands to enlarge and diversify its client database, pushing global boundaries and positioning themselves in such territories.

As the law of globalization affirms, it is better to have a small nucleolus of clients in many different countries instead of a large nucleon of clients in a single country. To conclude, globalization gives the possibility to a luxury brand to expand globally, but the roots of the brand must remain firmly rooted. The final force of change for the luxury industry refers to communication. Communication, through specific tools such as travel, mass media, internet and television, allows the public to become self-aware about different cultures, styles, habitus, and standard ways of living that characterize our planet. This essentially means that people have access to a vast field of knowledge, enabling achievable and unachievable designs and possibilities for themselves, deciding their own social stratification belonging.

1.3 A SOCIAL PERSPECTIVE ON LUXURY GOODS

1.3.1 Why people buy luxury goods: Conspicuous consumption

An additional aspect leading to the importance of luxury goods in modern society is relatable to the reasons that forcibly contribute people to desire to buy luxury goods. A main theorist on this topic was, as seen above, Thorstein Veblen, which in "The Theory of the Leisure Class", he invented the terms "conspicuous leisure" and "conspicuous consumption", both of which defined the upper-class behaviour that formed in the 19th century due to the Second Industrial revolution[4]. Furthermore, the two aforementioned behaviours have the goal to "show off", externalizing one's wealth and possessions to the rest of the society. As Veblen writes in his book, "In order to gain and to hold the esteem of men it is not sufficient merely to possess wealth or power. The wealth or power must be put in evidence, for esteem is awarded only on evidence" (Veblen, 1899: Pag.29).

[4] On Veblen's thoughts see Dorfman, Joseph, 1935 and William M. Dugger, 1979.

The only notable difference between the two terms is that conspicuous leisure is preferable to adopting specific form of leisure, such as practicing noble sports or taking long vacations in upper class locations, whilst conspicuous consumption is indicative of buying and consuming specific products and services. For Veblen, humans behave in this way for two main reasons: the social stratification, and the division of labour. Essentially, the social stratification of society founded its best development during the higher stages of the Barbarian culture, for instance, in feudal Europe or feudal Japan, where the distinction between classes was rigorously observable. In these two cultures, society was based on social classes instead of merit; economic and social efforts. Alternatively, the division of labour is strictly relatable to the social stratification. This encourages high-class society to practice specific types of occupations such as governmental seats, war and sports, which are inefficient from an economic and productive point of view, whilst alternatively remediates low class people to practice high skilled labour, such as manual industry labour, seen as economically efficient and productive occupations (Veblen, 1899: Pag.8). Consequently, for Veblen, inequality among social classes creates an emulation driven by low social status class people to desire and respect the high-class league. Through this pattern, low-income people are willing to consume high price products to feel a sense of belonging to a higher social class, inconsiderate of unaffordability. Furthermore, for Veblen, the most common and effective way in which people afford an indication of pecuniary standing to all observations is through personal luxury goods, most notably through apparel. Arguably, expenditure on dresses has advantages in terms of expression of pecuniary consumption than other methods, considered by the fact that are consistently on display.

1.3.2 Conspicuous consumption: from the feudal to the modern era

It is interesting to observe that even if raised in the feudal era; both conspicuous leisure and conspicuous consumption continue to be present in the modern era, subsequently affecting the ways in which persons consume luxury goods in contemporary society[5]. Analysis of the following table represented by the image 1C, obtained by "The International Journal & Engineering Research, Volume 4, Issue 12, December 2013, page. 252" enables us to understand how conspicuous consumption has changed over time, relative to four variables such as:

1) The primary objects of consumption; types of goods consumers buy, visibly expressing their position in society.

2) The common drivers of behaviour; enablers that persuade consumers to purchase goods, visibly expressing their position in society.

3) Principal Behaviour dimensions; intentional purchases, allowing consumers to show off, visibly expressing their position in society.

4) Target consumers; what types of social class buy goods, allowing a visible expression of their position in society.

[5] "On conspicuous consumption as a status symbol see Geoff Simmons, Rodd McColl & Philip J. Kitchen, June 2008".

SOCIAL STRUCTURE	PRIMARY OBJECT OF CONSUMPTION	DRIVERS OF BEHAVIOR	CONSUMERS TYPES	PRINCIPAL BEHAVIOR DIMENSIONS
Precapitalist-Feudal Era	Slaves, women, food	Military and political powers	Nobility	Pure ostentation
Modern-Capitalist Era	Very expensive products	Social power: status	Upper and middle class	Signaling status and uniqueness
Post-Modern Era	Image and experience: the brand	Self expression and self image	Middle class: the masses	Uniqueness and social confirmation

Figure 1C: Conspicuous consumption evolution

1.3.3 Conspicuous consumption today: the brand and the masses

The two most interesting aspects we can acknowledge due to changes in conspicuous consumption are those related to the primary objects of consumption, and of the actual target consumers. In the post-modern era, what people seek for in the act of buying luxury goods is no longer as tangible as it was in the pre-capitalistic feudal era (slaves, women, food), nor in the modern capitalist era (very expensive products). Contrarily, it is an intangible notion created through image, customer experience, and product quality; features all apparently included within luxury brands across the global market. The aforementioned changes are a result of the specific laws defined in the pre-capitalistic and modern capitalistic era, in which different social classes were obligated to abide by permitted and forbidden rules in regards to dress, including a maximum price limit allowed to spend for an article of clothing. The rationale behind the laws was to create a visibly recognizable distinction between upper classes, and medium and lower classes, duly achieved by reserving specific fabrics and ornaments only for the former. (Jee Han, Nunes, Drèze, 2010: Pag. 15-30).

In comparison, persons living in the modern era are freely able to have access to a watch, a car, a bag or a coat; thus, one can suggest their belonging to a specific social class through distinctive brands. Explicitly, a woman buying a Gucci bag is intending to show off an affluence unachievable to most, versus a woman purchasing a Michael Kors bag. The brands, displayed prominently through design in both cases, express a multitude of social theories amongst consumers. Kors, known for offering accessible luxury products is incomparable to the high quality, luxury, and heritage that Gucci offers. What about consumers that prefer to purchase luxury products without garishly identifiable logos such as Bottega Veneta?

In the article "Signalling Status with Luxury Goods: The Role of Brand Prominence" the authors define the extent to which a brand signals its logo as "brand prominence". Indeed, luxury companies can decide to offer products with less conspicuous branding to ensure its appeal amongst various target consumers. This strategy, commonly used by companies to balance between "loud" and "quiet" branded products enables the vendor to satisfy tastes of a wider number of consumers.

Figure 1C: Low brand prominence VS. high brand prominence

Through a self-derived interpretation of the design of two Gucci loafers illustrated above, we can assume that the first image is recognizable only to persons working in, or following the field of Fashion, able to identify the brand through a small metal detail on the toe. The second, a voyeuristically identifiable shoe, with its all-over Gucci print and classic Green-Red-Green trimming, recognized effortlessly by the masses in an example of high brand prominence.

1.3.4 Identifying consumers through their extent to luxury brands

The article "Signalling Status with Luxury Goods: The Role of Brand Prominence" proposes a study in order to identify why some consumers prefer loudly brand products versus quiet and less unidentifiable, and is illustratively developed by a taxonomy dividing consumers into four groups in relation to two variables. The first is wealth; supported by the notion that consumption of luxury goods increases with an increase in income. The second variable is the need and desire for status, acknowledging that people buy luxury products via personal quest and demand to gain prestige and a sense of belonging to a specific social class. An interesting insight emerging from the taxonomy is how exactly people choose brands to associate, or dissociate, themselves with as a typical brand user. Majority suggests consumers choose a brand in order to express their desire to associate with a specific reference group, and dissociate with others, however, there are certain cases in which the desire for a consumer to associate with a specific brand user does not explicitly imply the desire to dissociate from other groups. Considering this information, we can identify four classes of consumers (Jee Han, Nunes, Drèze, 2010: Pag. 15-30):

1) Patricians

Patricians possess a high amount of personal wealth with a preference for luxury goods that have less brand prominence in order to express subtle signals through purchases. Patricians are not concerned in dissociating, nor separating themselves with other groups, but instead are concerned with associating themselves with other Patricians.

Patricians are keen on brands such as Hermes, Bottega Veneta and Loro Piana, vendors typically known for not exploiting obvious branding techniques.

2)Parvenus

Parvenus typically possess a high amount of wealth but lack an absolute amount of cultural capital to understand patricians' subtle signals. Their purchasing patterns often include luxury goods that have a strong brand prominence. Parvenus are indeed concerned with dissociating or separating themselves with other groups, including other Parvenus or Patricians. Parvenus are keen on brands such as Gucci, Fendi, and Louis Vuitton.

3)Poseurs

Poseurs do not possess a high amount of wealth to enable genuine luxury good purchases. Poseurs are strongly concerned in dissociating or separating themselves with other groups, specifically desiring to associate themselves with a class able to demonstrate the financial means for goods affordability, such as the Patricians and Parvenus. Poseurs are keen on brands such as Gucci, Louis Vuitton and Dolce & Gabbana; however, they are only usually able to own counterfeit items.

4)Proletarians

Proletarians usually do not possess a high amount of wealth to allow luxury good purchases, and are therefore not considerable consumers of affluence. Proletarians are not usually concerned with dissociating or separating themselves with other groups, nor are they precautious in associating themselves with other groups. Proletarians do not intentionally buy branded products.

Developing the four-aforementioned brand-related consumer categories, I have focused on two main consequences that should easily explain typical consumer buying behaviour. The first, and most plausible consequence, provides an understanding of the relationship between price and brand prominence. Upon entering a luxury goods shop, it is almost immediately obvious that products with a strong brand prominence are considerably lower in price than their equivalents with a low brand prominence, creating a negative correlation between the cost and brand expression via product design. The following examples represent two Néoné Louis Vuitton bags of the same model. The first image, is a less explicitly branded model with a minimally blind logo stamping priced at 1590 EUR. In comparison, the second, an unmistakably recognizable Louis Vuitton item, with its classic LV all-over monogram, is significantly lesser priced at 1140 EUR.

Figure 1D: Louis Vuitton Néoné bag example

This analysis supports the idea that a class of consumers, the Patricians, do indeed possess an awareness when it comes to spending a higher amount of money for products that do not portray a strong brand prominence; adhering to the fact that Patricians do not have the need to dissociate themselves with other class groups.

The second consequence is associated with the relationship between counterfeit products, and brand prominence[6]. An easy observation on the streets of Venice, Milano, Roma, or Napoli, is that in the majority of counterfeit vendors are offering products, generally handbags or small leather goods, which possess loud and conspicuous branding. Debatably, counterfeit purchases are generally endorsed majorly by the so-called Poseurs; such consumers that do not possess the economic power to buy luxury goods, but wish to distinguish themselves from other groups while associating with Parvenus. Considering that Parvenus generally invest in strong brand prominence products, it is suggested that counterfeit items are those that explicitly show off recognizable branding, in alternative to the less garish products with little-to-no branding that are often bought by Patricians. To conclude, we can affirm that luxury goods manufacturers indirectly, or directly, have founded their basis on Veblen's consumption theory in which consumers buy products in order to visibly express their wealth and social status. Based on the understanding that a sizeable amount of profit generated from luxury brands derive from trading down strategies, the luxury industry subsequently shifts its position, from an exclusive market, to an inclusive one. This concurrently alters the Veblen consumer distinction between upper and lower social class to a more complex consumer base, where luxury goods are used for many different purposes, and in many different ways.

[6] "On the reasons why people buy counterfeit luxury goods see Keith Wilcox, Hyeong Min Kim, Sankar Sen, April 2009".

1.4 A QUANTITATIVE PERSPECTIVE ON LUXURY GOODS

1.4.1 Introduction

Graph 1C: The global luxury goods sectors

As depicted in the graph above, data obtained annually by Bain & Company Worldwide Luxury Market Monitor in 2018, indicates the luxury market has achieved 1.171 Billion of revenues globally. Furthermore, each of the nine luxury segments performed positively with a growth at constant rate between 4% and 7 %, with the exception of the Private Jets & Yachts sector that incurred a loss of -3% at constant exchange rate. Growth at constant exchange rate is a parameter used that does not obscure companies' performance because of foreign currency fluctuations, allowing us a full overview of business performance and trends. The global luxury market consists of nine main segments from fine wines and spirits, gourmet food, fine art, high quality design and furniture, to private jets, and luxury cruises. However, the most important segments in relation to revenues and growth are the following three:

1) Personal luxury goods

These are kinds of self-purpose luxury goods, such as apparels, accessories, beauty, and hard luxury – watches and jewellery. Personal luxury goods in 2018 performed 260 Billion, with a growth at constant rate of 6%.

2) Luxury cars

Typically produced by world-renowned brands such as Porsche, Ferrari, Maserati, and Lamborghini; luxury car purchases offer extra features in comparison to standard, economic cars. In likeness to apparels, cars are one of the main ways in which people can show off status and affluence, and unsurprisingly, this sector was the best performing one in 2018, achieving 495 Billion with 5% growth at constant rate.

3) Luxury Hospitality

Interestingly, Luxury Hospitality is the third biggest sector, according to Bain & Company Worldwide Luxury Market Monitor in 2018, accounting for 190 Billion with 5% growth at constant rate. Luxury players like LVMH, Kering, and Richmond, are rapidly accumulating their investment on luxury hospitality with a belief that the future of luxury will not only consist of goods, but will also include luxury experiences. A recent and interesting acquisition was that of Belmond Hotel Group by LVMH. Belmond Ltd. is essentially a hotel company that operates under the Belmond brand, and embraces a portfolio of 45 hotels, in addition to other kinds of travel experiences in 24 countries; not limited to cruises, safaris and luxury rail, such as the Venice Simplon Orient Express [7]. The acquisition took place in December 2018, with the agreement officially communicated in April 2019 for a total amount of 2.6 € Billion. The transaction, as reported by the online leading magazine for current industry trends, Business Of Fashion, was one of the biggest successes for the French group since taking full control of Christian Dior for 7 € Billion in 2017.

[7] https://www.belmond.com

The motive for investment was described as a "consumer shift spending towards trips, health clubs, restaurants and entertainment and interest in shopping malls dwindles" [8] .

1.4.2 The personal luxury goods market

Graph 1D: The personal luxury goods evolution stages.

The personal luxury goods market is decidedly one of the most interesting segments in global luxury markets, accounting for more or less 20-25% of the global luxury market revenues via the fashion industry. Starting from the early 90's, the personal luxury good sector began increasing at a tremendously fast rate, being affected negatively only between the 2007 and 2009. In order to understand how the industry has developed over the years, Bain and Company in its 2018 Worldwide Luxury Market Monitor has identified six main stages: "sortie du temple", democratization, financial crisis, the Chinese bulimia, reboot, and the new normal.
The "sortieau du temple"(1996-2000) a jargon used to identify a period in which luxury goods brands shifted focus on their potential by concurrently amassing appeal to a more inclusive customer base, typically by reducing its position of exclusive luxury products.

[8] https://www.businessoffashion.com/articles/news-analysis/lvmh-to-buy-belmond-hotel-group-for-2-6-billion

The sortie du temple, however, was the beginning of arguably the most interesting, and most important phase for the personal luxury goods industry, the so-called democratization of luxury (2001-2007). Three main players characterized this succeeding phase: LVMH, Kering, and Richemont, whom are still the main drivers of this sector today. During the period of democratization of luxury, the most important strategies and theories developed by management of luxury brands communicated with consumers in a stronger and effective way, persuading them to invest in luxury products. This period of incredible growth, however, incurred a negative impact in 2008-2009 due to the infamous global financial crisis, a by-product of subprime investment lending. Revisiting the graph above, we are able to understand how the market for personal luxury goods decreased from 161 € Billion in 2007, to 147 € Billion in 2009, during the global financial crisis. Remarkably, the market losses were recovered by the Chinese bulimia from 2010-2014, initiating a Chinese consumption for luxury goods that revamped revenues up to 167 € Billion in 2010, and continue to be a main driver of luxury today. During the Chinese bulimia period, many brands began opening points of sales in main cities and provinces in China, and its immediate surroundings, however, the indicatively higher price point for luxury goods in the Chinese mainland, coupled with the continuous increase in spending powers, pushed Chinese consumers to travel to cheaper western countries, therefore boosting European sales of luxury goods. As a result, the so-called reboot (2014-2015) became a main consequence of the fifth stage that Bain and Company identify in regards to the personal luxury goods market, which in 2015 exploited sales to 245 € Billion. In the last two years, the market has achieved a new normal stability, touching 260 € Billion in revenues.

