The Evolution of Luxury: Brand Management of Luxury Brands, Old and New

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Dissertation submitted to the faculty of the Virginia Polytechnic Institute and State University in partial fulfillment of the requirements for the degree of

Doctor of Philosophy
In
Apparel, Housing, and Resource Management

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June 21, 2012
Blacksburg, Virginia

Key Words: Luxury, Brand Management, Case Analysis

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ABSTRACT

This qualitative study contributed to the growing body of research in luxury brand management by constructing a framework that can be utilized by luxury companies and conglomerates to develop their business strategies. The purpose was to examine: (a) how the chosen luxury firm is addressing the changing business environment of the luxury goods industry and the changing consumer environment targeted by that industry, (b) how the firm is managing growth trade-offs, and (c) how the firm is adapting its marketing orientations to become consumer-centric and experiential. Six research questions guided the study, and data collection and analysis took place in two parts. Methods for this study included an in-depth review of literature, an exploration of the business environment, and a case study. The study concluded with the formation of a brand management framework specific to the luxury goods industry.

Data collection and analysis included an in-depth exploration of the evolution of the business environment of the luxury goods industry from the mid-1800s to the first decade of the 2000s, and a case study of the sample luxury goods company, Louis Vuitton. A historical review was conducted beginning with the company’s inception in 1854 and continuing through the formation of the LVMH conglomerate in 1987. Exploration of brand management successes and failures helped identify information relevant to variables in selected business categories (business environment, corporate environment, and marketing strategy). Analysis of the case study resulted in the refinement of the four brand management variables: corporate, brand management, trade-off, and strategic planning.

Environmental determinism and the zeitgeist were evidenced to be important factors that shaped the business strategies of LVMH and its brands. Strategic planning and strategic management response were identified as ongoing strategies that helped LVMH and its brands to effectively address and respond to environmental changes. Both environmental determinism and the zeitgeist and the use of strategic management response were incorporated into the luxury brand management framework as overarching themes for explaining the influences and responses for the four management indicators.
Acknowledgements

The author wishes to express sincere appreciation to the Virginia Tech faculty who served on the study committee: Dr. Doris H. Kincade, Professor, Department for Apparel, Housing and Resource Management (AHRM); Dr. Julia O. Beamish, Professor and Department Head of AHRM; Dr. Patricia J. Fisher, Assistant Professor, Department of ARHM; Dr. James E. Littlefield, Professor Emeritus and former Head, Department of Marketing, Pamplin College of Business.

I would especially like to acknowledge the support and encouragement provided by Dr. Doris Kincade, who chaired the committee. Since 2002, when she became my undergraduate advisor, Dr. Kincade has been a valued mentor for me. Having the opportunity to work with Dr. Kincade again strongly influenced my decision to return to Virginia Tech to complete my PhD. Throughout the completion of my doctoral program, she has provided me with unending patience, guidance, and assistance. This support was instrumental in motivating me to overcome numerous obstacles encountered during the period of the study.

A word of appreciation is also extended to Dr. James A. Buford, Jr., retired Auburn University Professor and Management Consultant with Ellis Harper Advertising for being responsive to my calls on statistical questions as well as writing letters of recommendation on my behalf.

I deeply appreciate the love and encouragement of my parents, Drs. Ray and Dotty Cavender, for their continued financial support, counsel, guidance, and belief in my potential. Without them, achieving this goal would have been impossible.

Finally, I deeply appreciate the loving support and patience of my husband, Brice Cole. He has been there for me every step of the way and been an unwavering rock for me to lean on in times of frustration and discouragement. I could not have completed this degree without him.
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Chapter I. Introduction

Park and Kincade (2011) reviewed the business environment of the general apparel industry from 1973 to 2005 and identified three categories of influence: consumer, globalization, and technology. They reported of increased globalization of the business environment and a movement of the industry from a focus on automation and product quality control to outsourcing and a focus on consumers. Indications from their research and other authors (e.g., American Fabrics and Fashion, 1980) are that the apparel industry prior to the 1970s was focused on production aspects of the industry and experienced limited change from earliest recorded history to the later part of the 1900s. For example, increases in production were focused on fabric production during the 1800s because home sewing was the norm for clothing production. During the early parts of the 1900s the movement to ready-to-wear clothing and the increase in retailers to sell these products changed home sewing to factory production, but the production aspect of the business was still most important (Burns & Bryant, 1997). Park and Kincade note the growth of the marketing aspect of the business starting in the 1970s and 1980s.

Overview of the Luxury Goods Industry

In general, the apparel industry shows little fragmentation of change by product type until more recent history. The luxury goods industry, as a subset of the apparel industry, shows some distinct changes in the more recent business environment for this industry. These recent changes represent an unprecedented pattern of growth, averaging 14% growth in sales annually from 1996 to 2000, and overall growth in the first decade of the new millennium despite periods of global recession (Bruce & Kratz, 2007). In addition, the cyclical nature of the luxury industry has been especially evident during this time period as events in economic, social and political
environments (e.g., economic downturns, terrorism, and natural disasters) have impacted growth in the industry. In the long run, continued growth in the sector is predicted due to emerging markets, a growing number of wealthy individuals around the world, and growing demand among middle market consumers due to luxury’s aspirational nature (“The new luxury,” 2004).

