Chapter 1

Introduction—Definition and Crisis of Luxury

Luxury has a long and fascinating history. This is apparent from artifacts of the Egyptian period of lavishness, from 1550 to 1070 B.C. The Italian Renaissance, an era of great painters, sculptors, and architects, through the course of the fourteenth through sixteenth centuries A.D., introduced another important wave of a lifestyle marked by luxury. This was followed by the reign of King Louis XIV of France (1638–1715), whose reign deepened the meaning of an authentic French lifestyle. Then came Charles Frederick Worth (1825–1895) of Great Britain, the designer who coined the concept of haute couture. Worth moved to Paris in 1846 to perfect and then commercialize his craft, holding the first fashion shows and launching the use of fashion labels. Coco Chanel (1883–1971) and Christian Dior (1905–1957) gave birth to modern trends and ideals, marked by the rise of New York City as a capital of luxury. Over the course of the 1960s and 1970s, the world saw the second Italian luxury revolution. Gucci and Bernard Arnault started applying the principles of strategic management to modern luxury by building the first multibrand conglomerate: the Louis Vuitton Moët Hennessy (LVMH) group. The latest chapter to this fascinating tale of luxury and high fashion is the information technology revolution, in which news about a new product spreads like wildfire, and how opinions pertaining to brands, products, and companies are shared at the click of a button. What is important to remember is that the history of the evolution of luxury is highly correlated to the evolution of society.

Changes in consumption in the luxury industry affect the ways countries evolve. The first stage is deprivation: despite being crushed by poverty, the population of a country maintains the desire to consume. The second stage is a new wave of prosperity: as the country witnesses economic growth, its middle class seeks to acquire luxuries that have high functional utilities, like washing machines, cars, and practical appliances. Then the wealthy and elite start buying luxury products. The third stage of development is the desire of consumers to show their wealth: mere possession is insufficient when luxury goods become a symbol of social status and bestow their owners with an aura of divinity. The fourth stage is that of being plentiful: in which most people in the nation are well-off and have sufficient resources; however, they have a need to fit in with their group. If someone is not carrying or wearing an appropriate social marker, they might find it hard to fit in with a particular group. The fifth and final stage is normalization: where luxury becomes a way of life. When people become used to this lifestyle, it becomes difficult for them to go back to their previous habits. Here luxury is more and more associated with personal tastes and pleasure, and not necessarily with wealth or status.

Issues of Defining Luxury

It is important to understand why certain brands are called luxury brands and what justifies the superior positioning they command. Luxury empires are not built by selling tasteful products at an exorbitant price. Luxury brands have been carefully crafted through meticulous strategies in marketing and brand building, making their mark in the consumer's subconscious and having the following main characteristics: brand strength, differentiation, exclusivity, innovation, product craftsmanship and precision, premium pricing, and high quality.

It is the differentiated quality of the material, design, and performance of a Patek Philippe watch that merits a 1,000% premium over a normal watch picked up from a general store. It is the craftsmanship that goes into the Kelly bag made by Hermès that justifies its exceptionally high price tag. It is only the brand strength of Louis Vuitton that can entice customers to preorder bags months in advance. It is attention to craftsmanship and nuances of details that help differentiate a luxury product.

Many misconceptions surround the luxury industry: (1) Do luxury and fashion mean the same thing? (2) Does a high price imply a luxury product? and (3) Does luxury imply perfection?

Luxury and fashion do not mean the same thing; they can coexist, but that's not always the case. Until the nineteenth century, only the very privileged few could afford to keep up with changing trends. So only those who could bear the cost of luxury could afford to make and follow fashion. However, the twenty-first century consumer doesn't need to be wealthy to be fashionable; being trendy no longer needs to be costly. For example, streetwear brands produced by H&M and Zara are fashionable and affordable. Haute couture is still the trendsetter but is not the only reference anymore. Luxury products used to be seen as an investment, which is not replaced that often, but now they have become more of a lifestyle choice. Many luxury houses try to release fashionable products along with their traditional luxury goods. For instance, Chanel offers fashionable products in order to keep up with the times and renew interest in their classic items.

A large price tag does not explicitly indicate that a product is a luxury good. Everyday products could trade up and charge a higher price. All luxury products are expensive, but not all expensive products are luxurious. This means that it is difficult to sell premium products as luxury goods—a phenomenon known as "premiumization" or "trading-up." Similarly, it is unwise to reposition a luxury brand as a premium product to extend its market. Automobile companies have tried to reposition products both ways and have failed, such as Mercedes with both the launch of the Smart car and its acquisition of Chrysler. However, the brand managed to strengthen its luxurious image through its portfolio of products, namely Maybach, AMG, and its venture into the pure electric vehicle industry. In the meantime, Porsche rose to become the most valuable luxury brand for the year 2020 through a brand value increase of 15.6% to USD33.91 billion. When one pays a tidy sum to procure a luxury brand, what does he or she pay for? Perfection? Not necessarily. In some ways, what defines the luxury brands are the creators and not the consumers. A luxurious product may thus be far from perfect. However, would these characteristics be questioned in times of a recession, when consumers become more cautious, have a limited budget, and spend less?

Crisis

Bling is over. Red carpet covered with rhinestones is out. I call it the new modesty.

—Karl Lagerfeld

There were several economic crises during the 1970s to 2020, starting with the oil crises in 1973 and 1979, the stock market crash in 1987, the 1992 Black Wednesday crash, and 1997's Asian financial crisis. The first 10 years of the twenty-first century also saw many crises. The stock markets collapsed in early 2000, following the dot-com bubble of the late 1990s. In 2001 the world watched as the terrorist attacks in New York and Washington took place, followed by the war in Afghanistan in 2001 and the invasion of Iraq in 2003. The early 2000s also saw a recession in many countries of the world, aggravated by the outbreak of SARS in Asia in 2003. In 2004, the tsunami in Asia killed hundreds of thousands. In 2007 the subprime mortgage crisis that began in the United States housing market spread all over the world and caused, among many other things, the collapse of Lehman Brothers and the European debt crisis of 2011, which continues to have effects such as the Cyprus bailout and political turmoil in Russia and Italy. In 2020 the outbreak of the coronavirus all around the globe has wiped billions off luxury companies' market value.