CHAPTER 2: A FOCUS ON THE PERSONAL LUXURY GOODS INDUSTRY

2.1 CHINA: THE MOST IMPORTANT PERSONAL LUXURY GOODS MARKET

2.1.1 Introduction

The luxury market in China took place during the 1990s, when luxury brand giants began to plant their position in first-tier cities. First-tier cities are referable as the most developed urban centres, relative to commerce, transportation, tourism, education, and more. The Chinese city tier system in specific is a type of hierarchical classification of cities reflecting differences in consumer behaviour, income level, population size, talent pool, and business opportunities. The cities considered as a sort of the first tier are Beijing, Shanghai, Guangzhou, and Shenzhen. Personal luxury brands, since the beginning of the 21st century, and after having achieved a certain level of knowledge, client appeal, and consistency on the most developed cities, began expanding to second and even third tier cities, increasing their presence and consumption of luxury in the Chinese market. The most pivotal step for the expansion of the luxury market in China was in 2001, when the nation finally became an inductee into the WTO, after fifteen years of negotiations. "World Trade Organization is the only global international organization dealing with rules of trade between nations. At the centre of the WTO, there are important agreements, negotiated and signed by the bulk of the world's trading actions and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers to conduct their business" [9]. Furthermore, in 2004, the Chinese Minister of Commerce published the Measures for the Administration on Foreign Investment in Commercial Fields aiming at facilitating foreign direct investments in China. "FDI represents the capital invested in a country that provides manufacturing and service capabilities for both native consumers and world markets" [10].

[9] www.wto.org
[10] www.investopedia.com

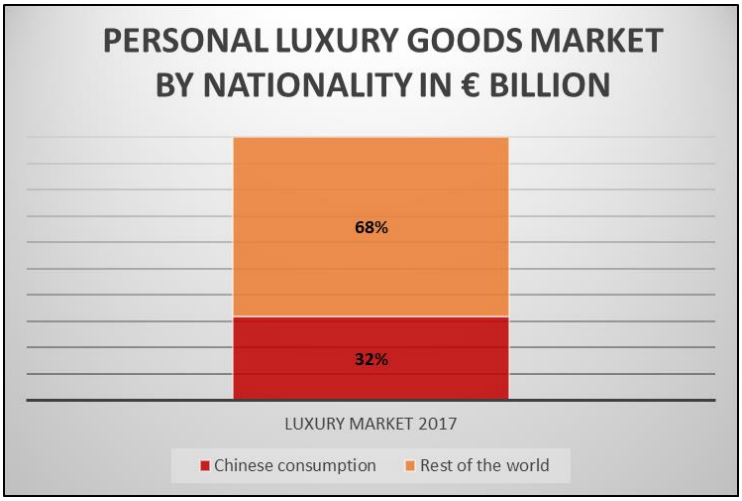
Consequently, in the early 2000s, China managed to overtake the US as the world's largest recipient of foreign capital, and since then growth has consistently continued. According to the statement released in early 2018 by the Chinese Ministry of Commerce in 2017, data indicates that 35, 652 foreign funded companies were set up in China, with an increase of 27, 8% versus 2016. Understandably, the political and economic shifts outlined directly affected the luxury industry in China. Accordingly, in the following part I will focus on how luxury consumption in China began steadily increasing since the beginning of the 21st century, catapulting the Chinese to become the main luxury consumers in the world.

2.1.2 The Chinese consumption of luxury goods

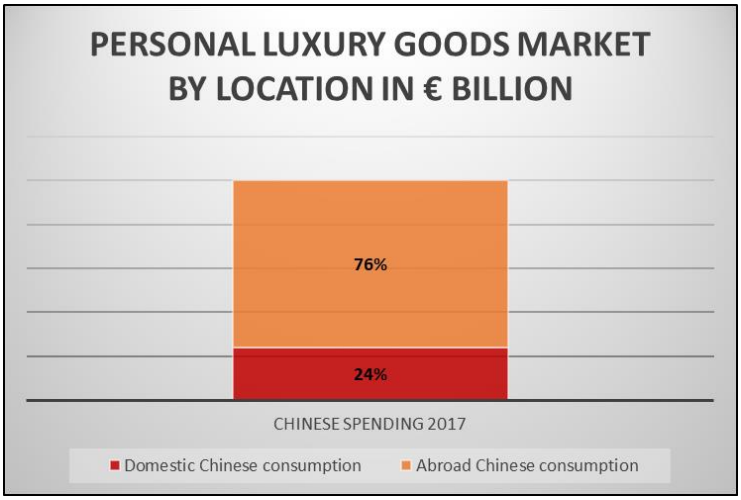
Graph 2A: The increase of Chinese consumption for personal luxury goods.

In the above data obtained by Bain & Company in "The Future of Luxury: A look into tomorrow to understand today, 2018", a very clear correlation appears between the political and economic shifts listed above, coupled with the increase in Chinese consumption of personal luxury goods. In fact, in 2000, the main luxury consumers were Japanese, American and European.

During the continental shift, in the lead-up to 2015, the trend inverted completely, projecting China to become the number one main driving force of the luxury industry. This correlation, however, cannot be defined positive one, or at least not at all. To dissect this information effectively, we first need to split the total Chinese luxury consumption into two totals: domestic and abroad consumption. To support this, we may refer to the graph below, with data obtained by Bain & Company in its annual Worldwide Luxury Market Report 2018.



Graph 2B: Chinese total consumption for personal luxury goods.



Graph 2C: Chinese Domestic VS. Abroad consumption for personal luxury goods.

Data illustrated in the graph 2B and 2C, suggests that in 2017, only 24% out of 32% of worldwide consumption of luxury goods within China happened in the mainland, whilst the remaining amount of 76% happened abroad. This interestingly acquired data allows us to understand Chinese consumer's tendencies, geared toward spending money in other countries outside of their native, with a respectful reasoning that luxury goods are generally cheaper in other continents such as USA and Europe. This trend related to three main variables, explained:

1) Tariffs, a tariff is a tax imposed by one country on the goods and services imported from another country that has the purpose to protect or encourage domestic industry by making them more or less attractive to foreign investors.. In China, tariffs can differ in relation to the purpose of teach type of luxury good; imported goods are categorically divided in relation to its own separate purpose. For example, a type of good existing solely for personal use versus one listed with an intention for merchandise purposes. If the luxury goods are categorically imported for merchandising, besides the import tariff, the Chinese customs additionally impose both a value added tax, and consumption tax. To summarise, the tariff is calculated by the sum of the import tariff plus the VAT (value added tax), and the consumption tax. Alternatively, if the luxury good is imported for personal use, duties are cheaper, as they only include a flat rate that can ultimately be divided into four import duty levels such as 10%, 20%, 30% and 40%, in relation to the type of goods imported into China. However, if the goods are bought for private use and do not exceed a certain quantity, customs do not impose any duties [11].

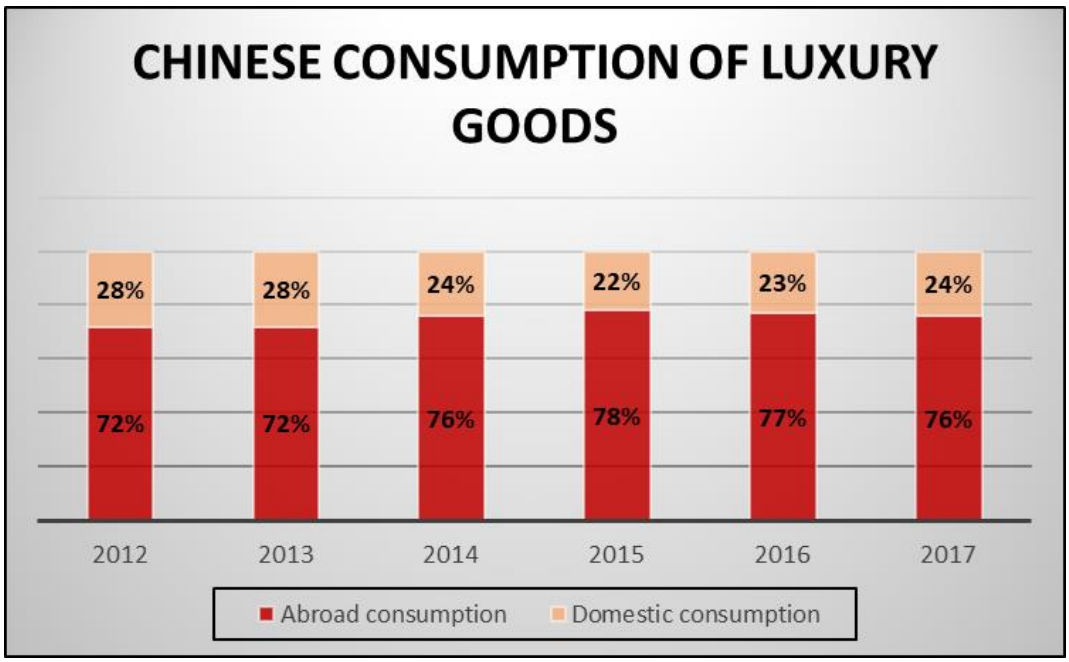
[11] http://english.customs.gov.cn/legislation/laws

2) "The total cost associated with delivering goods or services to customers. The marketing cost may include expenses associated with transferring title of goods to a customer, storing goods in warehouses pending delivery, promoting the goods or services being sold, or the distribution of the product to points of sale" [12]. In China, marketing costs can reach extremely high echelons, mainly due to the immense size of the country, including different geographical regions, heterogeneous consumer types, tastes, and behaviours. As a result, many foreign companies face an array of difficulties in order to focus on a specific target consumer.

3) Western Luxury brands often position their products in China differently with respects to other countries with a surpassing perception of higher quality, and a safety in knowing products have less probability to be counterfeit. Debatably, what pushes Chinese consumers to buy luxury products is relative of the reputation of the brand: the history, heritage, and the exclusivity. These three characteristics can arguably belong generally to Western owned brands, able to advertise and communicate their strategy through marketing and storytelling.

[12] http://www.businessdictionary.com/definition/marketing-cost.html

2.1.3 A change of route in the Chinese consumption of luxury goods



Graph 2D: A change of route in Chinese consumption for luxury goods.

The trend of purchasing luxury products abroad, however, is seemingly losing tract, forcing the Chinese luxury domestic market to increase year on year. The below graph, integrating the data obtained from the annual Worldwide Luxury Market Report 2018 with data published by Deloitte in The China Luxury E-Commerce Whitebook in 2017, informs us that even if the speed of consumption abroad by Chinese consumer has been higher than the domestic consumption till 2015, this trend began to reverse in 2016. Since this year, we witnessed an increase of the proportion of domestic consumption versus abroad consumption, "it is believed that this trend reversion is a result of price adjustment of luxury worldwide, RMB devaluation and taxation strategies, all of which have led to recovery of domestic luxury consumption" [13]. The additional graph 2E, with data collected in 2011 and 2017 by The China Luxury E-Commerce Whitebook 2017, displays the average price spreads between China luxury products, and worldwide luxury products.

[13] https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/cip/deloitte-cip-china-luxury-e-commerce-whitebook-en-180424.pdf

From the graph, we concluded that this spread has strongly decreased between 2011 and 2017.

Graph 2E: The Chinese decrease in personal luxury goods price spreads.

The two main explanations related to the price adjustments of personal luxury goods market in China versus the rest of the world are firstly due to government policies, and secondly, accredited to the trend of luxury brands aligning prices with European countries. Several government policies in China, typically published in 2015 and 2016, intended to increase domestic consumption of luxury goods in the mainland by ensuring a lesser-restricted imposition on duty taxes. Those with upmost importance, enlisted by the Public Information Consolidation and reported by Deloitte in 2017 are:

1) In June 2015, a policy erected aimed at reducing the import duty rate of apparels, business suits, skin-care products, footwear, sneakers, house decoration products and other daily necessities.

2) In January 2016, a policy aimed at enlarging the duty reduction scope of daily necessities, and reduce import duty by taxing with temporary rate for commodity with high duty rate yet high demanded like luggage, spares, scarves, rugs, sunglasses, and so on, was introduced.

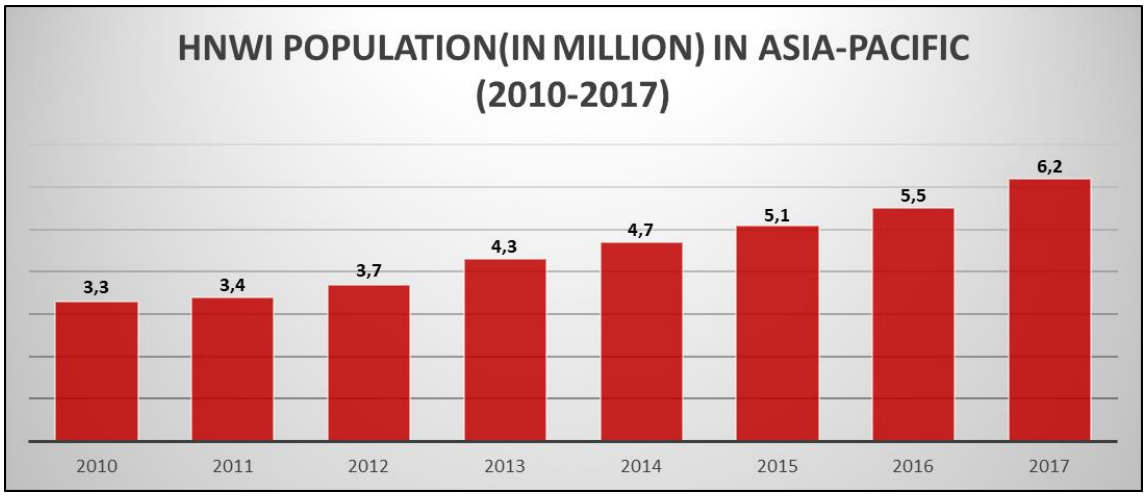
3) In September 2016, a policy aimed at reducing the consumption tax of cosmetics import and export was initiated, effectively reducing the duty rate from 30% to 15%.

The second main explanation of increase of mainland consumption of personal luxury goods in China, stimulatingly denotes to luxury brand giants such as Chanel, Burberry, LV, Gucci and Hermes, which, since 2015 have attempted to reduce the gap between European and Chinese retail prices. We may refer to this kind of strategy within the industry as 'price harmonisation'. As reported in an article published by Business of Fashion on the 31st of July 2018, luxury brands are harmonising prices by reducing costs between 4-6%. This initial movement together with Chinese government pricing policies will surely help Chinese buying consistency in consuming inland, instead of abroad. Notably, the phenomenon of price harmonisation mostly affects the Chinese grey market, commonly referred to as the Daigou market, which has long thrived with the price differences between China and the West. As reported by Bain and Company in its China Luxury Study 2017, year on year, an estimated 70% of Chinese personal luxury consumers have bought goods from Daigou. A Daigou consumer, defined as a buyer purchasing luxury goods in the West with a resale potential in China, is able to offer a price that is marginally in-between the retail price of the two markets, thus resulting in a personal earning of profit. The Daigou market was initially born due to Chinese consumers travelling abroad, purchasing personal luxury goods for friends and family, however, since the 80s, emigration of Chinese to Europe in order to find a job or study steadily increased, altering the primary definition of a Daigo consumer. This occurrence consequently enabled new business strategies principally based on the resale of luxury goods through online platforms or social media. Social media outlets such as WeChat, Weibo or Taobao, which are more commonly used mostly in Asia, have rapidly become a type of virtual shopping centre, via which Daigou are able to exploit a real marketing promotion for typical western luxury brands, offering consumers seasonal new arrivals, and purchase ability of bestsellers from the most attractive and famous luxury brands.