Although the luxury goods industry has existed since the 1850s, few changes are noted until the later decades of the 1900s. These decades and the early decades of the 2000s have witnessed numerous changes in the industry. Exploration of the changes in the business environment for the luxury goods industry specific to globalization, technology, and the consumer provides insight on the milieu in which the sample company operates. For these reasons, the focus of this study is narrowed to consider primarily the period from the 1990s to the 2010s.

The luxury goods industry is composed of four principle segments: (a) apparel fashion, which includes couture and ready-to-wear, (b) perfumes and cosmetics, (c) wines and spirits, and (d) watches and jewelry (Fionda & Moore, 2009). In recent years, lifestyle luxury has also emerged which includes home furnishings, hotels, airlines, and private banking, to name a few (Chevalier & Mazzalovo, 2008). In 2007, the U.S. luxury goods industry was estimated to be valued at $130 billion (Okonkwo, 2007). In addition to its significant market value, the rate of growth of the luxury goods industry in the past decade has surpassed that of other consumer goods categories, with growth continuing in the sector despite global economic recession (Fionda & Moore, 2009). According to Bain & Company, one of the world’s leading business consulting firms, worldwide sales of luxury goods experienced a 10% increase from 2010 to reach €191 billion (i.e., $261 billion) in 2011 (Rothery, 2011).
The allure of new markets in Asia has also been undeniable to luxury firms over the past decade. Companies are expanding rapidly into China, Japan, and Korea to accommodate consumer demand resulting from economic growth. China has repeatedly placed among the top three luxury markets worldwide since 2008, and according to the country’s Ministry of Commerce, will become the world’s largest luxury market by 2014. China’s older consumers have come to associate high prices with high quality, while the young luxury shoppers place more importance on attaining recognizable brand names. However, both demographics are viable targets for luxury companies worldwide (Wenlei, 2009).

According to Truong, McColl, and Kitchen (2009), growth in the luxury goods industry can be explained by two key factors. First, economic factors such as increasing disposable incomes, lower unemployment rates, lower production costs and barriers to entry, and growing wealthy classes in emerging countries have led to a more favorable environment for luxury consumption. Second, the demand for luxury among lower socio-economic classes has greatly increased. This change can be attributed to the aspirational nature of luxury, to consumers trading up due to superior product quality in the luxury product, and to traditional luxury companies widening their product assortments to include more accessible offerings (e.g., perfume, cosmetics).

**Overview of Brand Management**

Brand management as a central business concept emerged during the mergers and acquisitions boom of the 1980s. Although brand management had been around for decades, the brand was solidified as a valuable intangible asset during this time due to the fact that the prices paid for companies were largely based on the value of their brands. Thus, brand management and branding strategy became key points of interest for marketing scholars and industry professionals.
alike, resulting in the development of numerous models and frameworks aiming to maximize effectiveness of the brand in increasing profitability, competitiveness, and customer loyalty.

While the proliferation of models and approaches are vast, the implications are all the same in that:

- The power of a brand lies in the minds of consumers and what they have experienced, learned, and felt about the brand over time; brand equity can be thought of as the ‘added value’ endowed to the product in the thoughts, words, and actions of consumers; there are many ways that this added value can be created for a brand; and there are also many different ways that the value of a brand can be manifested or exploited to benefit the firm. (Leone, Rao, Keller, Luo, McAlister & Srivastava, 2006, p. 126)

- The concept of brand management in the luxury goods industry “has become increasingly complex, being associated not only with conveying an image of quality, performance and authenticity, but also with attempting to sell an experience by relating it to the lifestyle constructs of consumers” (Atwal & Williams, 2009, p. 338). Brand management in this sector is paradoxical in nature and surrounded by many trade-offs in which exclusivity rivals profitability and the preservation of heritage is challenged by the need to embrace the modern (Wetlaufer, 2001). However, the fact that luxury brands are symbolic in nature and enjoy high brand awareness that extends well beyond the target consumers creates unique opportunities for firms to extend the brand through carefully added product offerings, licensing ventures and sub-branding. Research on luxury brand management has identified many “attributes [that] must be managed concurrently in order to create and maintain a luxury fashion brand positioning” (Fionda & Moore, 2009, p. 360). Nevertheless, brand management of luxury firms continues to be path dependent and centered on institutional issues shaped by each firm’s definition of luxury
within its company and the evolution of their marketing vision over time and in response to consumer change (Beverland, 2004).