Crisis can take four forms: (1) endogenous (inner), such as economic and financial crises; (2) exogenous (outer), such as a political crisis; (3) natural disasters; and (4) mixed characteristics. An *economic crisis* is one where the real economy, of one country or worldwide, experiences a significant slowdown. The gross domestic product consumption stagnates or shrinks, along with investments, capacity utilization, household incomes, company profits, and inflation, while bankruptcies and unemployment rates rise. Figure 1.1 shows periods of shrinking GDP between 1950 and 2013, followed by negative GDP in the year 2020 using the examples of the world's biggest economy, the United States.

On the other hand, a *financial crisis* is a sudden devaluation of assets, such as stocks or currencies, which may or may not have an effect on the real economy. In itself, a financial crisis only leads to the destruction of paper wealth. It has been observed that there is a reciprocal relationship with other types of crises, such as economic crises and political crises, which is the reason why financial crises generally lead to increased levels of caution within politics and the real economy. Examples of such financial crises are the burst of the dot-com bubble, together with the September 11, 2001, and other terrorist attacks, the subprime crisis of 2007, and the ongoing Eurozone debt crisis facing the world, transforming from the private debt property bubble of 2008–2009 into the sovereign debt crisis of major banks and economies of Europe, in which the Dow

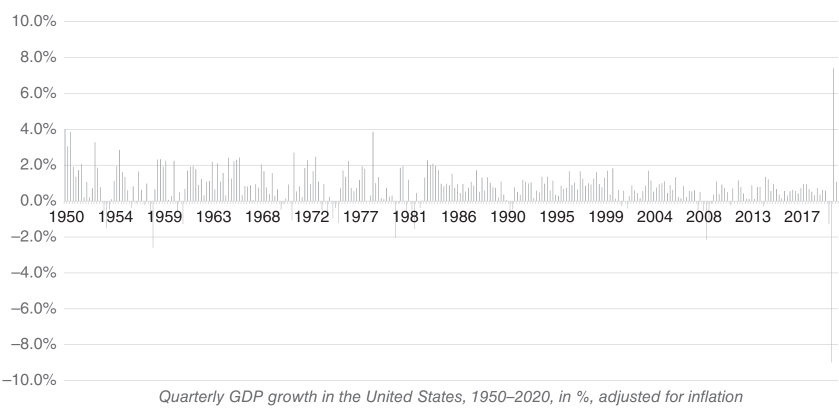

Figure 1.1 Quarterly GDP Growth in the United States, 1950–2020 (in percentage adjusted for inflation)

Jones has lost about 50% of its value. Other such crises that affected the world include the South American debt crisis of the 1980s, known as the "lost decade"; the Asian financial crisis of 1997; the Russian crisis of 1998; and the European debt crisis that started in 2010 and has taken an enormous toll up until the present moment.

Like financial crises, *political crises* may affect the economy and have an effect on industries, including the luxury industry. Examples of political crises are the Cuban Missile crisis, the Falklands crisis, the Iraqi invasion of Kuwait and the subsequent intervention by the United States in 1990, and the terrorist attacks in 2001. In 2011, the governments of Tunisia and Egypt were overthrown by revolutions and Libya saw a regime change after a civil war that was supported mainly by France and the United Kingdom. In 2013, the election results of Beppe Grillo's Five Star movement in Italy combined with the EU's decision on tax issues in Cyprus have fueled disbelief in the democratic problem-solving capacity of the EU and its members. In 2019, protests against the government in Hong Kong, a tax haven, forced luxury companies to close retail stores and shift their priority more to mainland China.

Natural disasters, such as the tsunami in Asia in 2004, the Tōhoku earthquake and tsunami that caused a meltdown at the Fukushima nuclear plant in Japan in 2011, and the typhoon Bhopa in the Philippines in 2012 had devastating effects on the local economies. The coronavirus pandemic was one such global health crisis, which created a global economic impact affecting most luxury markets worldwide.

The Luxury Industry

In the past, crises have had different impacts on various groups (be it luxury conglomerates or independent luxury houses) at different times; this could be attributed to the exogenous and endogenous characteristics of the economic cycles. Nonetheless, the 2009 financial crisis was global in nature and ultimately evolved into the Eurozone crisis in 2014. The luxury industry slowly recovered. Brexit was announced in 2016 and the US–China trade war started in 2018, which shredded any shade on luxury's future. The Hong Kong protests of 2019 forced luxury companies to close retail stores and cancel shows. If there was still optimism for growth, that was due to the China mainland market. However, at the beginning of 2020 it was surprisingly hit by the coronavirus, which soon evolved into a global pandemic. The luxury industry is probably one of the industries most affected, as all of its major markets were hit.

To understand this effect, luxury must first be divided into: (1) hard luxury, such as watches and jewelry; and (2) soft luxury, such as fashion. A more comprehensive definition of the luxury industry includes products and services such as wine and spirits, food, travel, hotels and spas, technology, and cars. Among the most well-known luxury brands are Louis Vuitton, Hermès, Gucci, Cartier, Porsche, Ralph Lauren, Rolex, Tiffany, Armani, Burberry, and Ferrari. In 2015 the worldwide market for luxury grew more than 11% over 2014 to a massive €245 billion. In 2019 the worldwide market for personal luxury goods grew over 7% in 2018 to a massive €281 billion, followed by a decline of over 22% in the year 2020.[1]

Luxury consumers changed, and so did the industry, with the rise of luxury multibrand conglomerates such as LVMH of Bernard Arnault, Kering of Francois Pinault, and Richemont of Johann Rupert, which were formed by the acquisition of traditional family-run brands. Other luxury brands (usually family-owned) that resisted being taken over by the aforementioned conglomerates also grew alongside the conglomerates. The family brands protected their brand heritage and DNA; in addition, they purchased their suppliers and integrated vertically. They focused on brand equity, investing heavily in international expansion while repurchasing franchises and licenses to gain more control over their retail operations.

Notably, over the past several years, more and more luxury companies have been trying to create synergies and omni-personal experiences by expanding product categories, acquiring or building more daughter brands. Very few remain as monobrands and focus on a single product line. Figure 1.2 depicts conglomerates that have a portfolio of brands selling different product categories (LVMH), conglomerates with many

[1]Statista, 2021. *Value of the global luxury goods market 2020 | Statista.* [online] Available at: <https://www.statista.com/statistics/266503/value-of-the-personal-luxury-goods-market-worldwide/>.