Understandably, the lack of control over the grey market is a frustrating hurdle, negatively affecting almost every luxury brand. Attractiveness for direct purchasing power is lost, and consistency of consumers in China becomes unmanageable. Admittedly, the cycle can be paused by enabling luxury brands positioned in Asia to offer Chinese consumers a retail experience similar to that offered in western countries, including a comparable price match than that offered by the Daigou.

2.1.4 The Chinese luxury consumers

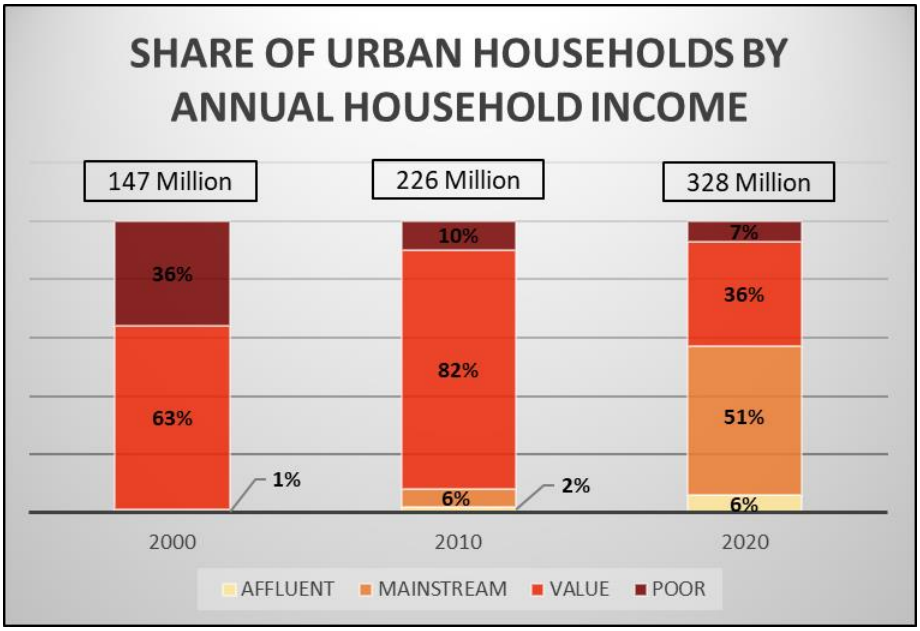
After grasping the size of the Chinese personal luxury goods market, and just how much it accounts on a global perspective, it seems inevitable to focus on Chinese consumer behavioural patterns towards luxury goods. According to the book Luxury in China market opportunities and potential, by Michel Chevalier and Pierre Lu, we can identify three main types of consumers illustrated as the main drivers of Chinese consumption of luxury goods, both inland and abroad, listed as followed: the very rich, the affluent and the middle class. Consumers identified as high-net-worth individuals, whom possess at least $1 Million, are definable as the "very rich" Chinese, according to the World Wealth Report 2018 by Cap Gemini and Merrill Lynch. As depicted by the below data collected in the recently cited report, the Asia-Pacific region consists of an estimated 6.2 million of HNWI population, more than any other region, and a remarkable increase of 12% on 2016, accounting for 5.5 million.



Graph 2F: The increase of the Asia HNWI population over the years.

These numbers become even more impressive if we consider in 2010, the HNWI population in Asia was merely 3.3 million. Specifically, the top two countries representing the HNWI are Japan and China, accounting for 71.5% of the region's total population. According to Cap Gemini and Merrill Lynch, High net worth individuals are spending more than 50% of their total expenditure on luxury goods[14]. Prominently, the "very rich" Chinese consumers, albeit growing year on year, and reportedly allocating more than half their spending into luxury goods, are not considered one of the main contributors that makes up the total 33% of the worldwide consumption of personal luxury goods. Instead, the most important categories of Chinese consumers are the so-called Mainstream, and Affluent types. Mainstream Chinese consumers typically report annual household income earnings between $16,000 and $34,000, whilst the latter earns an estimated annual household income higher than $34,000. As shown by the data collected by Mc Kinsney's report; Meet the Chinese Consumer of 2020, and represented in the graph 2G, these two categories of consumers are expected to cover 57% of the total population in China by next year, in comparison to 2010, when they were accounting for only an estimated 8% of the total population.

[14] "On luxury consumption in China see Lingjing Zhana Yanqun Heb, October 2012".



Graph 2G: The dominance of the affluent and mainstream Chinese consumers.

According to Michel Chevalier and Pierre Xiao, the two aforementioned categories of consumers have become the main contributors to luxury consumption not solely due to their increase in spending power, but mostly attributed to their desire toward conspicuous consumption. Conspicuousness in China is a strong consequence of the previously cited conspicuous consumption that affected the Western society as a direct result of the Industrial Revolution in the late eighteen, and early nineteenth centuries, birthing the so-called leisure class. Consumers recently classified as Mainstream and Affluent typologies, are generally descendants of war refugees, farmers, or fishermen that once their social ascendant begun, started to move to the so-called first tier cities, thus producing the effect of luxury goods consumption in order create an illusion they were perhaps belonging to an higher social class. Such families and individuals gave birth starting from the nineties to the Chinese Elite. In Luxury in China market opportunities and potential, the authors identify four different profiles of the Chinese Elite consumers, defined as followed:

1) Luxury lovers

A type of consumer that knows exactly what they want to buy, birthing a desire from informing themselves via the internet or social media networks before purchasing online, or also off-line. They consume luxury goods for conspicuous consumption, thus tend to buy products with distinctly recognizable logos. Luxury lovers are strongly rational in their consumption decisions, and are very difficult to persuade though brand advertising.

2) Luxury followers

In comparison to Luxury lovers, tend to follow the masses, impulsively purchasing due to brand influence, and advertising and communication campaigns. Furthermore, social networking platforms, considered as one of the strongest tools, possess power to insist Luxury followers toward consumption. Provided by the idea that Luxury followers tend to follow the mass, we can suggest affection by conspicuousness consumption will be more than that versus luxury lovers.

3) Luxury intellectuals

As their name suggests, tend to dissociate themselves with mass consumption by developing their own idea about luxury and consumption decisions. Defined as strongly individualistic; they are seemingly not affected by conspicuousness.

4) Luxury laggards

Largely considered as the least conspicuous consumption consumers, due to the fact they hold no interest neither in the products themselves, nor in the brands. Alternatively, their priority is purely functional and bears no emotion toward the aesthetic and idea of certain products. Luxury laggards are a type of consumers that do not appear personally affected by trends, nor by branding through advertising and communication.

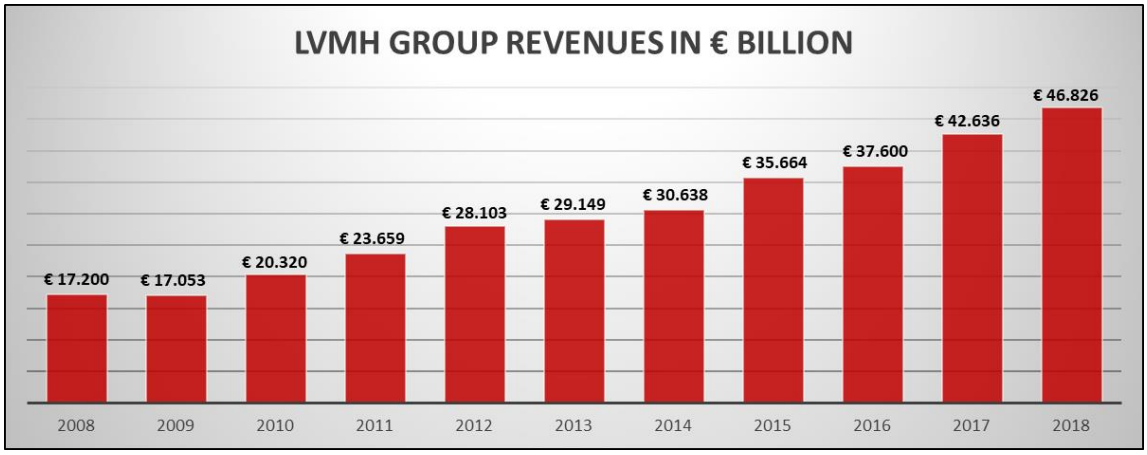
2.2 LVMH: THE PERSONAL LUXURY GOODS LEADER

2.2.1 Introduction

As stated in the previous chapter, commencing from the ending of the 20th century, three main luxury players: LVMH, Kering, and Richemont, began to compete in the monopoly of the personal luxury goods market. Today, the aforementioned giants are still the main competitors and contributors to the industry, continuously adding to their portfolio of brands via mergers and acquisitions, not only in the goods sector, but also in luxury hospitality, fine arts, and the fine wines and spirits segments. In order to understand just how these luxury conglomerates have evolved over the years, and via which strategies, I will focus in detail on the LVMH group. Moet Hennessey Louis Vuitton SE, generally also known as LVMH, represents, without any doubt, the main competitor in the personal luxury goods sector. LVMH is a French luxury conglomerate, centring its core headquarters one of the world's major luxury fashion cities: Paris, France. The company portfolio is made, thanks to majority, or absolute shares, by 70 exceptional luxury houses through which, as reported in the LVMH 2018 financial statement, operates in 70 different countries through 4,592 stores, enhancing a total revenue of 48.8 € Billion. A mean feat, considering this is more or less 20% of the total personal luxury goods market. The main holding company of LVMH is Christian Dior SE that, since 2017, owns 40.9% of the shares, and 59.01% of its voting rights. Bernard Arnault, the French titan, owns the majority stake in Dior and is the current Chairman and CEO of both companies [15]. According to Forbes, the Arnault family, listed as the fourth richest family in the world in 2018, is among the fifty most powerful families in the world. LVMH is a notably featured company on the Euronest Paris exchange; a constituent of the CAC 40, the main benchmark of the French stock exchange that represents the weighted measure of the 40 most important and influent companies among the 100 capitalized companies in the Paris stock exchange.

[15] https://www.lvmh.com/news-documents/news/

As depicted from the following graph, the luxury conglomerates have grown at an alarmingly fast rate in the last 10 years, performing almost every year at double-digit increase in revenues. However, in comparing said graph with one representing revenues of the personal luxury goods market, we can detect many similarities. In 2009, the year of the global financial crisis, we are able to identify the only year since the beginning of the 21st century that the luxury group evidently suffered, preforming a -4% in revenues versus 2008, however, it is duly noted that the impact was very low with respect to the world-wide personal luxury goods market, performing at -7.5%. Nevertheless, since 2010, the French luxury conglomerate's revenues growth has been incredibly steady due to the Chinese bulimia, and subsequently, the reboot of the personal luxury good market.



Graph 2H: The increase of LVMH revenues over the years.

2.2.2 From a Parisian shop to worldwide leadership

In 1854 a Parisian entrepreneur in Rue Neuve des Capucines, opened his first leather goods and luggage shop called "Louis Vuitton: Mallatier a Paris". It was the birth of what would become the most imitated brand around the world. It was during the beginning of the 20th century that Vuitton began recognition by the upper Parisian class, specifically through the development of some famous trunks. The new, modern, and luxurious concept of said trunks produced an incomparably immediate and strong success, enabling Vuitton to produce them especially for the courts of many Kings.

Another important event influenced the incredible success of Vuitton during this time: the invention of the "Damien Canvas" pattern. In 1892, with the unfortunate death of Vuitton himself; his child, George, in 1896 developed the so-called LV monogram, which duly became the unrecognizable logo of the company. The logo, officially registered under Louis Vuitton, became a real status symbol in its own right. During the 20th century, the Louis Vuitton brand become increasingly international, positioning itself in the USA and Asia, including the opening of a unique boutique in Beijing. However, the pivotal moment for the brand took place in 1987, with the quotation on the Paris stock exchange market, coupled together with the merger of Moet Hennessy. The latter, formed after 1971 through the merger between the champagne producer Moet& Chandon, and the cognac manufacturer Hennessy, officially gave birth to Louis Vuitton-Moet Hennessy.

Since the beginning of their merger, the luxury holding began positioning itself as a forceful luxury player, based on elegance, heritage, high quality, and creativity. Due to misunderstandings among the two CEO's of each group, Bernard Arnault took full control of the holding a mere one year following the official merger, becoming majority shareholder thanks to the support of Lazard investment banking. Arnault himself gave prominence to a series of merger and acquisition strategies, repeatedly focusing on the fusion between innovation and tradition, to enhance excellence in quality of products and services, allowing an additional focus on talent acquisitions. Some of the most important acquisitions are attributed as: Givenchy in 1988, Berluti and Kenzo in 1993, Guerlain in 1994, Celine and Loewe in 1996, Marc Jacobs and Sephora in 1997, Tag Heuer in 1999, Fendi in 2001, Bulgari in 2011, Loro Piana in 2013, Rimowa in 2016, and ultimately, the acquisition of Christian Dior in 2017.

2.2.3 LVMH competitors: Kering and Richemont

As stated, LVMH is not the only holding operating in the personal luxury goods sector, an additional two major competitors being Kering and Richemont. Kering S.A. bases headquarters in Paris, founded in 1963 under the name of Pinault S.A. by Francois Henri Pinault, whom is still today the Chairman and CEO.

According to Forbes, in 2018 the Pinault family entered as one of the 30 richest families in the world. Since 1988, the French group registered on Euronext Paris becoming, together with LVMH in 1995, a constituent of the CAC 40. Kering began focusing on the luxury sector only after the historical acquisition of Guccio Gucci Spa, also known as Gucci, in 1999. Since then, Kering financed major important acquisitions in the retail industry, such as the French furniture retailer Conforama in 1991, The Parisian Department store Printemps in 1992, and a French book store in 1994 known as FNAC. The consequent acquisition of Gucci became the first investment of many; in fact, Kering concurrently acquired Yves Saint Laurent in 1999, Bottega Veneta, Balenciaga and Alexander McQueen in 2001, Brioni in 2011, Yoox in 2012, and Christopher Kane and Thomas Maier in 2013. Compagnie Financièere Richemont SA, also known as Richemont, is the second main competitor of LVMH, based in Geneva since founding in 1988 by Johan Rupert, the fifth richest family in Africa. The group sits on the SIX Swiss Exchange, Switzerland's principal stock exchange, and additionally on the JSE Securities Exchange, Africa's oldest and largest stock exchange. Born as a tobacco trading and licensed company, the holding started to focus on the personal luxury goods sector in 1970 with stakes acquisition of Cartier and Dunhill, which owned the brands Montblanc and Chloé. Like Louis Vuitton for LVMH, and Gucci for Kering, Cartier became the cornerstone and cash cow for Richemont (Thomas, 2008: Pag. 56-57). Other important acquisitions, especially in the hard luxury industry, were Van Cleef& Arpels in 1999, Jaeger LeCoultre, IWC and A.Lange & Sohne in 2002, Azzedine Alaia in 2007, and NET A PORTER.COM in 2010, that merged with Yoox some five years later, culminating in a full acquisition last year by the Geneva based luxury group. However, observing the financial statement of both the two luxury conglomerates, we can easily understand their inferiority in comparison to LVMH. In 2018, Kering registered revenues for 13.665 Million, versus 10.979 Million by Richemont. In comparison, LVMH recorded with a total registered revenue of 46.826 Billion. We can decidedly affirm that what most likely enabled LVMH to perform more than three times the revenues of its two main competitors are its international diversification and distribution strategies. These said strategies explained below through an analysis into how LVMH manages its internal structure.