**Strategic Planning**

Kotler (1984) discussed the importance of strategic planning for the long-term success of a company. Kotler’s support of strategic planning is prefaced with his theory of company effectiveness in a changing environment, which consists of three concepts. The first concept, organization-environment fit, refers to the degree of fit between the company’s offerings and the environment, or its target consumers. The second concept, environmental change, refers to the company’s ability to plan for and remain responsive to changes in the environment that affect its fit with target consumers. Sometimes these changes are evolutionary in nature and sometimes changes occur rapidly and without warning. The third concept, organizational adaptability, refers to the actual changes a company makes in response to environmental threats. Kotler (1984) defines environmental threats as challenges “posed by an unfavorable trend or development in the environment that would lead, in the absence of purposeful marketing action, to the erosion of the company’s position” (p. 41). In addition to addressing threats resulting from changing environments, marketers should also distinguish and leverage marketing opportunities that have occurred as a result of changing environments. These companies’ marketing opportunities are defined as an “attractive arena for company marketing action in which the particular company would enjoy a competitive advantage” (Kotler, 1984, p. 42) and should be classified according to their attractiveness and the probability of success a company would have with each opportunity. These steps a company takes to maintain long-term effectiveness in the face of a changing environment are known as strategic planning, or the:
managerial process of developing and maintaining a viable fit between the organization’s objectives and resources and its environmental opportunities. The job of strategic planning is to design the company in such a way that it consists of enough healthy businesses to keep the company going even when some of its businesses are hurting. (Kotler, 1984, p. 44)

Kincade and Gibson (2010) noted the importance of strategic planning in the apparel industry and stated that “the history of strategic planning parallels the business orientation history of the FTAR (e.g., fiber, textiles, apparel, retail) firms; however, because of lag time in implementation or differentials in industry segments, changes in strategic planning may precede or follow changes in the actual activities of the industry” (p. 44). The authors presented a timeline grouping strategic planning history into four periods. The first period, the pre-1960s, was production focused, with high levels of productivity being indicative of company success and raw materials being pushed through the apparel pipeline to the end consumer. The second period of strategic planning, 1960-1979, shifted to a product focus in which apparel manufacturers controlled the FTAR pipeline by offering the widest variety of products that their equipment would allow for with little regard for consumer demand. The third period, the 1980s, brought another shift in the FTAR pipeline and thus, a change in strategic planning. Retailers were now telling the apparel manufacturers what products they were willing to buy based on the demands of the retailers’ target consumers. This shift resulted in strategic planning at the retail and consumer level moving from push marketing to pull marketing strategies. This time period also marked the beginning of the brand as an important variable influencing differentiation in the market and consumer product desires. The fourth period began in the 1990s, once again shifting the balance of the FTAR pipeline to a consumer-focused or consumer-centric approach.
Therefore, the end goal of strategic planning became understanding and taking cues from the target consumer at the end of the pipeline in order to satisfy their product demands. The consumer-centric focus has only grown stronger in the 2000s and is supplemented by technological advances allowing companies to gather more consumer feedback and information on purchase patterns.

Kincade and Gibson (2010) suggested four questions that should be asked to guide the strategic planning process: (a) Who are we? (b) Where are we going? (c) How do we get there? and (d) Have we arrived (p. 49). The first question relates to the company’s mission statement, which includes the management vision and business philosophy. Strengths, weaknesses, opportunities, and threats are examined at this stage as well as past performance and past product offerings. Company history is also relevant to this stage of planning, and especially so in the luxury industry, which is the focus of this research. Commitment to maintaining the storied histories and traditions that brought initial success is of great importance to all traditional luxury companies in their strategic planning process (Nueno & Quelch, 1998). The second question relates to the strategic goals a company forms for itself and results from a critical analysis of factors in its internal and external business environment. The third question relates to the stage of planning in which action plans are developed to help realize strategic goals. Finally, the fourth question is the stage at which plans are implemented and then evaluated according benchmarks, or “criteria, for determining when the goal has been met and how efficiently and effectively it was met” (p. 57).

Information from the strategic planning process is used to compile a profit and loss (P&L) statement, which reflects a company’s income, expenses and profit, and is the basis by which budgets are developed and monies are allocated to the marketing and merchandising
departments. With the funds allocated to their division, marketing executives develop a company’s market plan. “Preparing the market plan in concert with the strategic planning process is often called strategic marketing” (Kincade & Gibson, 2010, p. 65) and is beneficial in addressing company strategic goals at the departmental level. Strategic marketing through strategic planning is an example of the importance of cohesion of goals and strategies at all levels and throughout all functions of the company. In the 2000s, marketing orientations have also been consumer-centric and are continually adapted to address changes in the consumer environment. The 2000s have also brought what some researchers refer to as the branding, information, and communications age (Schmitt, 1999), resulting in the proliferation of imagery and the desire by consumers for constant entertainment. These factors have resulted in the introduction of a new marketing orientation under the consumer-centric umbrella, experiential marketing, which will be discussed throughout this research along with the resulting implications and opportunities for luxury marketers.