Figure 1.2 Where Conglomerates Fall in Different Brand and Product Categories

brands on one product category (Estée Lauder), companies with one brand and only one product category (Patek Philippe), and houses with one brand with many product categories (Chanel).

The oligopolistic nature of the luxury industry at first gave rise to intense competition among the handful of players. Then, consumer buying power became the most important driver for luxury brands to succeed. The disposable income of high-net-worth individuals has increased since 2010. As society became relatively more affluent, consumers with disposable income were "created" through advertising to establish an artificial demand for products beyond the individual's basic needs.

Reaction to the Crisis of Global Markets

On the one hand, the luxury industry is said to be recession-proof,[2] due to its non cyclical nature. This belief may be attributed in part to the

[2]Jean-Marc Bellaiche, Antonella Mei-Pochtler, and Dorit Hanisch, 2010, 1; Jean -Noel Kapferer and Olivier Tabatoni, 2010, 11.

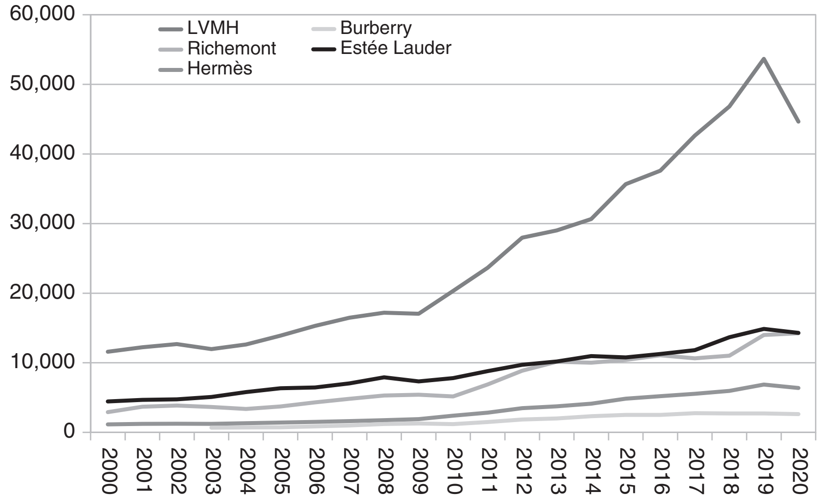

Figure 1.3 Revenues of the Main Players of the Luxury Industry, 2000–2020

change of consumer behavior in the United States and the broadening of the luxury consumer base, fueled by an increase in the disposable income of high-net-worth consumers. Another argument in favor of non cyclicality is the fact that luxury customers are generally the happy few who are less affected by economic crises, and whose spending patterns tend not to change.[3] Both arguments, to a certain extent, are supported by the quick recovery of the luxury industry after the financial crises of 2001 and 2009, and the health crisis of 2020. Figure 1.3 illustrates that over a 21-year period the main players in the luxury industry have been able to weather the effects of crises.

On the other hand, with democratization of the luxury goods industry, whereby companies create accessible products, the non cyclicality of the luxury industry has become a questionable proposition. Historically, in recessions there has always been a quick rebound. For example, during the financial recession that started in 2007, though the luxury sector lost about 10%, there was an immediate rebound in 2009. Reports from different consulting companies and industry associations, like Bain &

[3]*Forbes*, "Luxury Brands, Tiffany's, LVHM Still Report Sales Growth," 2011.

Company and the Italian luxury goods association, Altagamma, show that luxury sales slumped by 13% in 2011, due to the debt crisis; but, in 2013, it was about 5% when foreign tourism slowed down in Europe. In 2020, the coronavirus pandemic further pushed luxury brands to close stores and halt operations, shrinking the market size down by 23% on average across sectors. Figure 1.4 depicts the effects of these three recessions, showing that the luxury firms are not immune to the slowdown in growth and revenue that follows each crisis.

The economic crisis deeply affected the luxury world, but in a way that was somewhat predictable. For many years, luxury brands were undergoing constant growth and no one thought they could be affected by a world financial crisis. They thought quite the opposite, in fact. The general opinion was that these losses would soon be overshadowed by the perennial story of growth and profitability.

Sales figures from countries across the globe were interesting to observe in light of the above discussion. In fact, the crises of 2009, 2010–2013, and more recent ones have helped us to better understand the luxury world. Most interesting was the behavior of consumers. Countries that were considered to be the homes and strongholds of the luxury planet were affected.

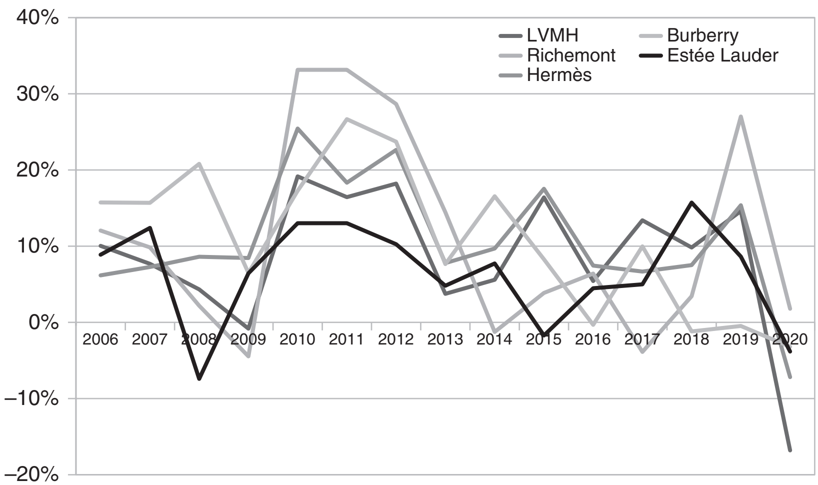

Figure 1.4 Revenues of the Main Players of the Luxury Industry as a percentage of the Previous Year, 2000–2020