2.2.4 LVMH diversification strategy

Divided into five sub-departments, the internal structure of LVMH operates autonomously among the following business groups: wines and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewellery, and selective retailing. Each sup-department operates in the respect of each single brands' tradition, thus increasing value and product quality. The main purpose of the group is to maintain each brand autonomously from the group, without affecting the heritage and the history behind them. In order to achieve this, each of the five sub-departments has its own administrative and strategic business unit, which has the common goal to enhance the best quality performance. To gain more information in detail regarding the internal structure management of LVMH, I have focused on the group's 2018 financial statement. Below, an in-depth description of each of the five sub departments.

1)Wines and Spirits

In 2018, this sector performed 11% of the total group revenues, achieving 5.143 Billion. Interestingly, this sub-department is driven by the sale of cognac (93 Millions of bottles sold in 2018), and champagne (65 Millions of bottles sold in 2018). The main contributing brands being Moet & Chandon, Dom Perignon, Ruinart, Krug, and Hennessey. Geographically, we can allude that the main market for this kind of business remains the USA, performing 32% of the total revenues, near-followed by Asia at 29% (6% notably performed by Japan), and Europe with 25% (of which 6% is contributed sales from France).

2)Fashion and Leather Goods

Of upmost importance, the Fashion and Leather Goods sub-department performs a total of 39% of the group revenues in 2018, and accounts for a total of 18.455 € Million. The 2018 performance accounted for 15% increase at a constant rate in comparison to 2017, which posted revenues for 15.472 € Million.

The key driver of this business, the main source of income, and core of the group, Louis Vuitton, achieved an outstanding 10 € Billion. Driven by its momentum of leadership in the fashion luxury industry, thanks to a perfect balance between both tradition and innovation, and fortunately exploited by the two creative directors at helm: Nicolas Ghesquiere and Virgil Abloh. Other important brands in this business section are Christian Dior, Fendi, and Berluti. Alternatively to Wines and Spirits, which illustrated the USA as its main contributor, Asia is the driver for fashion and Leather Goods, performing 42% of the total revenues (of which 11% is performed by Japan), followed by Europe with 32% (9% performed by France), and finally the USA, posting at a total of 18%.

3)Watches and Jewellery

The third sub department, the Watches and Jewellery business, performed 13% of the total revenues in 2018, achieving 4.123 € Million, and accounting for an 8% increase at constant interest rate versus 2017, registering revenues of 3.805 € Million. This growth is mainly due, as reported in the LVMH 2018 Financial Statement, by the creativity and strong performance of its brands delivered through their stores. The watch sector, which has always been a challenging market due to strong tradition and heritage, year on year has improved performance thanks to new routes and innovation. The main drivers of this sub-department are Bulgari, TAG Heuer, Hublot, and Zenith. All of the aforementioned brands are pursuing a strategy based on mixing creativity and tradition in order to increase the market share, thus amassing more appeal to millennials. Furthermore, provided by the fact that consumers still invest in these kind of luxury products in-store, strong efforts are made on improving the consumer retail experience through flagship store enhancements, and new points-of-sales, mainly in China and Hong Kong. The predominant focus of the Asian market is that, as recorded in the Fashion and Leather Goods business, an incredible amount of Watches and Jewellery consumption comes from Asia, performing 47% of the total business (of which 12% performed by Japan). Europe follows with 29%, and finally the USA with only 9%, lower shares in respect to the other businesses.

4)Perfumes and Cosmetics

Another important business model for LVMH is that one of Perfumes and Cosmetics, that in 2018 performed 6.092 € Million, accounting for 13% of the total group revenues. This sub-department showed a strong increase year on year, performing 9% increase at constant interest rate versus the previous year. The core strategy of this business is the strong flagship distribution, most notably in Asia.

Perfumes and Cosmetics, considered as luxury entry products, enable people to afford a "luxury" item without spending the same amount they would buying other products belonging to the same luxury brands such as a coat, a skirt, or a jumper. This is arguably the reason why, when we are watching TV, product advertisement under luxury brands are Perfumes and Cosmetics, and not Ready-to-Wear, or Leather Goods. Instead of licensing and outsourcing this sub-department production, LVMH is vertically integrating the production to align a higher control, and to enhance an already incredibly high quality. Even if not revealed that this business is one of the most competitive, the strong brand portfolio differentiation of LVMH gave the group the possibility to increase its market share, forcibly due to some of its most important cosmetic brands such as Dior, Guerlain, Parfums Givenchy, and Kenzo Parfums.

5)Selective Retailing

Last but ultimately not least, LVMH is operating in the Selective Retailing business, which in 2018 was the second best sub-department, performing 28% of the total revenue, and accounting for 13.646 € Million – even if the growth versus last year was much slower in respect to the other businesses listed. Selective Retailing is very important for brick and mortar shops. Considering there is a strong online presence through retail today, products such as those belonging to the beauty sector thrive on the brick and mortar model, fundamental in order to produce a live retail experience for the consumer. LVMH, as reported in its website, is trying to enhance this experience by offering dedicated professional staff, an innovative range of merchandise, and personalized products. The main driver of this sub-department is the cash cow Sephora.

With more than 1900 stores in all over 34 countries, its worldwide presence is only one of the few reasons why it awarded Retailer of the Year at the 2018 World Retail Congress. Two Travel Retail companies follow Sephora: DFS, and Starboard Cruise service, and finally Le Bon Marché, the historical department store attracting a number of tourists annually in the Rive Gauche of Paris, France. In comparison to the four previously listed businesses, Selective Retailing heavily relies on its physical presence in the USA, which accounts for 38% of the total revenues, followed by Asia with 29%, and Europe with 21% (of which 12% is performed by France).

WINES AND SPIRITS	FASHION	PERFUMES AND COSMETICS	JEWELLERY	SELECTIVE DISTRIBUTION	OTHER ACTIVITIES
Ao Yun	Berluti	Acqua di Parma	Bvlgari	DFS	Cheval Blanc
Ardberg	Céline	Benefit Cosmetics	Chaumet	La Grande Epicerie de Paris	Connaissance des Arts
Belvedere	Christian Dior	Fenty Beauty by Rihanna	Fred	Le Bon Marché Rive Gauche	Cova
Bodega Numanthia	Emilio Pucci	Fresh	Hublot	Sephora	Investir
Cape Mentelle	Fendi	Givenchy Parfums	TAG Heurer	Starboard Cruise Services	Jardin d'Acclimatation
Chandon	Givenchy	Guerlain	Zenith		La Samaritaine
Cahateau Cheval Blanc	Kenzo	Kat Von D Beauty			Le Parisien
Chateau d'Yquem	Loewe	Kenzo Parfums			Les Echos
Cheval des Andes	Loro Piana	Maison Francis Kurkdjian			Radio Classique
Clos des Lambrays	Marc Jacobs	Make Up For Ever			Royal Van Lent
Cloudy Bay	Moynat	Marc Jacobs Beauty			
Dom Pérignon	Nicholas Kirkwood	Parfums Christian Dior			
Glenmorangie	Pink Shirtmaker	Perfumes Loewe			
Hennessy	RIMOWA				
Krug					
Mercier					
Moet & Chandon					
Newton Vineyard					
Ruinart					
Terrazas de los Andes					
Veuve Clicquot					
Volcan de mi Tierra					

Figure 2A: LVMH group owned brands.

2.2.5 The LVMH-Bulgari Agreement

After explaining how the Louis Vuitton-Moet Hennessey group was born, and how the luxury conglomerate manages its five different sub departments around the world, I considered it an interesting contribution to report in my thesis data and information collected in the Journal of Brand Strategy Pag. 389-402 co-authored with Oliver Tabatoni, regarding the LVMH-Bulgari agreement that took place in 2011. The family owned Italian brand, and the luxury French group agreement is supportive in understanding the strategy that luxury conglomerates apply when merging and acquiring luxury brands. It provides insight into how important it is for a family owned brand acquired by a major group with the intention of increasing revenues, subsequently is able to finance global expansion needed to survive in the personal luxury goods market. Bulgari is an Italian luxury brand, founded in 1884, in Rome by "Sotirios Voulgaris", an Italian "Sotirio Bulgari", more commonly known as a silversmith that in 1881 decided to move from Ciprus to Rome to open his first jewellery shop in Via Sistina 85. In 1888, Sotirious married Aeromanian Elen Basio, with whom he had six children. Taking control of the shop was Leonidas Georgios (1890-1966), the father of the previous CEO Gianni Bulgari, the primary chair Paolo Bulgari, and the vice chair Nicola Bulgari. Initially Bulgari focus its business on silver Byzantine and Islamic art, combining traditional designs with floral motifs, evolving its style between the 20s and 30s to include more gold, and modern geometric motifs. In the 60s, the Italian brand became one of the most appealing jewellery brands in the world, when Rome started to be the cradle of "La Dolce Vita". In these years, the post war boom saw the return of precious metal, and Bulgari simultaneously moved to a new style characterized by coloured geometric and symmetrical shapes, with gold and brilliant gems. With many famous clients such as the British-American actress Elizabeth Taylor, the Italian stage Anna Magnani, the Swedish actress Ingrid Bergman, and the photojournalist and sculptor Gina Lollobrigids, Bulgari started to open stores in the most important cities around the world such as New York, Geneva, Paris and Monte Carlo.

Between the 70s and 80s, Bulgari became one of the most sought after jewellery luxury brands, and subsequently entered into the Watches business with its first BVLGARI BVLGARI watch line. The success was so big that in a mere five years, the Italian brand, in order to oversee production, opened Bulgari Time in Switzerland, the acclaimed land of horology. In 1984, as reported on the Bulgari Website, Gianni Bulgari left the company, instantaneously selling his one-third stake to the two Brothers. Overtaking the position of CEO was Francesco Trapani, nephew of Nicola and Paolo Bulgari, and child of their sister, Lia. The 90s were years of strong changes for the Bulgari business; characterized by three main novelties. In 1993, Bulgari launched its first fragrance, entering in the word of beauty in an attempt to make consumers perceive the Italian luxury house as a more accessible brand. As in the case of Watches, to oversee the production, Bulgari enhanced a vertical integration founding Bulgari Parfums, once again in Switzeland. In 1995, Bulgari entered in the financial word, listing on the Milan Stock Exchange. Lastly, in 1996, Bulgari expanded its brand in the fashion accessories industry offering Leather Goods and Eyewear products. Debatably, the most important century for the Italian family owned company was the 21st. At the beginning of this century, Bulgari started to grow at an incredibly high rate; mainly due to the vertical strategy already integrated at the end of the 20th century. The Italian brand acquired two watchmaking, and one fine jewellery-making brand, known as Gerald Genta, Daniel Roth, and Crova, respectively. Furthermore, in 2009, to confirm the expansion strategy at the base of the brand's growth, Bulgari made a joint venture with Marriott International, a world-renowned leader of the hospitality industry, opening its first Bulgari boutique hotel in Milan in 2004. Today, the brand owns luxury hotels in the most fascinating cities around the world such as Dubai, London, Bali, Shanghai, and Moscow. The turning point, however, was on the 7th of March in 2011, when the personal luxury word was shocked by the news that LVMH acquired a majority stake in Bulgari, following 128 years of family owned business management, for a total amount of 3.7 € Billion. The main features of the deal were as follows (Oliver Tabatoni, 2013: Pag.389-402) :

1) The Bulgari family abandoned its controlling stake in Bulgari in exchange for 16.5 € million shares of LVMH, becoming the second largest family shareholder of LVMH.

2) Francesco Trapani, Bulgari former CEO, joined the board of directors of LVMH as representative of the Bulgari family stake.

3) Francesco Trapani named head of Watches and Jewellery LVMH business.

"Bulgari is one of the best known jewellery brands in the world, with lots of potential to grow on the back of LVMH's global distribution reach and financial muscle" [16]. The main reason for the LVMH-Bulgari agreement that the Italian luxury brand, even considering the various brand extensions, and vertical integration strategies listed above, was ultimately facing a turning point. The predominant issue was related to financing the international and accelerated expansion of its DOS -directly operated store- and owned point of production, that are at the base of globalization and increase of revenues. Furthermore, Bulgari was no longer able to control its point of sales in order to deliver a decent in-store experience for its consumers. The lack of control and scarcity of resources to compete at global level obliged the Bulgari family to search for a different source of capital, a fundamental component for a luxury brand that is considering acquisition for its source of capital. As commonly known, luxury brands are by definition due to their core identities and heritage. This is why in case of merger and acquisition, the biggest risk is that they lose their individual brand identity. The LVMH-Bulgari agreement is a great example in order to show that the source of capital provided by luxury conglomerates, by not only the French luxury leader, but also Kering, Richemont, and even Prada Group, are essential in order to preserve the brand's intangible value. It is quite clear that for a luxury brand, receiving source of capital from investment groups or private equity is not the same as receiving it from a luxury groups, because the latter capitalizes on an understanding of the principles of luxury strategy.

[16] Luca Solca, Bernstein, 7 March 2011.

As reported in the book by J.N Kapferer and V. Bastien, The Luxury Strategy, their money comes with synergies, expertise, skills, talents, and respect of time in order to enhance expansion of prestigious luxury brands. This is arguably why the LVMH-Bugari agreement gave the Italian Jewellery maker brand a possibility to benefit by becoming part of a luxury group reinventing luxury worldwide, obtaining financial resources and talent, yet continues to maintain its identity and heritage. This was largely possible due to the fact the Bulgari family became the second largest family shareholder of LVMH, and interchanged Francesco Trapani as head of the Jewellery and Watches sub department, allowing the possibility to maintain control over the historical brand. Consequently, we can define the LVMH acquisition of the prestigious luxury brand as a two-sided effect. The deal gave the opportunity to Bulgari to expand its presence rapidly through directly operated stores, and through brand expansion, enabled the chance for a new product offering, providing the opportunity to the brand to move from jewellery and accessories to leather goods production, which would become a core business for Bulgari. The deal additionally facilitated Bulgari by the strong expertise of the French group in making leather goods during the early stages through the Louis Vuitton leather goods production. Simultaneously, LVMH, which prior the acquisition, had a notably weak jewellery and watches division, boosted sales completely by adding 1 billion in Bulgari revenues. This win-win strategy is probably the most important point of the LVMH-Bulgari acquisition. Moving forward to the financial perspective, another important consequence of the LVMH-Bulgari agreement is relative to the Italian brand P/E ratio, which achieved the incredible amount of 69. Calculated by dividing the current Market Value per Share of a company by its Earnings per Share is a P/E ratio. In the specific case of Bulgari, it means that the day after the acquisition, investors were willing to pay a price equal to €69 for every euro of the company profit.

$$\frac{P}{E} ratio = \frac{MARKET\ VALUE\ PER\ SHARE}{EARNINGS\ PER\ SHARE}$$

Analysts generally believe that if a well-known company has a low P/E ratio, it is more beneficial due to the fact it will take less time for the company to buy back its share, thus the lower the P/E ratio, the better the company is. Successively, we can ask why the 69 P/E ratio during acquisition was a good factor for the Bulgari Company. In the Journal of Brand Strategy Pag. 389-402 co-authored with Oliver Tabatoni, the meaning of price and earnings are deeply analysed by the statistic that they are strongly different. The latter refers to the income earned by the company during the course over years, whilst the price refers to the market capitalization that summarizes expectations about future earnings. From a qualitative perspective, we can summarize that price is about "dreams", attributed to two elements: future profitability, and growth. Qualitatively, investors looking toward the P/E ratio need to analyse in detail prior to investing. A high P/E ratio can be assumed either when poor results (typically due to low earnings) are achieved within a context of reasonable dreams (high price), or, when decent results (commonly due to high earnings) are achieved within a context of above average dreams (high price). The two following tables report the P/E ratios together with the Net Profit Margin of some of the most competitive companies in 2011, during the pivotal moment of the LVMH-Bulgari agreement.