**Statement of the Problem**

Many changes have occurred in the luxury goods industry in the 21st century that have direct implications for how a luxury brand must be managed and marketed to consumers. Okonkwo (2007) cited four factors that have transformed the luxury landscape and their resulting effects. First, economic, social, and technological breakthroughs around the world have resulted in the rise of middle class consumers narrowing the distribution of wealth and creating markets for luxury goods. The most frequently discussed emerging markets are Brazil, Russia, India, and China (BRIC). In addition to being high growth markets, BRIC countries have continued to enjoy strong growth despite the fact that the global luxury industry has been in a recession since 2009 (Atwal & Khan, 2009). The most notable of the four markets is China, which was the third
largest consumer market for luxury goods in 2010 (He, Zou, & Jin, 2010). Because consumption of luxury is essentially about the consumption of values, a key determinant of success in BRIC and other emerging markets is the extent to which luxury companies incorporate cultural identity into the marketing strategies implemented in each emerging market (Atwal & Khan, 2009).

The second factor that has transformed the luxury landscape is that “the high entry barrier that the luxury sector guarded for centuries has been lowered due to advancement in business and management practices, driven by globalization and the Internet” (Okonkwo, 2007, p. 225). This has spurred the emergence of many “new” luxury and aspirational brands (e.g., Jimmy Choo, Andre Ross) and mass fashion brands (e.g., Zara, H&M) that have achieved success by coupling branding and marketing mix strategies similar to those of luxury firms with advanced operations techniques, allowing for rapid speed to market and high sales turnover while maintaining low price points (Choi, Liu, Liu, Mak, & To, 2010). The third factor, digital communication, has increased the speed at which brand awareness occurs and has provided consumers with a platform to shop multiple luxury brands while also purchasing products from mass fashion brands. Andal-Ancion, Coyle, and French (2010) dubbed these consumers “see-saw consumers” and stated that during times of economic recession, consumers will fulfill their desire for luxury goods by purchasing one or two luxury items to pair with mass fashion or “masstige” merchandise (p. 2). The luxury goods industry has undergone a “deconstruction process since the 1990s as a result of changes in the investment and ownership structure of several luxury brands,” (Okonkwo, 2007, p. 226) which has led to increased pressure on luxury brands to demonstrate sales and profitability as indicators of shareholder value. This factor has resulted in many luxury firms expanding their product portfolio to categories such as cosmetics and perfumes. These product categories have higher profit margins but smaller purchase prices
than many luxury products, making the luxury brand accessible to a wider range of consumers. Vertical extension of the brand portfolio and licensing of the brand name are also methods frequently used by companies to increase profitability, resulting in increased accessibility (Truong et al., 2009). This complex business environment creates a highly challenging market in which luxury goods companies must operate. Selecting the right marketing strategies to meet the right consumers is a difficult and often unprofitable action for many firms.

**Conceptual Framework**

The marketing management process is built on the concepts of environmental determinism. This theory states that the business and consumer environments impact the decisions that companies make in developing their strategic plans and planning their marketing strategy. This theory is highly correlated with the traditional fashion theory of cultural influence on fashion evolution and adoption, and both have been used by researchers to examine firms’ activities in several industries, including the apparel industry.

**Environmental determinism.** Environmental determinism states that “organizations operate within a broad environment and must make adjustments to the environment for adaptation, survival and competitiveness” (Park & Kincade, 2011, p. 103). That is, companies must continually adapt their business strategies based on environmental cues. How effectively companies respond to these cues determines their ability to survive in saturated markets. Strategic planning is a useful tool in helping companies to continually monitor the environment and implement the necessary changes in business strategies that will allow them to continue to meet their goals. Within a wider context, the effects of strategic planning on company operations have been verified for numerous business and manufacturing operations by Ward and Duray (2000) in their seminal article. Kincade (2002) examined apparel manufacturers in the late 1990s
and found that environmental issues and other contingencies had significant impacts on the strategic decisions made by these apparel firms.

In addition to the impact of the current environment on businesses, Park and Kincade (2011) discussed the importance of historical review in citing environmental changes within an industry (e.g., apparel) over time and the impact these changes have had on business strategy. Their research tracked Nike and its strategic marketing management decisions over thirty years of existence. Three environmental factors (i.e., consumer, globalization, and technology) were explored and results indicated that businesses were clearly impacted by the environmental factors surrounding them.

**Fashion adoption theory.** Companies in the luxury goods industry are affected not only by business and consumer environments but more specifically by many of the factors unique to fashion. The traditional theories of fashion adoption focused on the emulation of social classes. The trickle-down theory proposed that styles were introduced by the upper class and eventually trickled down to the masses; while trickle-up theory, which is often used to explain more recent fashion phenomena, suggested that fashion diffusion occurs when styles trickle up from street cultures and ethnic minorities (Damhorst, Miller-Spillman, & Michelman, 2005). King, (1963) in a classic fashion adoption study (as cited in Damhorst et al., 2005), stated that social classes adopt their own versions of the same look, which he called trickle-across diffusion. In collective selection theory, Blumer (1969) stated that fashion is not a reflection of social class but of the zeitgeist, or spirit of the times. Regardless of the direction or movement of the trends, style changes are clearly reflections of the societal environment.