Japan Japan had been a star of luxury for 25 years, beginning in the 1980s. It represented 30% of sales for Hermès in 2005, at least 35–40% for Louis Vuitton, and up to 41% of the worldwide luxury goods market. Japan had always been a place where luxury shopping was considered to be an occasion. At the time of the global financial crisis, Japan represented about 50% of the clients of all key luxury brands. Up until 2005 luxury companies forged their futures with Japanese consumers in mind. For example, 94% of Japanese women in their twenties owned a Louis Vuitton handbag; 92% owned products from Gucci; more than 58% owned a Prada item, and over 51% possessed a product with a Chanel label on it. Traditionally, this market had been impervious to recession. Most major companies—LVMH, Hermès, Richemont, Kering, and Coach—made supernormal profits in Japan until 2009. Two local crises hit the Japanese economy: the earthquake and its resulting tsunami, and the Fukushima nuclear meltdown.[4] Since Japan accounted for a significant share of global luxury sales, the shares of LVMH, Hermès, and Burberry tumbled when the crisis hit.[5] Overall, the Japanese market retreated between 20% and 30%. LVMH witnessed declining sales by 6%. Salvatore Ferragamo reduced prices of its 42 items by 7–10% for the first time since it began operations in Japan. Chanel held a sale of clothes and other items. Distributors such as Seibu and Sogo merged to form Millenium, Isetan merged with Mitsukoshi, Takashimaya merged with Hankyu, and Daimaru merged with Matsuzakaya to survive. Clearly, Japan became a nightmare for most luxury brands, as consumers saw the stock market at a five-year low and hoped to reduce their consumption to prepare for rainy days in the future. For the first time in history, 2009 showed a decline of the luxury market in Japan. Given the aftermath of the tsunami and nuclear disaster that rocked Japan, it is not surprising that people did not feel like shopping.

In 2014, Japan registered between 5 and 16% of luxury sales. Chinese customers accounted for about 15% of former Japanese sales. Does that mean that Japan has become a nightmare? Based on an interview about sales outlook, conducted by McKinsey & Co. on 20 CEOs of luxury

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[4] Kelly Wetherille, 2011.
[5] James Topham, 2011

companies who were based in Japan, 75% were optimistic about the future prospects of Japan's luxury market. The reality proved their optimism correct. According to Deloitte, Japan experienced positive growth in its luxury goods market in FY 2017, with an expectation that this growth would continue to 2022, presumably dashed by the pandemic.

Although temporarily interrupted by the coronavirus, which is a global challenge, Japan has been, and is more than ever, a key market: stable, mature, and full of promise. For brands like Van Cleef & Arpels, Cartier, Bottega Veneta, Hermès, Prada, Chanel, and others, Japan remains a strong and vital market. It is still the world's third-largest luxury market outside Europe, after the United States and China. Despite the uncertainty around the 2020 Olympic Games, it will surely have a positive effect on the Japanese luxury market when it is held, because it will bring international tourists, especially from China.

Europe During the global financial crisis, Europe—the birthplace of luxury goods—surprised everybody. Europe had witnessed 40% or more of all luxury sales, but after the crisis it showed its resilience, with an average decline of only 5%. Compared to Europe, Asia-Pacific, mainly due to China, showed a growth of 20%. The luxury market in France in particular did not decline. Old Europe was again a market to cultivate during the period of financial turmoil. Brands that were present in small European cities reaped the benefit of their regional strategies. Hermès, Chanel, Louis Vuitton, Armani, and Tod's were among the companies that were not significantly affected due to their sales in Europe. This proved that Europe has been, and still is, the most important market for luxury; it may remain so, for two reasons. First, the cultural heritage of Europe is linked to luxury. Europeans love luxury goods and have the buying power to be the most stable luxury goods consumers in the world. Second, Europe remains the number-one destination for tourists, France in particular. This means that, though the luxury business was going through the global financial crisis, the continuous flow of tourists who spend a considerable proportion of their budget buying luxury goods offset the effects of the crisis. For example, the Chinese spent nearly 1,500 euros per person annually. At the Galeries Lafayette, 60% of the total business came from tourists, and within this 60%, between 60 and 80% were Chinese tourists.

Despite social turmoil offsetting high tourist spending, such as the Yellow Vests Movement in France, Europe's luxury market remained strong thanks to euro awakening. However, Europe has been the second most affected area of the coronavirus. As brands just finished up a month of spring/summer collections in Milan, Italy was put under lockdown. Brands were not only worried about not being able to manufacture in Italy, but also unable to sell due to the scale of the virus outbreak, let alone the sunk cost of the Milan shows and their inventory. France also followed the measure of lockdown. The luxury giant LVMH had to face a day-to-day crisis and even changed its perfume and cosmetic production line to produce hand sanitizer.

China Asia overall, including Russia, China, India, Hong Kong, South Korea, and the Middle East, came to the rescue of most luxury brands after the global financial meltdown. During the recession phase, China became the winning horse that reported a growth of 20–30% for most luxury brands. Richemont was one brand that relied heavily on Asia-Pacific consumers to help buttress its sales. The same held true for Hermès, which also sold heavily in Asia. They were saved, although the crisis affected all the actors in the luxury sector, at each level. China alone during this period could show the difference it made to the top line of a luxury company. When the distributors of the United States and Japan nearly collapsed, when Neiman Marcus reported a 20% decline in sales, stores in Beijing and Shanghai were reporting sales growth of up to 30%. Businesses in mainland China, Hong Kong, and Macau were flourishing.