FIRM	PRICE EARNING RATIO	NET PROFIT MARGIN(%)
Bulgari	69	7.0
Hermès	51	20.3
Shisheido	39	2.4
Prada	36	12.5
Estèe Lauder	30	8.7
Tiffany	25	11.9
Ralph lauren	24	10.5
Richemont	20	17.0
LVMH	17	16.9

FIRM	PRICE EARNING RATIO	NET PROFIT MARGIN(%)
Google	20	26.8
Pepsico	16	9.9
P&G	16	13.9
IBM	15	14.7
Apple	15	24.1
BMW	7	7.8

Figure 2B: P/E ratio comparison of luxury and non-luxury companies.

Comparing the P/E ratios of non-luxury companies against luxury, we are able to observe that the latter have much higher P/E ratio in comparison to the former. This is mainly due to luxury companies selling dreams, thus resulting in very high prices taking into consideration future expectations and growth.

A deep analysis of the luxury industry denotes that the net profit margin of Bulgari is close to the net profit margin of Estée Lauder; thus, an investor would expect a Bulgari P/E ratio close to 30, whilst instead it is more than two times this. Arguably, the only explanation of this incredibly high result is that the financial markets, because of the LVMH-Bulgari agreement, assumed a very high expectation from the Italian luxury brand. During an interview after the acquisition, the CEO Francesco Trapani highlighted the importance of the LVMH-Bulgari agreement for the Italian luxury brand, enabling the exploit of international growth. We can conclude that since the end of the 20th century, simultaneously with the rise of the luxury conglomerates, competition in the luxury industry has steadily increased, forcing companies to find additional sources of investments to support global expansion, whilst continuing to maintain high production standards. Profit, most of the time, is not enough to support these kinds of investments, and only luxury groups are typically able to generate and provide enough monetary value for supporting companies. The LVMH-Bulgari agreement is only one of the few examples that indicate just how important it is for a family owned luxury company to enter in a luxury group. Such acquisitions support internal brand enhancement, logistic development, better skills in retail experience, and further technology and synergy, whilst maintaining the unique and fragile charisma that lies in a company's brand intangible values.

2.3 BRAND MANAGEMENT IN PEROSNAL LUXURY GOODS INDUSTRY

2.3.1 Introduction

Company assets can be of two types, tangible or intangible. The former is easily observable and inherently measurable due to assets such as machineries, equipment or buildings. The latter, intangible assets are often difficult to perceive and therefore evaluate, as they are of an immeasurable quality. Marketing, management skills, and brands themselves are considerably the most important intangible assets as they attribute and influence strong consequences toward the performance results of businesses. According to Kevin Lane Keller, one of the most important theorists of brand management, in order to define what a brand is and understand its importance, we must first create a distinction between the consumer and the company perspective.

From the consumer point of view, a brand can:

1) Influence the consumers purchasing decision process by reducing the time spent sourcing product information and particulars.
2) Reduce the consumers purchasing risks by producing warranties.
3) Create a consumer's product trust and loyalty.
4) Aid consumers in creating their own self-image, enabling communication with others.

From a company point of view, a brand can provide many other different functions, listed to but not limited:

1) Offer legal protection for the company through practices such as trademarks or copyrights.
2) Overestimate the company value in case of eventual merger and acquisition.
3) Create an extra profit in selling products.
4) Increase market awareness of the company.

Focusing primarily from a consumer point of view, we can affirm that the key role of a brand is to influence consumers in their decisions, manipulating a perception that products belonging to the same category are not the same, and instead are definable via specific features that differentiate one from the other, especially relative to quality, heritage, and provenience. It is evident that branding is present everywhere, applicable to many different contexts, including physical items, services, retailers, E-commerce, people, organizations, and countries. For each of the aforementioned, a completely specific and strategic management is necessarily applicable in order to gain all of the previously cited advantages. Above any other products or services, personal luxury goods are strongly reliable on their own branding because it is impossible to imagine them without a brand[17]. Brands for personal luxury goods are one of the most important traits; according to J.N Kapferer, luxury consumers, the majority of the time, first decide upon their desired brand, and subsequently, the product itself. As stated in the previous chapters, nowadays, conspicuous consumption is controllable through brands. It is arguably only through brands, which could be of strong or low prominence that the consumer can interpret his desired social status, distinguishing themselves from others. In fact, if we think about very high quality artisanal products such as a Vicuña sweater, or a Swiss watch, even if these are unique objects, handmade, and richly possessing heritage and tradition, they are not enhancing social stratification. The only definable reason is that they are not owned by a brand. This is provable through distinction between the brand and luxury. A luxury brand is in the first instance a brand, and subsequently a luxurious object. This explains why countries like Morocco or India have not a presence of luxury brands, even if a very high tradition of artisanship is widely known, and accessible. (Kapferer and Bastien, 2012: Pag. 142).

[17] "On luxury brands see Heine and Klaus, 2012".

2.3.2 Luxury brand is about identity and not positioning

One of the main identifiable aspects when understanding marketing, and more specifically, brand management, is to identify the brand positioning. Brand positioning is the "act of designing the company's offer and image so that it occupies a distinct and valued place in the target customer's minds" (Kotler and Keller, 2006: Pag. 95). Positioning implies both the meticulous placement within the market that a brand has carefully targeted itself, and the wary influence toward a customer's assumption, providing a comparison in relation to the point of difference, and the point of parity of a brand versus its competitors. Points of difference are relatable to brand characteristics which consumers consider unique in relation to competitors, tending an illusion via appeal and attractiveness in the decision buying process. On the contrary, points of parity are types of brand's mental associations that consumers consider similar or equal to competitors. These kinds of characteristics are at first glance negative, yet, most of the times are necessary associations, fundamentally allowing a brand to achieve a certain level of credibility and legitimacy within a specific product category. Furthermore, positioning enables the importance of the intended marketing strategy, clarifying the routes for the success. The primary strategy points that define each brand positioning is relatable first to target consumers, and secondly to main competitors, and why and how the brand can differentiate itself to the latter. Marketing theories often define the luxury strategy as a way in order to position the product, in the mind of the customer, at a higher level versus its competitors, thus in the market, we can affirm that luxury brands do not deal with positioning but instead with identity. According to Kapferer, the brand identity expresses the most important traits of a brand; both tangible and intangible, useful, as positioning does, to define what a brand is and what a brand is not. The main difference between the two strategies is that luxury brand identity, through the definition of its main traits, does not take into consideration competitors, as positioning does.

The reason is that luxury brands are strategically manageable to allow consumers to belong in a world that exploits its inaccessibility and beautifulness, in doing so they prefer to focus on its unique identity instead of focusing on competitor's points of parity. In fact, luxury consumers do not compare one brand with another, and even if they do, they often face many difficulties. There are only a few brands in the personal luxury goods market that are comparable between one another through tangible and intangible facets, thus the only way to compare between them is through price. Conclusively, in luxury, price is the only driver for positioning. Kapferer, in order to analyse the brand identity as whole, developed a strategy that found its origin in the so-called identity prism. The purpose of the identity prism is to clarify all the six main traits of a brand; personality, culture, customer self-image, customer reflected image, relationship, physique, all of which arise though the interaction of four axes: internal traits, external traits, constructed source (the company), and constructed receiver (the client).

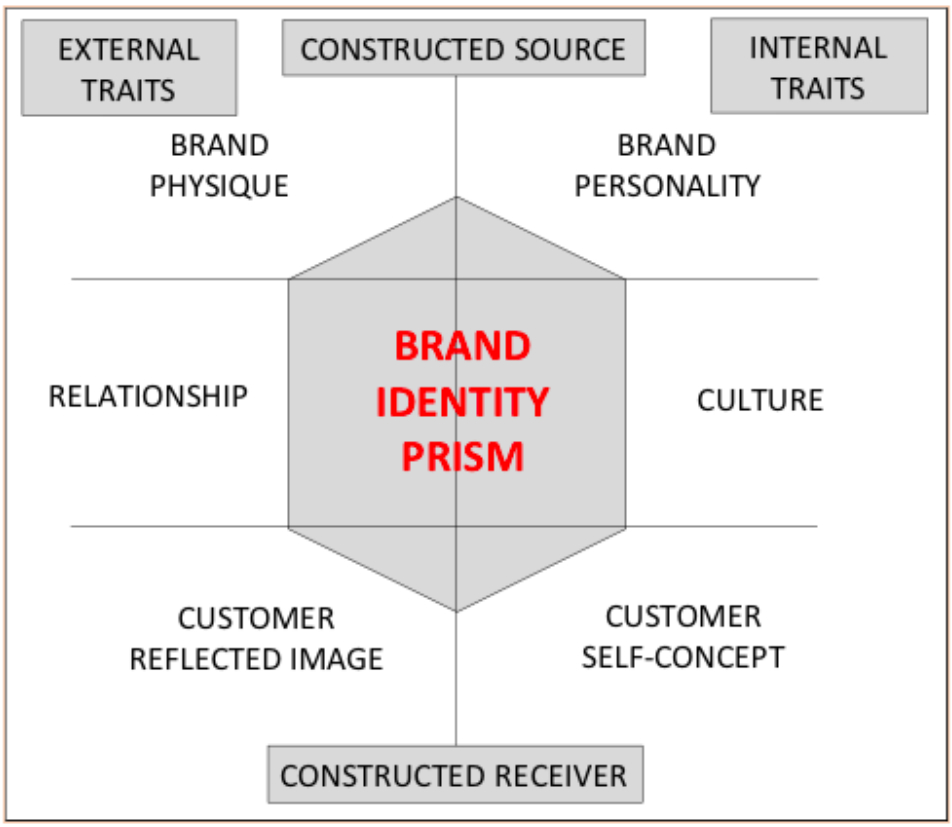


Figure 2C: The main traits of a personal luxury good brand

Starting from the constructed source, personal luxury goods brand traits, which deal with the internal environment, we can focus on both the brand physical dimension, and the brand personality. On one hand, the brand physical dimension deals with the brand's physical aspects, allowing the consumer to recognize that a product is available, and introduced into the market under a specific brand. This involves the definition of specific "codes"; signs, colour, materials, and prints that are uniquely attributed to the brand. Referring specifically to fashion, this implies that consumers attending a fashion show are able to recognize the Yves Saint Laurent identity without any brand logo present, instead observing their surrounding environment characterized by muted dark colours, linear, geometric shapes, and recognizable silhouettes. Such physical facets are very important as they produce a strong brand identity, subsequently communicated to consumers, which continue to associate familiar traits to said brand. The second personal luxury brand trait that appears as a by-product from the constructed source is the brand personality.

TOM FORD	ALESSANDRO MICHELE
	

Figure 2D: Tom Ford brand personality VS Alessandro Michele brand personality

The creative director himself enhances brand personality dimension, a role that entails the management of all creative activities, starting from the pivotal designing point, and ending with the campaign advertising. We can affirm that brand personality is the reflection of the creative director whom often needs to compromise his or her creative thinking to ensure the heritage and the history of the brand is not lost. As seen in the above image, one of the most plausible examples relative to brand personality is that of Gucci. Once an expression of sensuality and female attraction under the creative direction of Tom Ford, a contrastingly baroque and gender fluid identity appeared at Gucci, transforming the consumers' perception of the brand, under the appointed creative director, Alessandro Michele. Moving to the constructed receiver, types of personal luxury goods brand traits that deal with the external environment, we will focus on the customer reflected image and the customer self-concept. The first trait, consisting of the purpose of the brand communicating through its brand personality and physical dimensions, is an image of reflection to the receiver, the client of the brand. Through this trait, the brand can target a specific kind of consumer, not by defining them, but instead by grooming them to feel a sense of belonging that does not adhere to the image reflected by the brand. Revisiting the example of Gucci described in the personality trait, we can say that in the case of Tom Ford, Gucci offered a reflection of a seductive woman; independent, serious and classic. Contrastingly, via Alessandro Michele, Gucci tends to the reflection of a daringly fashionable woman, stylish, romantic, and brave. Often considered the key factor in brand stretching and brand extension strategies, brand traits are very important as a reflection, thus I will deeply analyse this admission in the next chapter. In both the above cited strategies, the purpose of the brand is to target different consumers, via a plethora of different customer reflected images. Drawing attention to the dominant line of the Milan based brand Prada, products designed for Fashion Shows suggest the reflection of an elegant man, classic yet fashionable, whereas via its secondary diffusion line, Prada Linea Rossa, the brand proposes the reflection of a sporty, stylish man. Both of these targeted clients share the desire for high quality, technical luxury products.

The customer self-concept facet, an opposite of the customer reflected image because it does not deal with the reflection of the targeted clients, focuses on how the personal luxury goods consumers develop their personality though the brand. This trait does not offer customers a way to reflect their image, but instead offers a self-expression. The two intermediary traits of the Kapferer identity prism are relationship and culture. Brand culture is the only brand identity facet that enables brand consistency and sustainability over time. Brand culture, definable as the company environment where employees live, indirectly affect and increase the brand's performances by improving the customer purchase experience. This is because retail is one of the most effective ways in which a personal luxury brand can exploits its culture, therefore enhancing the history and heritage of a brand. The last trait of Keller's brand identity prism is about relationship, the types of emotional connections that a brand wishes to instil to its customers. Client relationships are definable by both tangible and intangible features; however, it is the luxury brand itself that has the role to define to which extent to impose the emotional relationship. A probable example is that one of Hermes, arguably the most desired brand in the personal luxury goods industry. A notably key feature for its desirability is its self-proclaimed exclusivity, attainable only via an extremely inaccessible, exclusive relationship with its clients. Hermes does not portray interest in creating emotional connections with a mass of customers, and are notorious for often treating potential clients in an impolite manner. A reoccurring experience for consumers in Hermes is that there is seemingly no availability of the desired products. This process is attributable to the so-called retail strategy of Hermes, in which you must be an already well-known client, with a purchase history on entry products exposed in the shop. Alternatively, Gucci, considerably one of world-renowned luxury brands, thrives off the motto inclusivity, and not exclusivity. Such inclusivity is attainable by creating a very strong emotional relationship with its clients, treating them in an attentively caring manner, engulfing them in the Gucci world, therefore creating a sense of belonging.

After having analysed all the six main facets of the prism, we can conclude that to be relevant in the market, a personal luxury goods brand must develop and foster its own, unique identity prism. This tool would not only be useful in defining the main traits of a brand, but can also help managers to find a consistency in exploiting the main company strategies. Furthermore, the creative directors are able to define each creative stage communicated through the brand.

2.3.3 Brand extension VS. Brand stretching

When one thinks about a brand, its specific product universe suddenly comes to our minds: Cartier creates jewellery, Rimowa makes luggage, and Audemars Piguet heads the watches sector. Forging an addition to inventory outside of its familiar universe, a brand potentially risks the loss of trust amongst its reputable consumers. Considerably, many luxury brands have stretched their initial product portfolios to expand their legitimacy to additional consumers: Bulgari moved from jewellery to hospitality (by way of hotels), Armani ventured from fashion to furniture, and Chanel from Haute Couture to cosmetics. These are a few of many examples of so-called branding strategy. "Branding strategy involves deciding which brand names, logos, symbols and so forth should be applied to which products and the nature of new and existing brand elements to be applied to new products" (Keller, Apéria, and Georgson, 2012: Pag 559). In the personal luxury goods industry, branding strategy deals with brand extension and brand stretching. The former, involves the expansion of a luxury strategy into a new sphere, implying vertical integration in the production process. An example of brand extension is understandable via the LVMH majority stake acquisition in Marcolin Eyewear in 2018. Marcolin's sunglasses manufacturer in Longarone, Thelios, enabled product expansion, subsequently providing full control over the production for every LVMH fashion brand present in the sunglasses industry. Brand stretching, instead, involves the expansion of an existing premium strategy in a new sphere, implying outsourcing of production or licensing. Dsquared, the Canadian based brand was able to evolve its repertoire from ready-to-wear into leather goods by outsourcing production to the Diesel owned brand OTB via a form of brand stretching.