Many researchers have adopted this understanding of fashion diffusion, which uses a holistic approach to account for environmental factors that influence fashion adoption from the
macro to the micro level. For example, Hamilton (1997) proposed a macro-to-micro continuum to explain the fashion process. The micro-subjective level is where individuals negotiate the meaning of styles or looks with themselves, the micro-objective level is where individuals negotiate meaning of looks with others, the macro-objective level is where the fashion system (e.g., manufacturers, designers, fashion marketers) translates consumer needs or demands to actual commodities, and the macro-subjective level is the stage at which the zeitgeist is determined as a result of combined environmental cues. Cholachatpinyo, Padgett, Crocker, and Fletcher (2002) expanded on Hamilton’s (1997) model to create a dynamic rather than a linear continuum of the fashion process.

The fashion adoption process is important to the development of this research because it will guide the researcher in identifying phenomena (from the macro to the micro level) that have influenced consumer demands and the resultant business strategy successes and failures of the sample company in responding to those demands. In addition, many of the products sold by the luxury goods companies are apparel or fashion-related products. The impact from the spirit of the times should be germane to this study.

A review of literature on marketing a luxury fashion brand revealed topics related to environmental determinism and fashion adoption in the luxury goods industry, such as how luxury firms (a) manage growth trade-offs, (b) respond to changes in the luxury environment and luxury landscape as a whole, and (c) how companies effectively adapt their strategic marketing vision to changing consumer demands. However, a luxury brand management framework accounting for these factors has not yet been proposed.

**Model development.** The theories of environmental determinism and fashion adoption supplemented the researcher’s knowledge and findings of brand management and strategic
planning in the development of a framework for the brand management of luxury firms. Because this research is company-based, the model focused on the macro-subjective environmental variables (e.g., globalization, technology) and their role in shaping the business strategies of the sample company over time and the macro-objective corporate variables, which examined broader business strategies as well as specific strategies pertaining to management of the brand. Successes that have led to brand sustainability were illustrated as desired results for a luxury brand.

This research includes a historical review of the luxury goods industry from the mid-1800s to the first decade of the 2000s utilizing the three environmental factors: consumer, globalization, technology. Special attention was given to factors specific to the luxury goods industry (e.g., masstige, emerging markets) that could provide additional insights into the business strategy adaptations of luxury companies over time. The sample company (Louis Vuitton) is an industry leader in the apparel industry (Brandz Top100, 2011), and was examined, compared, and contrasted with the goal of identifying significant successes or failures in addressing environmental factors through the adaptation of business strategies specific to the marketing and management of the brand itself.

**Purpose of the Study**

The purpose of this research was to examine: (a) how the chosen luxury firm is addressing the changing business environment of the luxury goods industry and the changing consumer environment targeted by that industry, (b) how the firm is managing growth trade-offs, and (c) how the firm is adapting its marketing orientations to become consumer-centric and, more specifically, experiential. Finding insight into these three areas aided in the creation of a conceptual framework on luxury brand management that addresses information in the literature,
including trade journals and some research articles, that has not yet been incorporated into a stated framework.

This study first provided a historical review of the luxury goods industry beginning in the mid-1800s, when the first luxury brand came into being, and continued into the 21st century. Significant changes in the luxury consumer environment, globalization, and technology changes and developments that impacted the luxury industry were also discussed. Special attention was given to firms or designers demonstrating progressive strategic planning through strategic marketing and brand management that appeared unique compared to the competition and proved successful in positioning products and achieving profitability. Next, a case study of the selected luxury firm was conducted to provide an in-depth exploration of the company’s business strategy successes and failures over time as well as successes and failures pertaining to management of the brand that have ultimately led to the company’s brand sustainability and effective response to consumer market changes. The following six research objectives were established to achieve the study’s purpose:

1. Provide an overview of (a) changes in the business environment of the luxury goods industry with regard to the strategic marketing orientations of luxury firms developed in response to environmental changes, (b) trends in the luxury consumer environment, and (c) changes and developments in globalization and technology impacting the industry as a whole.

2. Examine the indicators of business strategy successes and failures for the sample luxury company (Louis Vuitton) for the corporate environment on the following variables: (a) company history, (b) brand portfolio, and (c) financial measures (i.e., sales, profits, losses).
3. Examine the indicators of brand management successes and failures for the sample luxury company on the following variables: (a) brand identity and (b) evolution of the company’s strategic marketing vision.

4. Examine the indicators of brand management successes and failures for the sample luxury company in managing growth trade-offs on the following variables: (a) brand equity and (b) brand architecture.

5. Identify indicators of brand management successes that have led to the sample company’s: (a) brand sustainability and (b) effective responses to consumer market changes.