From an emerging luxury market to the biggest luxury market, China reported consistent growth and developed itself as an attractive destination to sell luxury. China saved many brands from sliding into the red. During this period, Kering witnessed double-digit growth in China. Richemont and Zegna, which were otherwise losing money, enjoyed healthy growth in China. Brands like YSL regretted not maintaining showrooms in mainland China. The Ferragamo family trusted Chinese women to continue demanding statement handbags, which they continued distributing despite an otherwise gloomy environment. Some brands, on the other hand, were apprehensive about the Chinese miracle. Patek Philippe was cautious with China as it felt that the country could impose sudden import duties or levy taxes, which could destroy the business instantaneously. According to a McKinsey report, China delivered more than half the global growth in luxury spending between 2012 and 2018 and was expected to deliver 65% of the world's additional spending up to 2025. However, the US–China trade war and Hong Kong protests made the overdependence on China's market alarming. Hong Kong used to be a tax haven for mainland luxury purchasers. Its international image and reputation also made it an interesting venue for luxury events. However, due to the protests in 2019, many brands decided to close their stores, or even announced their permanent departure. The protests are still going on as of today. In 2020, the coronavirus broke out in Wuhan, resulting in a nationwide shutdown. Most businesses closed. E-Commerce was the only remaining point-of-sale. In mid-March, the virus was basically under control and more and more commercial spaces were reopened. But how much the negative effect on China's economy will affect the luxury market is still to be seen. According to different reports, the reduction in international travel was bound to boost domestic luxury sales in Mainland China. One such evidence can be seen through the sales statistics of LVMH group, where Mainland China accounted for around 34.41% of total sales in the year 2020, compared to 30.16% in the year 2019.

United States The American market represents a great untapped potential for European luxury brands as only 17% of luxury goods sold in the United States are personal luxury goods, compared to 47% in Italy, 25% in Japan, and 25% in China. However, it is worth noticing that the US market alone drives 70% of Ralph Lauren's and 55% of Tiffany & Co's worldwide sales, whereas this market accounts for only 15–25% of the worldwide sales of most European brands, such as Hermès. Moreover, it can be observed that luxury sales are high in areas with a large Latin American population due to this group's appreciation of personal luxury goods. Thus, the American market offers a promising outlook for European brands if they manage to exploit the potential.

Over the years, the US market has always been open to brands that had the capacity to invest, to persevere, and to face conflicts. In 2019, in response to France passing a 3% tax on American digital companies such as Google and Facebook, Donald Trump threatened to place 100% tariffs on French goods, including wine and personal luxury goods. Despite it being only a threat, luxury stock fell 2% or more. Some companies leaped to stay on Trump's good side: LVMH opened a new Louis Vuitton factory in Texas, part of Chairman Bernard Arnault's efforts to hedge against trade tensions and build on the rapport he had established with the US president. LVMH agreed to buy Tiffany & Co. for $16.2 billion to expand its US footprint.

The US has remained a difficult market that requires a lot of time, energy, and resources. Luxury brands suffer in the United States. For example, Dior went in the wrong direction, running after licenses, opening everywhere—and subsequently losing money. Fred Segal, which opened in Los Angeles, could not meet its overhead costs and was acquired by LVMH. But the US market has strong potential in the long run in many cities other than the expensive centers such as New York, Los Angeles, and Miami. This is the reason why luxury brands should ask the question "To be or not to be in the United States"—Leonard Fashion answered "Not to be." They were right. Hermès, LV, Cartier, and Chanel succeeded in the United States, competing with Coach, Ralph Lauren, and Tiffany. US brands have hundreds of stores, a very different tactic from the European shopping experience. Americans do not yet have a taste for European luxury; they have a long way to go, and apart from two or three main cities, the interior of America is not ready to understand the French or Italian luxury worlds. It will take time and effort to develop a customer base. It is, however, a market full of promise. All the factors to succeed in the United States are there. It is a stable and rich country, and the only country where a great number of women are millionaires.

Africa The North African market has also experienced crises, most notably the Egyptian revolution of 2011 and the Arab Spring. Burberry and Ferragamo stores were closed permanently, while the companies that remained open watched as sales declined up to 70%. One reason was that wealthy customers were the first to leave North Africa during the unrest. This was corroborated by the fact that occupancy in luxury hotels, such as the Four Seasons, Kempinski, Hyatt, and Sofitel, dropped by 30%. However, due to democratization or increasing accessibility of the luxury industry, perfume sales in Africa were increasing at a rate of 25%, due to licenses from Gucci and Dolce & Gabbana. It has also been predicted that distributor sales for perfume will reach $100 million in the coming decade. Niche brands have started to make their mark in Africa. For example, Vlisco, a luxury textile brand from Holland engaged in textile wax, has long been successful in Ghana. Soon the entire continent of Africa will be a promising market for luxury brands.

The Effect of a Crisis on the Luxury Industry

The luxury world was a place where no one expected to perish. And then suddenly Christian Lacroix rang its bell—investors collapsed in the face of the debts of the famous Lacroix. It had been the epitome of creative talent, so long supported by the LVMH Group, spoken about and recognized by the media. But all of a sudden Lacroix was abandoned, sold by LVMH to Falic in 2005, and finally declared bankrupt in 2009. It was a shock to the industry. Did that mean that talent was not enough to survive in the luxury world? More names of failing brands were heard, such as Roberto Cavalli and Escada in 2019. Their managers, coming from Louis Vuitton and Céline, were obliged to leave the company when the shareholders of Escada refused to inject the fresh capital required to turn around the company.

On the other hand, consider the resurrection of the legendary Italian haute couture house, Schiaparelli, known for the introduction in the 1920s of women's shorts, colored zip fastenings, and catwalk shows. After being shut down since World War II, it was repurchased in 2009 by Diego Della Valle and relaunched in 2012. Diego Della Valle, the chairman of Tod's Group, who also revived the famous brand Roger Vivier, has brought Schiaparelli back on the stage of the fashion business after more than 60 years. This is not the only case in the luxury world. The almost immortal vitality and endless potential of a luxury brand can never be compared to any other normal brands.

The 2009 financial crisis was a wake-up call for the luxury industry. All *métiers* were hit by the recession but not at the same level: each reacted in its own way. Watches showed the most profound weakness, decreasing in all markets to the tune of 20%, which scared the Swiss and most other brands. Jewelry followed, with a decrease of 15–20%. *Arts de la table* fell at least 20% or much more. Ready-to-wear for women and men fell 10–20% depending on the brands, and even perfumes fell between 7–15%. It affected L'Oréal, Estée Lauder, Clarins, and their competitors. The most resilient were leather goods, which explains the consistency of Louis Vuitton, Goyard, Hermès, and, within the brands, Chanel, Gucci, and Dior bags and other leather goods.