Debatably, a luxury brand can sometimes balance between the two different strategies, paying careful attention to the potential risk of failing in a premium brand strategy. Significantly, there are geographical areas where the heritage and skill of artisans is inimitable anywhere else, thus the only way to gain access to their labour is by outsourcing production in the territory. Conclusively, the main distinction between brand extension and brand stretching is relative to the control that a luxury brand has over their production. The higher the control, the higher the quality, thus resulting in an advanced level of luxury strategy applied to the newly acquired territory in which the brand wishes to dive. These two phenomena have enabled client submerging in the personal luxury industry. Most specifically, brand stretching, through licenses, has provided the possibility to create a retail environment where clients enter with the intention of purchasing a specific product, and can often leave with several others. In fact, the majority of personal luxury goods brands are now offering an incredibly large and diverse range of products to clients, starting from ready-to-wear, leather goods and accessories, and finally cosmetics.

2.3.4 A focus into the brand extension strategy

As explored in the previous chapter, brand extension is a more reliable strategy versus brand stretching when competing with others and expanding said brand into the personal luxury industry. A brand extension strategy is dissectible into two different models: vertical expansion, and horizontal expansion. Kapferer, in his book The Luxury Strategy, alternatively named these expansions the Italian and French models. According to the author, the origins of the aforementioned models are definable by Italian and French luxury brands, respectively. The vertical expansion is applicable when a brand is looking for greater accessibility into the market, and is achievable only by reducing the price offering. This tactic is realizable via a so-called "line extension". A line extension refers to the creation of one or many diffusion lines amongst its existing inventory that clearly differ from one another's product offering, and is distinctly noticeable by a difference in price.

This type of brand extension is imaginable through a pyramid, the peak typically housing the main brand line, ultimately trickling down by diffusion to the lowest and most accessible line. The horizontal expansion is alternatively applicable when a brand is seeking customers in other markets non-existent in its current portfolio, and is achievable by enhancing its luxury brand values into other product categories. This type of extension is conceivable as a circle: the centre houses the brand itself, defined by its main identities, growing outward via diverse products, each one expressional of its brand values. The difference of the circle versus the pyramid model is that the former is able to offer products of different categories yet maintain a consistent price range whereas the pyramid enables accessibility through price difference. Two of the most interesting examples in relation to these two brand luxury strategies are definable by the Italian sartorial fashion house Ermenegildo Zegna, and the French luxury giant Chanel. I have selected these two examples as both houses have achieved brand enhancement via a brand extension strategy, yet have been cautious to prevent dissolution amongst their identities, respecting the strict rules of the luxury strategy. Ermenegildo Zegna, famous for its tailor savoir-faire, was founded in 1910 as a wool mill, and has steadily maintained its home-grown ethics via its meticulous selection of the finest textile quality for its designs, a strategy which has become the backbone of the company's success. Analysing the Italian brand extension strategy, some exceptions are noticeable, typically related to the production of perfumes and eyewear. Ermenegildo Zegna decided to license the production of the two product categories in order to focus on the continuous research and innovation of the highest quality of textiles. The Italian based brand imports raw materials such as wool, mohair, cashmere, alpaca and vicuña from some of the most notorious production regions in the world, transforming them through its own wool mill via a dedicated Italian artisanship. As depicted in the following pyramid, Zegna has expanded its historical name through four diffusion lines, each of them offering a specific product category, and a diverse range of price.

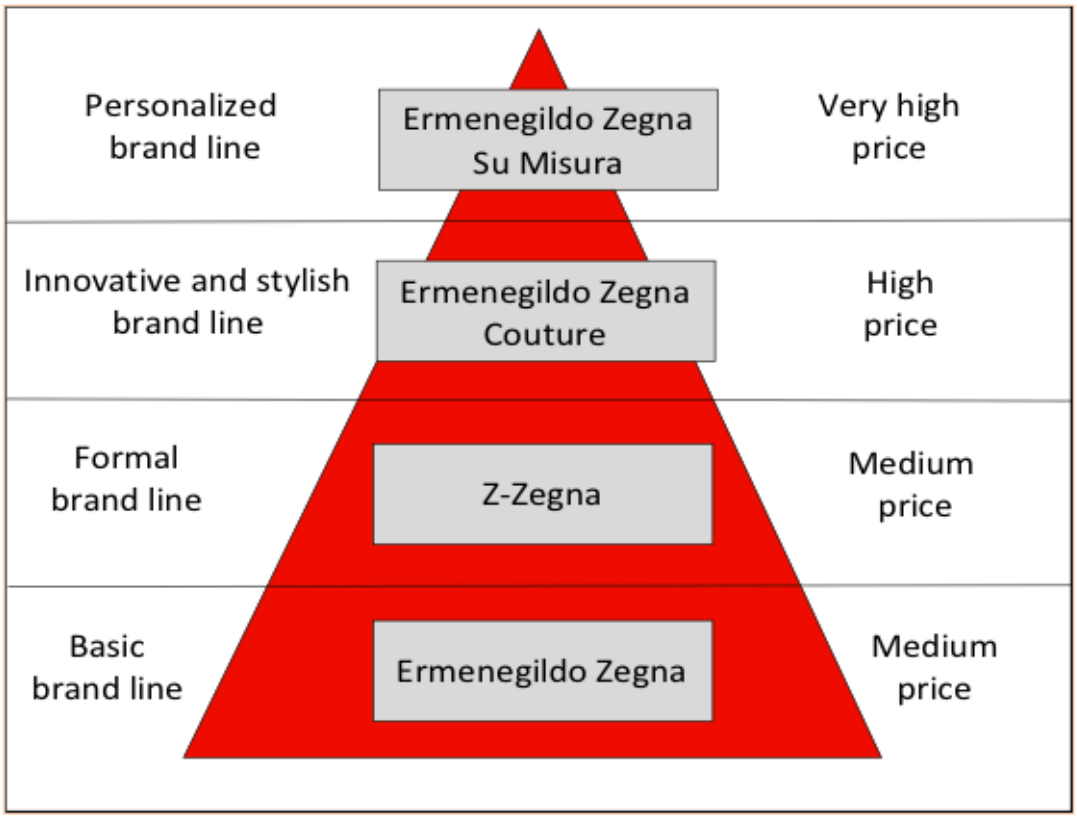


Figure 2E: The Ermenegildo Zegna vertical expansion model

At the peak of the pyramid sits "Ermenegildo Zegna Su Misura", definable as a sort of haute couture line, offering an elite made-to-measure service that enables the client to personalize almost every detail, therefore creating a unique product by combining the imperative use of fine materials together with the artisanship of the best Italian tailors. The price range of the Su Misura line is considerably high, and can increase depending on the quantity and quality of textiles used. "Ermenegildo Zegna Couture" closely follows the exclusive experience, definable as the most contemporary line within the Zegna house: a transversal collection in which classic tailoring meets streetwear. In contrast to "Ermenegildo Zegna Su Misura", each product offers a balance between innovation and style, with an intentional appeal to Millennials and Gen-Z consumers, defiantly following the similar strategies of top luxury brands such as Gucci, Louis Vuitton, and Balenciaga."Ermenegildo Zegna Couture" is distinguishable as the line through which the brand expresses its main identity facets, making use of its advertising and events.

The price range is still considerably high but lower in comparison to the top line, Su Misura, with 265 € for a t-shirt to 5995 € for a jacket. The "Z-Zegna" diffusion sits in third position of the pyramid and is similar to the first line in relation to its product offering. Whilst creatively it is generically classic, it is lower in cost, obviously excluding the made-to-measure service. The purpose of Z-Zegna is to suggest the necessities of a typical businessperson, one whom seeks easy, classic and versatile wares with a superlative price tag: from 190 € for a shirt to 1390 for a suit. Ultimately, at the bottom of the pyramid, sits the historical line of the brand "Ermenegildo Zegna" with which the Italian brand first entered the market at the beginning of the 20th century. This line continues to be a recognizable expression of heritage and simplicity, consistently paying careful attention to the quality of merchandise offered. The silhouettes and materials are completely different in comparison to the previous diffusion lines, aiming to satisfy the main target consumer of the brand: the middle-aged man. The price is significantly lower versus the preceding top lines, from 140 € for a t-shirt to 2300 € for outerwear. Furthermore, the product offering, typically catering to most consumer needs, including underwear and sunglasses, is perceptibly diverse in comparison to the "Ermenegildo Zegna Couture" line, in which the offering is limited to ready-to-wear and leather goods. Chanel is arguably one of the most relevant examples of a horizontal luxury brand extension. The French luxury brand, founded at the beginning of the 20th century by Gabrielle Chanel, is world-renowned for its Haute Couture collections, black jersey sheath dresses, and its distinct Chanel No.5 fragrance. The brand has continuously developed a vertical integration strategy in order to merge and acquire the majority of its suppliers. The initial step for the creation of the Chanel Empire was in 1921 with the launch of the Chanel No.5 fragrance, the foundation of the partially owned fragrance production, Chanel perfumes. Since then, a succession of acquisitions took place, such as the lace producer Sophie Hallette, the buttons maker Maison Desrues, the embroidery company Maison Lesage, the cashmere manufacturer Barrie, and the feather specialist Lemaire to name a few.

Chanel deliberately acquired the aforementioned suppliers with an intention to enhance quality and control its production. Chanel, however, exceptionally produces its eyewear through the Luxottica licensee since 1999, advantageously gaining the artisanship and expertise from the Italian based company. As represented in following figure of a circle, in comparison to the Ermenegildo Zegna strategy, Chanel has sustained a diverse offer to consumers under one unified line, without the use of diffusion lines. The product offering is distinguishable through five main categories: haute couture, ready-to-wear, leather goods and accessories, jewellery and watches, and perfumes and cosmetics. Each of the five categories manage a separate distribution, whilst perfumes, cosmetics, and eyewear are dispersible via a wholesale channel. The prominent consequence of this horizontal strategy is that the French luxury brand can position itself as the leader in each category without the need of appeal to different target consumers by way of price differentiation, as in the contrary case of Ermenegildo Zegna's line extension strategy.

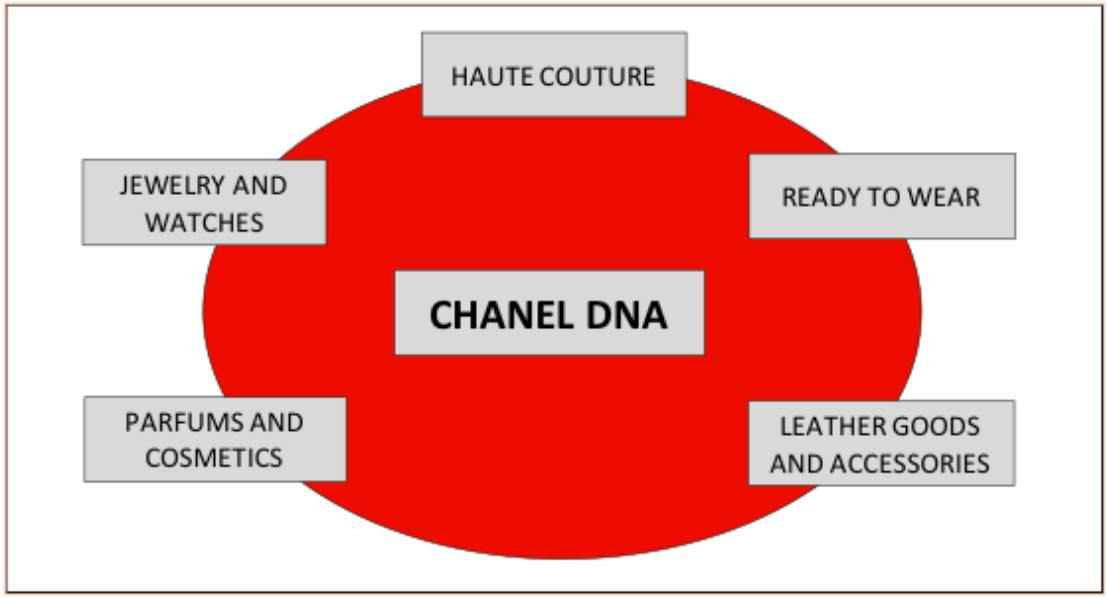


Figure 2F: The Chanel horizontal expansion model

Perfumes and cosmetics understandably comprise a lower price tag in competition with haute couture and ready-to-wear, with the entry price products subsequently accounting for more than 60% of total revenues. This category, even with a much higher price compared to competitors, provides an accessible experience to clients, a chance to sense a place for themselves in the Chanel world. This tactic is disputably the main scope of the brand extension horizontal strategy. Starting at the centre of the model, the brand identity, also known as brand DNA, disperses via the different product categories, each of them exploiting the main core identities. It is through an appealing DNA that a luxury brand is able to develop a kind of brand extension akin to Chanel. On the contrary, if a brand does not have a sufficient identity, it can theoretically risk its market appeal.

2.3.5 Success factors and risks in brand extension

To conclude this chapter, I will define the main risk and success factors related to brand extension strategies. Although both line and brand extension are two common strategies used in the personal luxury goods industry, it is important that they are equally balanced and carefully managed, avoiding the risk of losing its supremacy in the market. One of the most famous examples of such risks incurred in luxury brand extension is associated to the British iconic brand Burberry. Burberry suffered an unforgiving brand tarnish at the end of the 20th century due to an unavoidable association with Chav subculture, a societal group that formed in England as an expression of the country's working class. This is debatably due to the the lack of control the English brand possessed over production and distribution, a result of a stipulation of too many licenses. During the pivotal moment for Burberry, their classic tartan check print, reproduced on merchandise everywhere, from caps to sunglasses, and handbags to strollers, strongly affected the perception of consumers whom no longer considered the brand as a luxury player. The solution, in order to save and revitalize the British brand, was to buy back all licenses and subsequently limit the use of the iconic print. The brand managed to unify its collection distributed under Burberry Prorsum, London, and Brit to one unique brand, relocating most of its production from China to England.

Through the determined efforts of its then creative director Christian Bailey, and the CEO Marco Gobetti, the brand slowly yet successfully changed its position and strategy in the market, increasing prices and redefining the whole product offering through a fresh brand image directed toward its newly identified target consumer.

The main success factors in brand extension summarized below:

1) The stronger the identity of the brand, the more opportunity to extend. In order to enhance a brand extension, as recalled in the case of Chanel, a luxury brand must develop a strong identity. It is only through this representation that a brand can possess the possibility to expand in different product categories. The most relevant brand identity facets in brand extension are the most intangible: culture, customer self-concept, and consumer self-image.

2) The stronger the reputation of a brand, the more opportunity to extend. Reputation is relative to time; luxury brands can exploit its brand extension strategy only after building a strong relationship and reputation with their clients in a specific product category. The majority of the time, a good reputation is a decent enough tact to rely on when entering in a new market.

3)The higher the consistency of brand, the more opportunity to extend. A brand must be consistent in every product category it exploits through its brand extension, as it is only through consistency that a luxury brand can create its empire, resulting in credentials in new categories. Consistency has to deal with tangible and intangible facets; when Chanel launched its first watch line, the clock face was a representation of both Place Vendome, and of the cap of the Chanel No.5 fragrance bottle.