6. Propose a luxury brand management framework as reflected in the information collected in the overview of the industry (Research Question 1) as well as in the detailed examination (Research Questions 2-5) of the sample company.
Chapter II. Review of Literature

An Overview of Branding

The American Marketing Association (AMA) is the professional association for individuals and organizations leading the practice, teaching, and development of marketing worldwide. AMA defines the brand as a “name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers” (Branding, n.d., para. 1). In relation to brand management, AMA goes on to define the brand as:

A customer experience represented by a collection of images and ideas; often, it refers to a symbol such as a name, logo, slogan, and design scheme. Brand recognition and other reactions are created by the accumulation of experiences with the specific product or service, both directly relating to its use, and through the influence of advertising, design, and media commentary. A brand often includes an explicit logo, fonts, color schemes, symbols, sound which may be developed to represent implicit values, ideas, and even personality. (Branding, n.d., para 1)

Brands are the means by which products are distinguished from one another in a saturated marketplace. A brand goes beyond the product itself to provide intangible attributes to consumers that satisfy emotional needs. The brand is one of a company’s greatest assets that, if managed correctly, not only builds a company’s value, but also aids in attracting and sustaining a loyal customer base. Many terms have been created to cover different aspects of branding and reflect how the topic of branding has developed over time (e.g., brand concept, brand identity). These terms are important in understanding the various roles of the brand as a business entity that is vital to the success of any company.
**Brand concept.** Brand concept can be defined as the overall idea behind the creation of the brand. “The brand concept is reflected through the name of the brand, its country of origin, its history and story, its visual image, its logo, its colors, its shapes, its language and its total offerings” (Okonkwo, 2007, p. 107). The brand concept is the very basis of the brand and must be a solid building block for development of the brand identity.

Based on their examination of product positioning strategies, Park, Jaworski, and McInnis (1986) suggested that the relationship between a brand’s concept and its image must be carefully managed throughout the life of the brand. The authors proposed a conceptual framework, brand concept management, which cited sequential concept management stages that could be addressed prior to market entry and continue to be shaped and managed throughout the life of the brand. Brand concept management (BCM), is defined formally as “the planning, implementation, and control of a brand concept throughout the life of the brand” (Park et al., p. 136). The BCM process measures brand concept over the following three stages: (a) introduction, in which the appropriate marketing mix is developed to establish the brand image/concept; (b) elaboration, in which the marketing mix is used to enhance the value of the image/concept; and (c) fortification, in which the marketing mix is used for brand concept associations. Park et al. (1986) presented a framework for the long-term management of the brand concept. The authors stated that firms must select a general brand concept derived from three basic consumer needs (i.e., functional, symbolic, and experiential) that they believe their brand will fulfill. Although the authors discouraged firms from trying to fulfill multiple needs through their brand concept due to the increased complexity of the branding strategy, current researchers in the luxury sector argue that creating a delicate balance between the three consumer needs categories is vital to the brand’s success (Berthon, Pitt, Parent, & Berthon, 2009; Kapferer
& Bastien, 2009). A firm must also work from the company’s mission and its internal
environment to operationalize its brand concept, as this concept will guide positioning decisions
over the life of the brand and aid in navigating changing market conditions. Park et al. (1986)
suggested that by following the BCM process once the brand is in place, a company can nurture
the brand concept and create a competitive advantage and viability in the long run.

In recent years, marketing and environmental changes have led to the terms brand
corect and corporate brand concept being used interchangeably. Through the process of trying
to distinguish their brand from others in the marketplace and highlighting the unique features and
benefits of their brand, companies tend to hint at the company’s mission in their brand concept.
This insight into the company leaves consumers wanting to know more about “who” is behind
the brand (Simões & Dibb, 2001). Thus, companies experience a need for branding to be
regarded as an integrated business process and be embedded in all company functions, not just
marketing. In the book, The Corporate Brand, Ind (1997) stated that the brand concept can be
integrated at the corporate level, asserting that “a corporate brand is more than just an outward
manifestation of an organization- its name, logo, visual presentation. Rather it is the core of
values that defines it” (p. 13).

Chernatony and Harris (2000) discussed the corporate brand concept in their research and
presented a model for managing corporate brands aiming to increase the congruency between
brand identity components and the brand’s reputation. They argued that “greater emphasis needs
to be placed on staff involvement,” and that “by recognizing the important contribution staff play
in actualizing a brand’s identity, corporate brands can lever this vital resource to achieve
sustained competitive advantage” (p. 273).
Simões and Dibb (2001) presented a case study of three brands (LEGO, McDonald’s, and JCB). The companies that own these brands have successfully embedded the brand concept throughout their entire organization, and have reached a point where their brand has come to represent the core beliefs and values of their company as a whole. The authors argued that the brand is not only beneficial to a company’s marketing functions, but is also useful in organizational management of the company, and it can be an influential resource in creating shareholder and long-term value.

An example of a brand that has both a very strong brand concept and a corporate brand concept is Coca-Cola, which is one of the world’s leading brands. All over the world, people recognize its signature logo and distinctive red coloring on its labels, and perceive it as being an American brand. Coca-Cola is also an example of a brand that has become a brand icon. Heding, Knudtzen, and Bjerre (2009) stated that an iconic brand “holds references that most people agree upon and it obtains that status by playing an active role in contemporary culture” (p. 12).