Overall, the watches and jewelry segment faced a mixed reaction. While the recession was known to hit the watch industry the worst, some people still invested in the Rolex brand at a time of crashing stock markets and devaluing currency. Luxury houses like LVMH were known to have fared better than the likes of Richemont, because LVMH, through Tag Heuer, invested in hard luxury versus Richemont, which focused on soft luxury. Brands like Hermès, Swatch, Chopard, Hublot, and De Beers faced declining profits, whereas Dior fared well in the watches and jewelry sector. However, industry figures depicted a decline of 31.9% in June 2009 and a slowdown in the summer of 2013 due to the unfavorable economic climate in Europe and in China. Swiss exports of watches declined, indicating it was an industry-wide phenomenon.

For the wine and spirits sector, brands like Diageo, Moët & Chandon, Pernod Ricard, and Remy Martin all reported a significant decline in profits. Diageo, which was more exposed to Ireland and Greece at the time they were saddled by the debt crisis, was the worst hit of all, indicating a strong negative impact on sales.

Luxury cosmetic and fragrance brands were hit by the recession, too. Estée Lauder and L'Oréal slid into the red, and undertook significant cost-cutting operations. The recession is hitting this segment in part because women tend to stock beauty products and perfumes. During times of recession, they usually fall back on the stock they have built over the years. However, some companies managed to stay profitable, including Sephora, Revlon, and Sally Beauty.

The crisis heavily affected smaller niche brands, especially in the field of *Arts de la table*. In 2009, Lalique, Daum, Baccarat, Cristalleries de Saint Louis, and many others suffered a great deal. On the other hand, the crises of 2009, 2011, 2013 and 2020 tested the resilience of the sector. The conglomerates experienced a slump in their books, compared to the growth they had witnessed over the course of the decade. Sales of brands such as Burberry, Armani, Cartier—including the whole Richemont Group—suffered. Hermès, Louis Vuitton, Bottega Veneta, Cartier, Moncler, and Prada were probably the most successful survivors. More recent crises, such as the Yellow Vest Movement in France, Hong Kong's protests, and the coronavirus pandemic inflicted more dramatic harm on the luxury industry across sectors. Crises were real as far as the luxury world was concerned. The response of the luxury sector revealed to analysts, researchers, investors, and other stakeholders that luxury was also sensitive to the economic situation of the global world, just like every other sector. In fact, no one could pretend that luxury was invincible and rich investors realized that the niche aspect of luxury was fading away. This was in fact a consequence of the evolution of the luxury world. It was not just big and financially strong conglomerates, with millions of customers, who were hit by the crisis—small family-owned luxury players also faced the music. They were all affected by the crisis and the stock market's movements.

Strategic Response to Crisis

The strategic response to the crisis was not easy. It showed that the evolution of the luxury sector was still wide open. Transformations were taking place. Luxury could not be defined as it had been before. Brands had to reposition themselves during the crisis, adopting starkly opposing strategies.

Responses varied. A change in consumer behavior was observed during the recession, wherein consumers spent a lot more time comparing the prices of various fashion brands. Thus, the conversion of a potential customer into an actual customer required more time and resources. Before, a consumer would buy 10 products, but after the crisis it was observed that the consumer bought just one, and even then only after careful deliberation.

The broad strategies adopted by players during and after the recession involved two fundamental approaches: internal and external. Internal strategies were company-centric policies, established both to change and better business practices and company culture. External strategies targeted the consumer and focused on creating new and more effective ways to gain and maintain attention and the desire to buy. The internal strategies included cost-cutting, a greater focus on product quality, financial restructuring, and downsizing. As Bernard Arnault described it, "A natural tendency of companies during a crisis such as the one we are in now is to cut costs, drop prices, and stop expanding, because it has the most immediate impact on numbers."[6]

External strategies included expansion in terms of both product offering and geography, repositioning, up-scaling of the brand to tap the richer among the super-rich, or downscaling to recruit a larger customer group.

In response to the crisis, as a knee-jerk reaction, some luxury brands stopped hiring, reduced the number and size of their collections, rationalized media spending, and reduced headcounts. It was felt that dropping prices and cutting costs was the last resort. The press referred to it as cost containment. For example, Dolce & Gabbana slashed its prices by 10–20%. At the same time the company began a search for alternative low-cost stitching techniques and reduced spending on advertising, returning to the low rates of 20 years before. Stella McCartney closed its boutique in Moscow just 18 months after it was opened. Richemont closed 62 stores, mainly in the United States, while Burberry absorbed heavy charges on its Spanish stores. For example, in the 2009 crisis, Burberry unveiled a cost-cutting program which resulted in the closure of the Thomas Burberry collection. It hoped to generate infrastructure efficiencies by shutting down six stores and reducing the headcount by more than 1,000 people. All this cost Burberry $6.7 million, with the hope the company would generate savings of $77.8 million. In response to the slowdown of Asia, their key market, Burberry announced in September 2012 that it would suspend further hiring, lower its travel expenditure, cut marketing spending, and defer IT projects. Estée Lauder followed a four-pronged strategy with layoffs of about 2,000 employees, freezes in pay, discontinuations of non-profit-making brands, and cuts in discretionary capital expenditures of 25%.

Contrary to the cost containment approach, Bernard Arnault stated, "What we have learned in the many crises we have been through is that this (cutting costs) is a mistake, especially when it comes to luxury. . . . If you don't put your products on sale, consumers feel they are buying something that retains its value. . . . Even during tough times, we can

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[6]Vanessa Friedman, interview with Bernard Arnault, 2009.

continue to invest and during the crisis I went through in the past 20 years, we always gained in market share."[7]

Different companies tried different strategies to reposition their brands. Christian Dior abandoned its logo and accessory product business as it pursued an up-scaling drive, in the hopes that the super-rich would not be affected by the crisis. Coach, which happened to be in the heart of the subprime crisis in the United States, felt that "normal" buying behavior among consumers had experienced a shift and consumer spending levels would never return to what they had been pre-crisis. Thus, an internal change in the company itself was required. Coach explored lower price options for the consumer, providing them with a larger range of accessible products. Driven by a similar thought process, Swatch and Ralph Lauren also launched products at lower price points. To reduce costs, some brands took their manufacturing operations to low cost regions of the world. Prada and Burberry shifted their manufacturing base to China for certain products. Louis Vuitton considered building a shoe factory in India.