4)The higher the legitimacy of the brand over categories, the more opportunity to extend. Legitimacy is important in brand extension provided by the fact that a luxury brand cannot expand in every category, but only those in which there is a certain level of expertise. A brand needs to remain in its habitat or, at the least, explore new ones only after they have built a progressive expansion. This is why most personal luxury brands move from ready-to-wear to leather goods, or vice versa. Only after building their brand extension base can a brand enter a completely new market, such as furniture and hospitality.

Moving to the risk factors in brand extension, we can summarize as follows:

1) Loss of brand creativity. One of the most important characteristics for a brand in the personal luxury goods industry is creativity. Creativity is exploitable by the designer at helm, and subsequently communicated through products. The risk of brand extension is that if the brand expands into too many categories, there is a loss of creative expression, producing a flat unattractiveness for customers. Furthermore, as attributable to the pyramid model, the brand goal transforms into client expansion and accessibility through price reduction, which therefore risk a loss of its main brand traits that characterize the top lines of the pyramid.

2) Loss of control over production. As cited in the Burberry example, brands through licensing risk a loss of control over product development, production and distribution. This can strongly affect the position of the company in the market, resulting in a negative consumer perception.

3) Loss of product quality. Relocation and outsourcing of production leads to a qualitative risk as brands lose control and visibility. The geographical area of production can negatively affect the perception of the consumer. Arguably, this is the reason Burberry decided to relocate production of its ready-to-wear from China to England in 2016, revitalizing and repositioning itself in the market.

4) Lack of communication with consumers. If a brand's luxury strategy models itself on a too broad brand extension, a vulnerability emerges for each diffusion line or product category; different communication goals and target consumers can become confusing, with customers potentially losing interest in the brand and its core values. This is a typical consequence when a brand is outsourcing production without controlling advertising.

CHAPTER 3: GUCCI CASE STUDY TO UNDERSTAND THE FUTURE OF RETAIL

3.1.1 Introduction

According to Doug Stephens, considered in the media industry as one of the most famous retail advisors, 8642 brick-and-mortar stores closed in 2018 in the USA, causing what has become to be known as the retail apocalypse. Meanwhile, E-commerce platforms continue to grow worldwide, accounting for $ 1.9 trillion of online transactions in 2018, amassing a 24% growth on 2017. This is becoming a normal trajectory in the global market, characterized by a year on year increase of people whom purchase online, thus causing the total closures of some of the most well-known retailers worldwide. In China, the dominant country for online transactions, every year on the 11 of November the 'Singles Day' festivity occurs, in which, since 1993, Chinese singles celebrate their pride of loneliness through shopping, a ritual which has crowned the annual holiday as the largest global online and offline shopping day. Paradoxically, over the course of years, the Chinese singletons have become accustomed to sharing their festivities with those celebrating relationships, with data reporting marriages taking place on the 11 of November are 6 times the average per usual. Each year on this special day, Alibaba.com, the Chinese leader in online shopping, conveniently entices the public with extraordinary offers, leading to the registration of sales in 2018 for a total amount of $ 25 billion. These numbers are useful in understanding just how much e-commerce is becoming the prevailing destination during people's purchasing processes. It is however important to highlight that not all online companies are basking in such success.

The online market is dominated by a few competitors in the personal luxury goods industry; Farfecth, and Yoox Net-A-Porter group, by name. For these companies, the challenge is no longer to convince the public to buy products online, but rather to improve their online purchasing experience by aiming to deliver goods in the fastest way possible, and allowing consumers to try products, offering a free and reliable returns service if they are unhappy with their purchases. The shift from offline to online shopping has simplified the decision-making process for the consumer, supporting automatic and easy purchasing via personal data collecting. Online shopping platforms collect information about consumer interests and preferences, enabling targeted advertising to offer intentional products in relation to taste and transaction history. In consideration of this panorama, what is the future of retail?

3.1.2 Retail is not dead: From point of sales to point of touch

As observed in the following graph, in which data has been collected by Bain&Company in its 2018 Worldwide Luxury Market Report, it is indicated that in the personal luxury goods industry in 2018, 10% of total sales occurred online. This number has doubled since 2014, mostly affecting department stores, performing 6% lower in 2018 versus 2014.

Graph 3A: The increase of online consumption for personal luxury goods

Although these numbers are not encouraging the brick-and-mortar point of sales, we need to consider that offline transactions in the personal luxury goods sector in 2018, still accounted for a total amount of 90%, arguably attributed to what we can consider the physical human advantage, a tact that cannot be achieved through the worldwide web. If we consider the psychological activity of consumers during the purchasing process, we can identify three main motives as to why, amidst of the online shipping revolution, people continue buy products, especially personal luxury goods, in retail shops: buying to discover, buying socially, and buying for pleasure.

1) Offline shopping is related to the act of discovery. Human day-to-day life is rapidly becoming technological and data driven, automatically connecting us with novelty products or people, decreasing our stimulus of discovery. Debatably, using social media platforms such as Facebook or Instagram do not increase our personal circle of friends; their purpose is to connect one another with common interests, thus, reducing our curiosity and knowledge.

The same method occurs with the online music player, Spotify, in which the program routinely suggests a weekly personalized playlist containing songs in relation to users' tastes and musical interests. Coincidentally, the online shopping world is not so different. Consumers buying products through leading online websites such as Yoox Net-A-Porter or Amazon will systematically receive product alerts, notifying them of the availability and existence of similar goods to those purchased previously. This online data centric approach has completely destroyed the shopping experience through programmatic advertising, preventing the discovery of new products, tastes and cultures.

2) Offline shopping is related to socialization and excitement, two human activities completely absent in the online shopping experience. Online shopping allows consumers to buy products by adding them into a virtual shopping cart, subsequently completing the purchasing process through just a click.
   On the contrary, the shopping quest in brick-and-mortar stores can allow visitors to enter an unexpected realm. Only this physical venture can provide the exciting social experience of joining other shoppers in queues outside temporary Pop-Up sites selling exclusively limited capsule collections. Personal luxury goods brands, acknowledging the absence of excitement and involvement of consumers purchasing online, continue to evolve the temporary Pop-Up model, which achieves an incredibly high peak through retail distribution versus online sales.

3) Offline shopping is an activity related to human psychology. The neurological response when one is shopping can be akin to other pleasurable experiences, such as the act of having sex. This is due to the production of dopamine, a neurotransmitter that put simply, plays important roles in both the human brain and body by controlling pleasure and feelings, surging when we consider purchasing. This is also why "retail therapy" can become an addiction.

Dopamine production, in the retail shopping experience, can achieve higher levels versus buying online as people using the latter method cannot be sure they will be able to find what they desire, are safe in the know they can return unwanted products easily, and ultimately can discover new products that can satisfy their needs.

Having defined the basic human instincts and reasons as to why people are encouraged to buy products in brick-and-mortars, it is fundamental for retails, in order to survive, to completely adjust their approach to consumers, and especially in the personal luxury goods industry, to totally reshape their meaning and function[18]. This change of route, cannot deal with technology, as various strategies have already been applied to the online shopping experience. Augmented reality, for example, purposely combines the elements of an artificial world into a person's perception of the real world. This practice is present through the instance of online sales of sunglasses in which consumers, via augmented reality, are able to preview how they may look with their desired frames through the use of a virtual mobile phone camera prior to purchasing online. Alternatively, "a physical store must celebrate its physicality, allowing consumers to touch, try, feel and experience products in a visceral way. It's not about using virtual reality to escape the boredom of the store. It's using a remarkable store to escape reality and to enter in a different world, just for a while" (Stephens, 2017: Pag. 135). To design an unbeatable customer experience, retail must define a balance between technology and reality. Clients, especially in the personal luxury goods industry, typically visit a store to gain more information related to products they may not be able to find online, immersing themselves physically in the products. The starting point in which this revolution should take place, begins with a change in the way a shops effectiveness is measured, the so-called sales per square foot. This measure is calculated by dividing the achievable retail revenue by the total square foot of sales space.

[18] "On the luxury retail experience see Delphine Dion and Eric Arnould, December 2011".

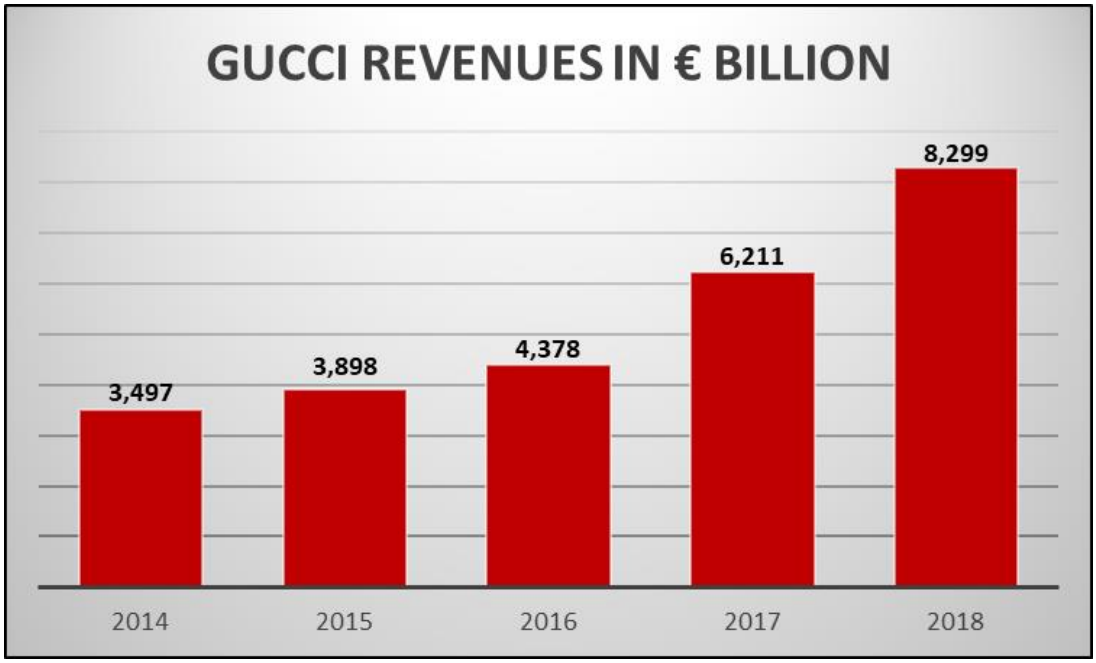
According to Doug Stephens, in order to change the approach for consumers, thus creating an attractive offline shopping experience, retail should no longer consider this formula as the optimal way to measure the efficiency of one shop. The largest department store in Europe, covering 1.1 million square feet, Harrods, as an example, risks offering its shoppers a repetitive experience if it continues to consider the same metric as a measure of efficiency; each one of its 330 departments would be similar to the other. Consequently, if Harrods began to use its retail space to design a unique and exciting customer experience, consumers would become more attracted by the protocol of offline shopping as opposed to online. This change of route, however, does not appear to be fruitful, even if various data shows that an imminent solution must be found to rescue the offline shopping industry. Considering this as one of the main causes of the retail apocalypse, we can affirm that it is not actually the consumers which are killing retail, but instead it is retail management which is contributing to its untimely death. So long as the industry insists in maintaining this formula, consumers will not be stimulated enough to physically visit a store in order to discover new products and experiences. With an uncertain future for brick-and-mortar stores, they must be able to reinvent their purpose, no longer focusing on historical trade values by way of selling products, but by becoming a real point of touch for consumers.

3.1.3 Gucci product distribution strategies

Guccio Gucci, an Italian immigrant working in London and Paris in the early 1900's as a manufacturer of leather goods, gained a strong sense of taste and style through steady relationships with the upper-class in both cities. When he returned to Florence in 1921 with a newfound inspiration, he opened his first shop selling leather and travel goods, and equestrian purposed products. The fame of Guccio Gucci surged so dramatically that in 1938, together with his three sons Aldo, Vasco and Rodolfo, he opened his first major boutiques in Milan and Rome. In 1945, after 7 years of establishment, forging a reputable standing in Europe, the Italian luxury brand began to export goods to the USA.

As a consequence, in 1953 the three Gucci children inaugurated the first store in New York, United States. It was during these years the brand's staples and still today's bestsellers such as the first bag with bamboo handle (1947), the infamous horse bit loafer (1952), the GG logo (1960) and the Flora scarf (1966) were born. The brand began conquering Asia in the 70s, opening its first boutiques in Tokyo and Hong Kong, and in 1982 became an IPO, selling shares to the public. During the same year, Maurizio, the son of Rodolfo Gucci, took on the role of Chief Executive Officer, remaining as president until 1993 when the company was acquired by InvestCorp. One year later, in an attempt to overhaul its ready-to-wear vision, and ultimately save the brand from financial crisis, Tom Ford was appointed as creative director, with Domenico De Sole as Chief Executive Officer. In 1999 Gucci was acquired by Kering (formerly knowns as Pinault-Printemps-Redoute), ultimately becoming the second largest luxury holding, via the acquisitions of some of the most important brands in the personal luxury goods market: Yves Saint Laurent, Bottega Veneta, Alexander McQueen, Stella McCartney, and Balenciaga. In 2002, following a notoriously exotic stint at Gucci, Tom Ford was replaced by Frida Giannini as creative director, with Patrizio di Marco appointed CEO.In the succeeding years, although profitability was positive, the brand managed to lose market shares due to several contributing factors, most notably via an ineffective brand positioning strategy, focusing on heritage and craftsmanship instead of fashion and current trends. Gucci's momentum significantly shifted in 2015 when Marco Bizzarri, previously of Bottega Veneta, prized the the leading role as Chief Executive Officer, applying a delicate understanding of the core company values, dramatically reinventing the internal and external environment in which the brand was operating. First, and most notably, Bizzarri strategically appointed Alessandro Michele, the previous design assistant of Frida Giannini, as Creative Director, and Jacopo Venturini, formerly of fashion house Valentino, as Merchandising and Retail Director. Both figures became essential pillars in reinventing the Gucci aesthetic, resulting in a severe market position shift, thus completely reshaping and disrupting the fashion industry.

Under the artistic helm of Michele, Gucci birthed new aesthetic codes as a visual representation of its new creative director's personal being. Unimaginable for both brand a client, in contrast to the idea of a seductive Gucci disciple of Tom Ford, or even Frida Giannini, Michele created a romantic universe, inviting the world into his eclectic and bohemian realm through intricately whimsical designs and previously nonexistent products. The company delved into its rich traditions to develop a new brand image and strategy, implementing new roots via a combination of innovation and history, reinventing Gucci as it was known. The constant evolution of past and future commixtures catapulted Gucci to the second best performing brand in the personal luxury goods sector, second only to its notorious rival, Louis Vuitton. The new strategy unexpectedly boosted revenues, which since 2015 have increased 50% year on year, as illustrated in the following graph. Gucci is currently performing more than 60% of the total Kering revenues, which in 2018 achieved 13.66 € Billion.



Graph 3B: The increase in Gucci revenues

The astonishing results were attainable through an increase in sales on all product categories, especially leather goods and ready-to-wear, via a reinvented Gucci aesthetic combined with an optimization of product offering in relation to the quantity of models, price segmentation, and store network distribution. From a distribution perspective, in 2018 Gucci has performed 85% of its total revenues though directly operated stores (including directly operated e-commerce), which globally achieved a total amount of 540 point of sales, divided into Western Europe (116), North America(115), Japan(80) and emerging countries, such as Asia(229). The company additionally disperses products through department stores and franchisee channels, accounting for the remaining 15% of total revenues. Below is a developed exploration on each of the five different Gucci distribution strategies:

1) Directly operated stores

Directly operated stores is the most common method of distribution in the luxury market. Also called mono-brand stores, they are physical points of sales, typically seizing vast dimensions, designed by world-renowned architects, and are usually present in key cities and fashion hotspots such as 5th Avenue in New York, Old Bond Street in London, and Via Montenapoleone in Milano. One of the most important characteristics of a DOS is their full control of the brand, possessing the opportunity to offer a full assortment of product inventory in which the brand can subsequently exploit and strengthen its main identities. Flagship stores can be defined as a kind of manifesto, allowing a brand to express its image and power to the consumers and competitors, respectively. A flagship point of sale is the primary source of revenue for a personal luxury goods brand, due to the key factor that their role is not only to sell products, but instead, sell an experience.