**Brand identity.** After the brand concept is developed, brand identity needs to be established. Brand identity is “the attributes and identifiable elements that make up the brand and how these are perceived and interpreted by the people that come in contact with the brand” (Okonkwo, 2007, p. 110). Another common definition is “a set of associations the brand strategist seeks to create or maintain” (Aaker & Joachimsthaler, 2002, p. 43). Brand identity is created and shaped through the brand strategy, which is linked closely to a company’s business strategy. Ideally, the two are developed simultaneously with the goal of supporting and balancing one another. Thus, brand identity becomes embedded in all of a company’s business functions.

Brand identity encompasses both the brand personality and the brand image. Brand personality “is the core personality traits and characteristics that have been consciously chosen
for the brand,” and brand image is the “way the brand is seen by the people it is exposed to” (Okonkwo, 2007, p. 110). In other words, brand personality is how the brand is created to be, or its “true self,” and brand image is the interpretation of a brand in the mind of the consumer based on the way the brand projects itself. This mutual understanding of brand meaning is important in successful communication between the brand and the public market. This idea reiterates corporate brand concept research (Chernatony & Harris, 2000; Simões & Dibb, 2001) in that the internal understanding of a brand by a company’s employees must align with the external understanding of a brand by a company’s consumers.

**Brand personality.** Aaker (1997) defined brand personality as “the set of human characteristics associated with the brand” (p. 347). For example, the Apple brand is considered to be young and hip while the IBM brand is considered to be older and more serious. Brand personality is the basis through which consumers develop a relationship with the brand. Through sensing similarities between the brand and their own personalities, consumers develop a relationship with the brand, leading to a favorable brand image. Aaker (1997) examined personal psychology and the “Big Five” human personality dimensions, mailing 1200 questionnaires to a sample that was representative of the U.S. population with respect to the five demographic dimensions (i.e., gender, age, ethnicity, geographic location, and household income) based on the 1992 U.S. Bureau of the Census. The questionnaire yielded a 55% response rate (n= 631). Results were used to develop a theoretical framework of brand personality dimensions (BPS) and to better understand the symbolic use of brands. Aaker’s “Big Five” dimensions of brand personality are sincerity, excitement, competence, sophistication, and ruggedness. Each dimension was assigned a set of traits that were further tested against the brand’s personality...
dimension with which it was associated, resulting in the identification of the traits that are most and least descriptive of that personality.

Aaker’s (1997) BPS is useful in the development of a set of attributes that could contribute to the meaning a brand has for consumers. For example, brands that adopt the ruggedness personality trait (e.g., Marlboro cigarettes, Wrangler jeans, Ford trucks) promote American ideals and masculinity. The BPS is also useful in understanding the symbolic use of brands by consumers and how consumers forge strong brand relationships. For example, the BPS can help in understanding how the aforementioned ruggedness brands increase preference and positive feelings among individuals with similar values.

Many researchers have conducted studies to further explore brand personality scales and their marketing implications. Azoulay and Kapferer (2003) called for more research on the brand personality construct because they claimed that the existing BPS measures do not successfully measure brand personality and create conceptual confusion. They recommended more empirical research to examine and clarify the additional contributing facets of brand identity, as brand personality is only one of those facets. Sung and Kim (2010) conducted a survey with 135 college students (with a mean age of 21) to empirically test Aaker’s assertions that brand personality can impact brand preference, usage, and levels of trust and loyalty in consumers. Results of the study suggested that “some brand personality dimensions relate more to brand trust, whereas others have a stronger impact on brand affect” (Sung & Kim, 2010, p. 656). Brand trust and brand affect are variables of brand loyalty pertaining to consumers’ level of trust in the brand and the brand’s ability to elicit positive emotional responses from its consumers. Implications from this study could be used to further evaluate the effectiveness of the BPS and continue to refine it to reflect new insights into brand personality dimensions. Aaker’s BPS has
also been used by researchers in the tourism industry (e.g., Ekinci & Hosany, 2006) to better understand the “destination personality” of popular travel destinations as well as in cross-cultural examinations (e.g., Aaker, Benet-Martinez, & Garolera, 2001; Aiello, Donvito, Pederzoli, Wiedmann, Hennigs, & Siebels, 2009) to determine brand personality dimensions that carry across cultures and dimensions that are culture specific.

**Brand image.** The goal of working strategically with brand image is “to ensure that consumers hold strong and favorable associations of the brand in their mind” (Heding et al., 2009, p. 13). Although the brand image is established by the company as a component of its brand identity, the extent to which the brand image has been successfully projected by the company is measured by consumers’ interpretation of that image in their minds (Keller, 1993). If the two messages align, brand communication between company and consumer has successfully taken place (Keller, 1993, 1998).