During the crises in the decade of 2010, independent brands such as Armani, Burberry, Mission, and Roberto Cavalli suffered more than others. Some companies were sold; some scaled down their operations. For instance, Roberto Cavalli was sold to Vision Investments, the investment firm of the president of DAMAC Properties, Hussain Sajwani. Dolce & Gabbana scaled back their operations in Japan and are still trying to survive in China. As an LVMH executive summarized, "Before the crisis, we were putting a lot of energy into beautiful stores, but now we care a bit less about expanding our network and even more about design and price."[8]

However, some companies decided not to compromise on such factors. Bottega Veneta continued to manufacture its products in Italy and invested in its artisans to ensure that they continued to produce traditional, quality output. The idea was to ensure that their product was sufficiently exclusive to merit the premium price they intended to demand. One of the major winners from the crisis, Bottega Veneta, had a very different strategy: the company decided to not change its positioning at all. It held steady and stuck to what it was best at—finely crafted products

[7]Vanessa Friedman, interview with Bernard Arnault, 2009.
[8]*The Economist*, "The Substance of Style," 2009.

with clean, classic lines. This ensured that the brand was two steps ahead of its panic-stricken competitors. In early 2021, Bottega moved into online stealth mode.[9] It went dark on social media, choosing to be more inclusive—or more exclusive—with its own customers. It did it with silence. It deleted its accounts on all social media and removed its content from Weibo. It positioned itself as more upscale, exclusive, and elegant: sophistication with a distinctive stealth style, true to its DNA. It gained superstar status with this move, together with its fastest-selling squishy clutch bag named the Pouch. It is exactly the opposite strategy of Gucci, for whom millennials and Gen-Z made up a considerable proportion of its audience. Thus, Gucci had more of an inclusive approach toward its communications and followed the metrics on which brands measured their success in the digital age. IWC also practiced this philosophy. It utilized handmade craftsmanship, limited distribution, and impeccable service. Hermès manufactured its leather goods and silk products in France and Italy and did not resort to production in China. Not only did some companies try to deliver unmatched service quality, but they also standardized this service quality across continents. This ensured that a consumer walking into an outlet in New Delhi would not get a different experience from one walking into an outlet on Rodeo Drive or the Champs-Élysées. Ritz Carlton and HFS were brands that worked on the parameters of service excellence.

Continuing with the varied strategic response, some brands saw the crisis as an opportunity and expanded through: (1) widening or spreading to new geographies, and/or (2) launching new products. Notable among the geographical expanders (or base wideners) were Prada, Hermès, Bottega Veneta, and Christian Dior Couture.

For example, in the crisis of 2008–2009 Prada undertook its most aggressive investment plan. It hoped to get out of the crisis with a very strong distribution network. Having seen earnings slide by 22% in 2008, the company saw heavy increases in revenues and profits from 2009 onward. Hermès, like Prada, expanded during the crisis. Hermès opened stores in Manchester in England, Las Vegas, Japan, India, Wuxi in China, and Busan in South Korea during that period. Hermès was known for weathering the crisis rather gracefully.

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[9] Bottega Veneta: Stealth Luxury.

During the recession some brands launched new and special products while simultaneously trimming their overall product lines. This resulted in fewer offerings and simultaneous price increases on both existing and new products, stimulating consumer demand and generating market interest, discontinuing low-margin products, and increasing prices in some product categories. Some companies ventured into new products and product lines (deepening), whereas others consolidated their brands under one umbrella. Burberry ventured into a new product line with a stand-alone children's store in Hong Kong, Bottega Veneta ventured into watches, and Versace launched a new fragrance, Gianni Versace Couture. Brioni reacted to the crisis by including more accessible items in its product range of suits, such as T-shirts. Coach kept the prices of its regular lines stable, but introduced new lines, such as the Poppy handbags, to cater to a less affluent segment. Estée Lauder moved away from a strategy that fostered competition among various brands. It believed in following a more synergistic and coordinated policy of brand interdependence rather than competition. Its aim was probably to make the consumer feel that its brands were complementary in nature rather than supplementary. By maintaining or increasing prices, for example, these brands segmented their consumers and were more likely to pick up market share after the recession. Francois-Henri Pinault, CEO of Kering, was of the opinion that "there's a new perception of luxury, a more discrete sophisticated luxury where notions of heritage and craft play a big role."[10]

During this period many consumers had to cut back on their purchases and many sensed that it was not appropriate to show off with obviously expensive products. It was something that only traditional, artisanal, and legitimate houses could uphold. Brands did not act at all but kept true to their values and their traditional offerings. These included Hermès, Harry Winston, IWC, Chanel, and Patek Philippe.

Some brands explored new channels to deliver their products to the customer. Gucci and Ralph Lauren adopted the QR code. This was an image that shoppers could scan and download through their camera phone to obtain more information about the product or make purchases via their phone. Cartier adopted advertising through mobile phones. Companies like LVMH and Gucci also adopted online retail as

[10]Dominique Ageorges, 2010.

an option for selling their products. This was quick to gain acceptance in Japan, where 20% of consumers make their purchases online.

Some brands diversified during the recession to strategic but complementary businesses or acquired greater control of their current businesses. From 2000 onwards, most if not all luxury brands, be it multibrand conglomerates or family houses, expanded horizontally into different traditional luxury categories. For example, Louis Vuitton expanded into fashion, high jewelry, and watches. Mont Blanc expanded into watches and jewelry. Chanel diversified into high jewelry. Salvatore Ferragamo expanded into fragrances and accessories. During the recession, Louis Vuitton, Bulgari, Armani, Missoni, and Trussardi diversified into a non-traditional luxury goods category with the opening of luxury hotels. Moreover, brands acquired greater control of their core businesses to integrate vertically, purchased key suppliers, and bought back licenses and franchises to increase efficiency, control their brand image, and generate superior margins.

Some companies tried to understand changing customer needs during the recession. For instance, Diageo noticed that people reduced their consumption of alcohol outside their homes. Thus, it launched pre-mixed cocktails such as Smirnoff Tuscan Lemonade for home consumption. Ritz Carlton coined Mystique, its CRM system, to keep a closer tab on the consumers' pulse. Taking this flexibility a step further, some companies let the consumer guide the company rather than the other way round (which has been the norm in luxury branding). For instance, the sales representatives of most brands were given free hand to contact their personal customers and close sales. So each salesperson acted like a shop able to sell any product in the catalogue. Sales representatives were encouraged to find local customers and reach out to them for their full customer journey.

