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The Luxury Brand Balancing Act

Fashion’s luxury megabrands have long struck a delicate — and highly lucrative — balance between exclusivity and accessibility. But as digital media, globalisation and off-price retailing reshape the industry, are they in danger of losing the balance that made them so successful?

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LONDON, United Kingdom — Fashion’s luxury megabrands have long struck a winning balance between exclusivity and accessibility, driving strong financial results by creating expensive iconic products, which, paired with elaborate marketing campaigns, emit a halo of perceived exclusivity around lower price products — such as cosmetics, fragrances and small leather goods — designed to sell at high volume to aspirational consumers. After all, real exclusivity offers little opportunity for scale and the likes of Louis Vuitton and Gucci did not build multi-billion-dollar businesses by selling only to a handful of high net worth customers.

But, as Jean-Noël Kapferer, professor of marketing at HEC Paris, writes in *Luxury: How Brands Can Grow Yet Remain Rare*, “The more the luxury sector grows, the more this threatens the levers of the luxury dream and the sense of what luxury evokes: the notion of rarity and of access to a privileged life, to products of exception.”

Indeed, in recent years, the pursuit of growth — within a market being reshaped by digital media, globalisation and a post-recessionary economy — has led many of the world’s biggest luxury brands to adopt strategies that, some say, risk upsetting the delicate balance between exclusivity and accessibility that allowed them to be both highly desirable and highly commercial at the same time.

Digital Access

On the whole, luxury fashion houses were slow to adopt digital media, largely because they feared becoming too visible on the Internet would dilute their brand equity. “[Online] these aspiring classes that didn’t have the means to travel or the knowledge of [luxury] now have access to it,” says Paurav Shukla, professor of luxury brand marketing at Glasgow Caledonian University. And whereas brands used to be able to more easily control the perceived scarcity of their offering, on the Internet, shoppers could easily see the scale at which luxury goods were sold.

But as luxury consumers began spending more and more time online, brands had little choice but to follow, launching e-commerce sites as well as accounts on social platforms like Facebook and Instagram. “Luxury brands don’t have the luxury of not being online,” says Sonja Prokopec, a professor at ESSEC. Last year, almost all personal luxury goods growth came from e-commerce and, today, around three in four luxury sales are influenced by at least one digital touchpoint, according to a 2015 report by global consultancy McKinsey & Company. “The global consumer of today is online and connected,” says Prokopec. “This is where they are looking and they are expecting brands to be there.”

“There is a lot of power left to [brands] in the way they distribute their merchandise through e-commerce platforms,” says Thomai Serdari, a professor of luxury marketing and branding at New

York University. Hermès, for example, has never sold its iconic Birkin or Kelly bags online. Yet precious few fashion houses have been able to create e-commerce sites that truly match the brand experience they offer in their physical flagships, says Luca Solca, head of luxury goods at Exane BNP Paribas. “Consumers must feel that their online experience is at least as good as their in-store reception,” he writes. “The actual sale is just one aspect of the overall customer experience…the entire shopping experience must be a seamless journey in which customers feel luxury at every turn, from swiping through products on their iPad to unboxing their purchases.”

Over-Expansion in Emerging Markets

Much like digital, tapping growth in emerging markets has become a critical pillar of the luxury business model. Indeed, as the US and Europe suffered through the Great Recession, sales in fast-expanding markets like China drove easy growth for the fashion industry. To wit, between 2007 and 2012, the Chinese luxury goods market grew by a compound annual growth rate of 27 percent, according to a 2014 report by Bain & Company. (Even today, despite the country’s economic slowdown, Chinese consumers still account for 31 percent of global luxury sales).

But in pursuit of growth, many of fashion’s luxury megabrands — notably Burberry, Gucci and Louis Vuitton — rapidly expanded their Chinese retail networks, opening stores (sometimes more than one) in second- and third-tier cities that, ultimately, lacked the customer base to support them. Over time, this damaged not only profitability, but brand equity, as the pace of retail expansion made it “untenable” to uphold customer experience, says Shukla, and consumers soon came to see many of fashion’s luxury megabrands as overexposed. “It needs to be more strategic in terms of where stores are opened and where they’re not,” says Prokpec. Indeed, several luxury megabrands have been closing underperforming stores in less desirable locations in second- and third-tier cities across China.

Off-Price Retailing

Since the global economic meltdown of 2008, the market for off-price fashion, traditionally sourced from excess inventory, has grown dramatically, reaching $45 billion in 2015 in the US alone, according to RBC Capital Markets, up more than 40 percent since 2009. And luxury megabrands have not been shy about the opportunity, investing heavily in both their own outlet stores and partnerships with off-price retailers. In the UK, off-price specialist Bicester Village — home to brands including Dior, Fendi and Saint Laurent — draws more than 6.3 million visitors per year and is the country’s second most popular attraction amongst Chinese tourists. Meanwhile, Woodbury Common, an outlet centre about 50 miles from New York City, attracts more than 13 million shoppers each year to stores operated by brands including Céline, Balenciaga and Bottega Veneta. Some brands, including Prada and Michael Kors, even produce specific collections designed to sell only via off-price channels.

But for brands that rely on marketing their products as exclusive, offering items for up to 50, 60 or even 70 percent less than retail price can seriously undermine the perceived value of their products, says Serdari. “Any off-price activity is eating into the brand equity,” agrees Solca, who says, in an ideal world, no luxury player would engage with the off-price sector at all.

Limiting the way brands leverage off-price channels can help says Prokopec. “You don't ever want to have your permanent collection discounted," she says, arguing that iconic items, around which a brand has built its story and reputation, should never be tainted by discounts.

“[Customers need to know] they will find a different product in the outlet to the full-price store,” says Mario Ortelli, senior research analyst for luxury goods at Sanford C. Bernstein. Physically distancing off-price outlets from city centre stores can help, says Prokopec: “Dior in Paris only have a few days of sale twice a year, but it is done in a separate location — never in their flagship store on Avenue Montaigne. They rent a separate space where you have the discounted experience, and the flagship is untouched."

Regaining Balance

"One of the strategies is to really focus on changing their portfolio structure to be more exclusive," says Prokopec on what brands can do to regain their balance. She suggests cutting down on entry-level and logo-heavy product, and re-orienting perception around higher priced, iconic products with more subtle brand signifiers.

This approach can have implications for the bottom line, however. "If the goal is just sales and they don't mind the dilution of their whole image, then 'massification' would be a good idea," says Shukla. "But if the goal is to remain luxury, then they need to have different tactics."

Balancing exclusivity and accessibility "has always been the magic luxury formula," says Ortelli. "It is the day to day life of a luxury company to make this solution work."

But Shukla, for one, remains sceptical about whether the genie can be put back in the bottle. "Some of the most known brands, you are sitting in a London tube and you see five of these handbags around you — that's not luxury anymore."