2) Department stores

Department stores are characterized by the recognizable presence of private brands, enabling a broad product offering ranging from entry priced products to high end products.

The inventory of a department store offering is typically heterogeneous, from books, furniture, and apparels to leather goods, and foods & beverage. The most famous department stores are depicted as Neiman Marcus in New York, Harrods in London, Galleries La Fayette in Paris, and La Rinascente in Milano. Each individual retail space inside a department store is definable as a "shop-in-shop", allowing a fluid consumer understanding of each brand identity. Retail brands can subsequently influence a consumer's shopping experience through brand engagement, enabling each singular company to differentiate themselves from competitors, possessing total company control over the design of allocated space, resulting in a mini shop-in-shop version of a directly operated point of sale.

3) Franchisee channels

Franchisee distribution channels rose to prominence in the 90s, serving a fast-worldwide distribution strategy. A Franchisee is characterized by an agreement between the brand (franchisor) and the distributor (franchisee), and are legally independent yet linked to one another via an agreed contract. The franchisor holds the control to decide the rights, responsibilities, obligations and compensations of both parties. In relation to distribution, the franchising is a contract though which the franchisor provides the right to advertise and distribute its products to the franchisee. Furthermore, the franchisor transmits to the franchisee the licenses of know-how, supporting a central role in influencing the consumer's perception of a franchisee shop as a DOS. This is essential in ensuring franchisee and DOS stores maintain an identical image, thus exploiting the main brand facets. This distribution channel is one of the most common in the personal luxury goods industry, retaining multiple advantages.

It allows a brand to imminently enter and expand into a new market sans risk of losing any selling opportunities, contrast competitor positions, support DOS distribution, and ultimately prevent commercial risks.

4) Directly operated online stores

The online store distribution channel guarantees full company control of brand image and product assortment, identical to a DOS yet in the online sphere as opposed to the offline. The mono-brand e-commerce site feeds an opportunity for the company to exploit its value in the online market, providing a direct home delivery service where it is not possible to visit a store, or in such other individual circumstances. Although online distribution in the luxury industry accounts for only 10% of total revenues, luxury giants such as Farfetch and Yoox Net-A-Porter have strongly contributed to the importance of this distribution channel, especially considering the many difficulties faced in relation to logistics and shipping of goods.

3.1.4 Retail as a point of touch: Gucci Retail Strategy 25.0

Since the beginning of 2019, Gucci implemented a revolutionary retail strategy, previously nonexistent in the brand's history. The luxury brand curated an innovative vision which strongly exploits a luxury retail experience. The strategy, developed by Jacopo Venurini, and named Retail 25.0 after the lucky number of creative director Alessandro Michele, is dominantly client centric. The driving reason of why the Italian company is largely investing on its retail experience is relative to the rapid increase of revenues in the last four years, thus in order to maintain high sales, a fundamental focus on client engagement and involvement during the purchasing decision process is favorably crucial. The key purpose of Retail 25.0 is to emphasize the necessity of firstly considering consumers as human, inviting the bystanders to sense a belonging in the world of Gucci, and secondly as a potential conversion of one that can spend money on goods.

In order to make this happen, the sales associates, or 'client advisors' as titled by Gucci, must own all the necessary tools to advise clients to ensure their contribution in enhancing the newly implemented retail culture. The client advisor's responsibilities include providing a fluid environment to assist potential consumers, seamlessly transitioning from one product category to another, enhancing cross-selling across diverse sub-categories such as shoes and leather goods, and involving the consumer through "storytelling", the key point at the base of Alessandro Michele's creative vision. During the client journey, a strongly emotional and emphatic relationship emerges between the client advisor and the client, which goes beyond the sales of goods. The client journey in Gucci is completely shaped through interaction with the client advisors, forging a trustful relationship through a personalization of the client relationship. There are two main departments in Gucci which ultimately initiate the constant evolution of this new retail strategy: Training and Clienteling. Both departments are fundamental in supporting the client advisors' purpose; their responsibility is to develop the necessary tools in conjunction with training activities to successfully engage the consumer, providing the luxury retail experience envisioned by Venturini. These tools are dividable as: The Training Manuals and Training Activities, The Human Touch, The Ways to Wear, and last but not least, LUCE.

1)The Training Manuals and Training Activities

Starting with the Training Manual, definable for client advisors as a type of "bible" which they may constantly refer to. The bible is a tool developed internally by the Collection Merchandising team compromising of all product categories, with the purpose of describing each singular product developed through the collaboration between the merchandising and design departments.

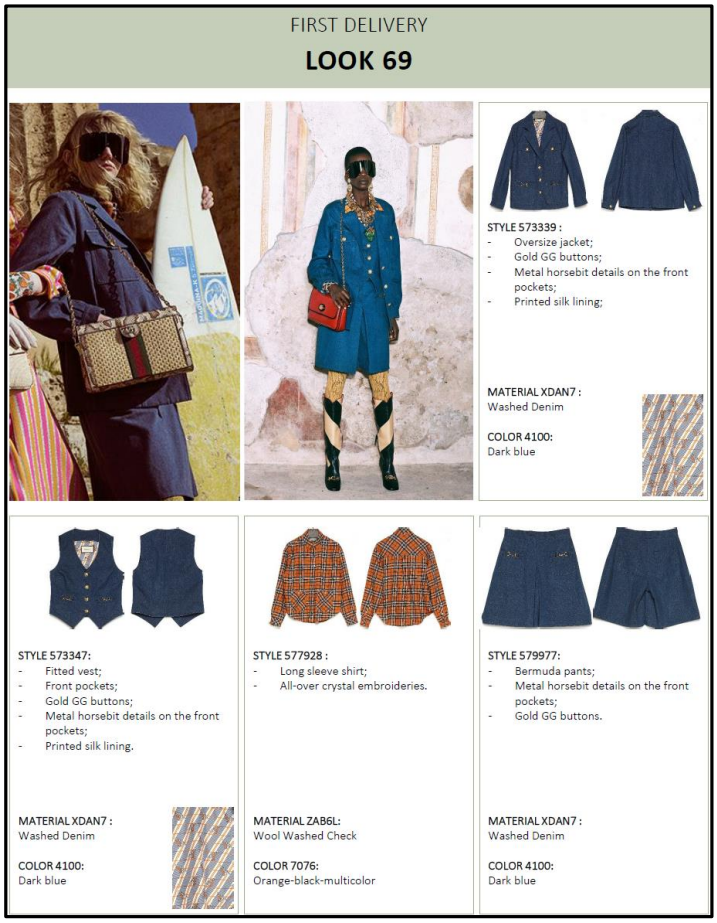


Image 3A: An example of Gucci Training Manual

As illustrated in the image 3A, this tool is an extremely technical instrument, reciting meticulous information about the style, material and color of products. It additionally includes all information relative the collection theme, which via a delicately detailed storytelling, provides the knowledge to the client advisor, thus increasing their opportunity during the sales process. Furthermore, the Training Manual indicates the specific product delivery timing, clustered into anticipated delivery, first, second, and third. Via the use of this tool, client advisors are able to understand exactly when specific products are due to arrive, thus providing an autonomous power to communicate with their clients. In order to support the product knowledge of client advisors, the training department, accordingly with the Retail 25.0 initiative, invites 20% of the total Gucci retail population for ten days to its headquarters in Milan for an in-depth training.

The client advisors are provided the opportunity to visit the main production sites of Gucci, such as the Novara sector: production of pants, skirts, shirts, jackets and outerwear, the ArtLab in Florence: production of leather goods and the Lerici site: production of Jewelry. It is through these organized visits that the client advisors are given the opportunity to physically touch the products, conjunctively obtaining a strong understanding directly from the dedicated artisans of Gucci, in turn communicating the information acquired to their future clients. As an additional activity during The Human Touch training, the client advisors are invited to participate in workshops and activities centered on empathetic emotion to support the selling process, resulting in a personalized experience for the client, thus enhancing a luxury retail experience for every type of consumer.

2)The Human Touch

The Human Touch initiative, introduced accordingly with the advent of the Retail 25.0 strategy, consists of a training that does not deal with goods but is centering on human psychology and empathy. The main pillar of this new retail strategy is the personalization of the client journey. Client advisors must be vitally trained to understand the specific target consumer they are supporting during the selling ceremony, thus concluding the purpose of The Human Touch, a training derived for client advisors to enable them to target consumers with a preconceived method. Targeting is fundamental in assisting the understanding of each specific client; their priorities and desires, allowing the client advisor to effectively satisfy the consumer needs. Furthermore, with empathy, the client advisors must be able to recognize the kind of relationship they are able to establish with consumers. Often during the client journey, this relationship assumes multiple stages, beginning with an unobtrusive, polite approach, and ending with a friendly rendezvous, in which the consumers naturally initiate into open and somewhat personal conversation with their client advisor. This engagement allows the client advisor to collect as much information as possible about their consumers in order to persuade and improve their next purchasing experience.

Following the growth of such relationships, it is common for clients to ask for a specific client advisor they have met in the past, providing a comfortability in the knowledge they know their tastes and preferences from previous visits, or they are simply relaxed in their presence. Arguably, the same data collection process happens when consumers seek products online, with the purpose of offering the same brands, size, or colour in the next purchasing decision process through targeted programming advertising. The key difference between the two is that in the case of brick-and-mortar, the human relationship experience provides more power in engagement.

3) The Ways to Wear (TWTW)

The Ways to Wear is currently the dominant and most convenient tool, supporting the consumer retail experience. It commences with a live presentation in the Milan headquarters immediately after the sales campaign of each season with the intention of increasing cross selling. The cross-selling notion is an important factor for Gucci, and generally for every personal luxury goods brand, as the act possesses the ability to induce the consumer to buy a multitude of product categories. Hypothetically, when a consumer with the intention of purchasing an item of ready-to-wear, TWTW program can assists the client advisor in suggesting other items and accessories to complete their ensemble.

The Ways to Wear can be seen as a sales tool, however, it was initially developed for client advisors to understand and sell the image that Alessandro Michele wants to communicate to consumers, fully exploiting the consistency of the Gucci brand image.

Image 3B: An example of Gucci The Ways To Wear

During the live event, corporate merchandising managers of each product category present in front of hundreds of local buyers and client advisors from around the world. As we can see from the above image, through an essential collaboration, each merchandising manager contributes to a multitude of reinventions of Michele's initial fashion look, translating into different attitudes using diverse items, appealing to as many target consumers as possible. For example, one dress can be presented as sophisticated and lady-like in one idea, and possess a relaxed, street-style vibe in another, depending on the shoes or accessories selected. This vital training supports client advisors in cross selling but ensures the exploitation of the Gucci image that adheres to extremely strict codes of colors, shapes, and styles.

4)LUCE

The final tool engulfing a Gucci consumer in a real luxury retail experience is LUCE. The tool is downloadable via mobile app to corporate mobile phones that each client advisor is equipped with to stay constantly updated with internal information and events within the world of Gucci. This revolutionary method uses push notifications to disperse daily, weekly, and monthly news in the form of a newsletter. It is through LUCE that sales advisors can immediately check the availability of product and sizing, not only in their own immediate location but also regionally. Collectively, The Ways to Wear information and images are uploaded to LUCE to support image exploitation, and assist client advisors during the selling ceremony, involving consumers by allowing them to view and select all the possible looks and product associations that the merchandising department has previously developed. Client inclusivity is an extremely important part of the Gucci purchasing process as it destroys the barriers possibly existing in other luxury good retail strategies. Synchronously with LUCE, it is the responsibility of retail managers to curate weekly briefings with their client advisors to spread newfound knowledge derived from the corporate office relative to the seasonal key themes, for example, the various ready-to-wear attitudes within each collection, arrivals of exotic skin bags, and in-depth explanations of third party collaborations with Gucci, such as Disney. All of the above obtained is transmittable to the consumer, once again inviting them into the world of Gucci.

3.1.5 Conclusion

Concluding the focus on the future of retail in the personal luxury goods industry, it is arguable to affirm that luxury companies must completely change their approach, relying less on a rapidly growing sphere of tech, instead reverting to the traditionally core techniques of selling ceremonies centered on human client engagement.

A necessary reshaping of the purpose of a brick-and-mortar store is fundamental in supporting the human approach during the client journey, familiarizing and exploiting the most important luxury traits in order to sustain success. These elements are vital in order to survive the so-called retail apocalypse, already forcing a plethora of many different sectors and companies to wholly cease physical trade, or move brick-and-mortar to online distribution methods. Gucci is forcibly aiming to remold client experience in its directly operated stores via the introduction of the meticulously curated Retail Strategy 25.0, transforming the point of sale to a point of touch, involving clients in a real retail luxury experience, particularly unrecognizable in competitor strategies. To initiate this essential change of route, a strong collaboration across all departments, most notably in training, clientelling, and merchandising, is necessary to develop the optimal tools needed for client advisors, the essential component of the Gucci 25.0 strategy. It is through skilled and continuously trained client advisors that potential consumers can become immersed in the world of Gucci, subsequently influencing in-store purchasing versus online, and more importantly, creating a human connection between client and client advisor. Although the Retail 25.0 strategy, implemented only at the beginning of 2019, is considerably fresh, both CEO Marco Bizzarri, and Chief Merchandising Officer Jacopo Venturini are incredibly positive about future outcomes; strong results are predictable, especially in Asia where culturally courteous and professional approaches during the selling ceremony process are expected. Conjunctively, considering that Chinese consumers are also one of the most common geographical clients of Gucci in Europe, the delicate consumer approach is foreseeable to attract positive results in the western region. Elaborate methods further created to reinforce the key ideas of client centric engagement are in production in the form of Pop-Up spaces, with Gucci intending to launch over fifty locations in 2020. The themed Pop-Ups will be open to visitors for a limited amount of time, with merchandise sold exclusively in each corner, allowing the consumer to live a unique selling experience.

Understandably, however, the implementation of the retail strategy will not be immediate among its entire worldwide distribution channel, more so considering training techniques primarily identified in the program are subjective to monitoring, and in some cases effectively changed once they reach local markets, specific to cultural insensitivities. Indeed, two recognizable flaws have already become apparent. The first is relative to the implementation of the retail experience in those such stores which are not totally owned by the brand such as franchisees or department stores, whereby in both cases client advisors are external sources, thus challenging to obtain the necessary time and tools to train employees, versus directly operated stores. Reactively, in order to prevent a lack of homogeneity and service among its distribution networks, Gucci is dedicating the necessary development of appropriate methods required to unify its retail experience. A feat previously off-limits to employees not directly hired by Gucci, annual Store Manager Meetings and training activities held in the Milan headquarters are now extendable by invitation to a select few indirect channel employees, creating a harmonious collaboration between different networks, immersing each individual in the world of Gucci, identically reinforced through selling practices. This is the first step in Gucci's proclaimed 'Retailization' pilot, a long-term vision of obtaining considerable control over the selling ceremony and brand image by becoming the primary source of training, with an intention to produce an identical retail experience visible in directly operated stores. The second problem arises from the qualitative measurability of results. Similar to restrictions when measuring advertising, it is difficult to analyze the effectiveness of the new retail strategy via traditional key-performance-indicators (KPI), especially in the short and near-future term. Consequences of the change in client approach during the sales process will most likely be accurately identifiable only with the financial year results of 2019. Ultimately, the only way to live this revolutionary experience in act is to go to a Gucci store and try!

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