Due to the profound impact that the coronavirus pandemic had on the luxury industry, most luxury houses had no choice but to rediscover new ways of working. With the ultra-high-end brick-and-mortar stores forced to close under national level lockdowns and restrictions on non-essential travel, both international and domestic, selling products was a challenge. Many luxury brands were seen diverting their focus toward philanthropic activities and working on their brand heritage. LVMH and Armani group addressed the shortage of medical supplies by converting their production facilities into factories for essential supplies. Bulgari and Dior were quick to switch their perfume facilities into hand sanitizer factories, reinforcing their commitment to saving lives and putting an end to the pandemic. Conglomerates like LVMH, Kering and Richemont were able to optimally utilize their financial and brand well-being to execute their strategies of strengthening their brand image and contribute to the society.[11] These are just a few of the many examples which indicated the emphasis on heritage, story, and brand values.

Conclusion

We need to be pessimistic in the short-term and optimistic in the long term.

—Bernard Arnault

In conclusion, different brands adopted different strategies in response to the crisis. None of the brands adopted a single universal strategy. They remained creative in their responses. Some succeeded, some did not. As the industry rebounded they adjusted. The bouquets of responses were meant to encompass different types of customer from different cultures and geographies. A global brand strategy was needed to convince several segments of clients—so different and interested by so many various luxury sectors. With the crisis it was seen that luxury lost its definition, the market remained totally open, and goods varied from premium, to super-premium, to ultimate luxury.

Formerly accessible to the few, the luxury industry started to become more accessible from 1985 onwards—three decades—with brand extensions such as perfume and eyewear attracting larger (and younger) consumers. The future of luxury would therefore be built on the capacity of brands to understand the scope of potential customers, fixing a strategy based on a specific language. There was no universal response, nor any universal language. Chanel speaks Chanel, Hermès speaks Hermès, and Gucci has its own vocabulary—the challenge is to keep the dream going, for everyone, after the crisis.

[11]LVMH, 2021. *At the Heart of the Fight Against Covid-19 Is the Manufacture of Masks and Gowns by Our Maisons—LVMH*. [online] Available at: https://www.lvmh.com/news-documents/news/lvmh-maisons-repurpose-facilities-to-make-face-masks-and-gowns-for-hospital-staff-helping-battle-covid-19-in-france/.

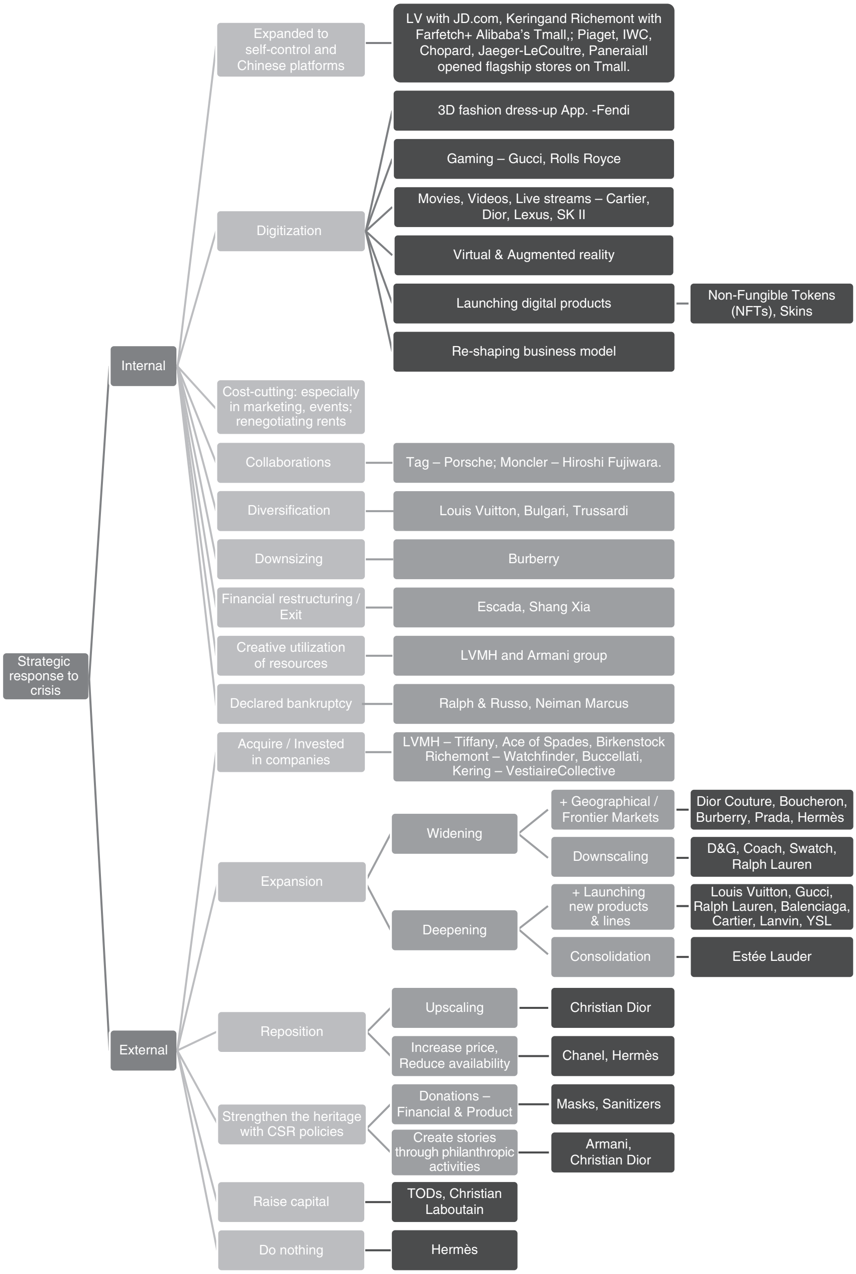

Figure 1.5 Luxury Brands and Their Crisis Management Strategies

Figure 1.5 summarizes the different strategic responses of luxury brands to the global financial crisis.