Keller’s (1993, 1998) brand knowledge model, shown in Figure 1, aimed to define consumer brand knowledge from the consumer’s perspective and stated that brand knowledge consists of brand awareness and brand image, with the latter being the more complex variable. Keller (1993) defined brand image as “perceptions about a brand as reflected by the brand associations held in consumer memory [and described brand associations as the] other informational nodes linked to the brand node in memory [that] contain the meaning of the brand for consumers” (p. 3). Three types of brand associations frame brand image in the mind of the consumer. The first association, attributes, can be product or non-product related with non-product related attributes constituting price, user/usage image, brand personality, and feelings and experiences. The second association, benefits, can be functional, symbolic, or experiential. The third brand image association refers to overall consumer attitudes toward the brand. These
associations vary according to how favorably they are evaluated, how unique they are to the 
brand, and how strongly these associations are held in the consumer’s memory.


While Keller’s (1993, 1998) Brand Knowledge Model is very useful in illustrating brand 
dimensions that hold meaning for consumers and the “development of the constructs within the 
model, generally, have been backed by sound theoretical judgment,” the model assumes blanket 
representation for both goods and services (Grace & O’Cass, 2002, p. 97). Many researchers 
(e.g., de Chernatony & Dall’Olmo Riley, 1999; Berry, 2000) have since explored branding 
dimensions for services resulting in the consensus that service and product branding principles 
are fundamentally the same, but that service specific features such as employees, servicescape, 
and word of mouth merit additional attention by brand practitioners in the management of the 
service brand.

Grace and O’Cass (2002) conducted an analysis of brand dimensions holding meaning 
for consumers in both the product and service categories using a phenomenological approach.
Based on consumer interviews, the authors drew conclusions about the meanings of brands to consumers as well as “the extent to which such dimensions are similar or different between goods brands and service brands” (p. 99). The authors then discussed findings in relation to Keller’s (1993, 1998) conceptual framework as well as other frameworks existing in the field of brand image research. Results indicated that Keller’s model accurately depicts the derivation of consumer brand meaning for branded products. However, the authors acknowledged dimensions such as brand name, heritage, and passing of time/experience that were not incorporated in Keller’s model, but were represented in others (e.g., Berry, 2000; de Chernatony & Dall’Olmo Riley, 1997, 1999; Grossman, 1994). In addition, Grace and O’Cass proposed a framework of key dimensions for brand products, brand services, and dimensions common to both products and services. Their research reiterated the need for continued empirical testing of consumer-based brand image models and the importance of expansion/revision of existing models over time. The research also provides clear definitions for terms commonly used in brand research.

**Brand awareness.** Brand awareness is the second dimension, along with brand image, that distinguishes brand knowledge. It is defined as constituting “a high level of knowledge and consciousness of a brand in its market to the extent of recognition and recollection among consumers” (Okonkwo, 2007, p. 113). Brand awareness is comprised of brand recall and brand recognition. Brand recall refers to the consumer’s ability to draw the name of the brand from memory when given a cue such as a product category or a need that is to be filled. In contrast, brand recognition refers to consumers’ ability to confirm that they have had contact with the brand when given the brand name as a cue (Keller, 1993). Extensive research has been conducted on brand awareness. Most of this research is focused on a consumers’ ability to recall a specific brand from a consideration set (e.g., Baker, Hutchinson, Moore, & Nedungadi, 1986;
According to Keller (1993), the relative importance of brand recognition versus brand recall depends on the extent to which consumers make their decisions in the store. If consumers tend to make their purchase decisions in the store where they are exposed to the brand, brand recognition could be viewed as more important. However, if consumers can recall a brand outside the store, then they could certainly recognize the brand when exposed to it in a store, making brand recall a higher level of memory performance than brand recognition. The level of brand awareness needed to influence consumer purchase decision varies with the level of involvement (e.g., high, low) the consumer has with the product decision (Keller, 1993). Research on this aspect of brand management has focused on whether high levels of brand awareness correlate to positive brand associations (e.g., Dew & Kwon, 2010) and increased purchase intentions (e.g., Jung & Sung, 2008; Kim, Knight, & Pelton, 2009). Dew and Kwon (2010) focused their study on perceptions of female college students in the United States, Jung and Sung (2008) examined perceptions of female college students in the United States and South Korea, and Kim et al. (2009) focused solely on the perceptions of South Korean female college students. Results across the three studies indicated that strong brand awareness is more important in influencing brand perceptions and purchase intentions among consumers in the United States with variables such as brand loyalty and emotional value being more important among South Korean consumers.

**Brand positioning.** After the brand identity is established, the company must meticulously position the brand both internally and externally. The corporate activity of brand positioning aims to determine where the brand is in the mind of the consumer and can be defined
as the “point where the relationship between a brand and consumer becomes apparent [and the point at which] the value creation that a company obtains from its brand begins” (Okonkwo, 2007, p. 116). Brand positioning is about “creating the optimal location in the minds of existing and potential consumers so that they think of the brand in the ‘right way’” (Keller, 1999, p. 44).

Brand positioning exists at the following two levels: (a) broad and (b) narrow (Park et al., 1986). Using luxury goods as an example, the broad level of positioning refers to associations that are attributable to all luxury brands (i.e., high-end, expensive), while the narrow level of positioning refers to the associations unique to each brand as defined by its company’s brand identity (Park et al., 1986). At the narrow level, the consumer makes sense of all of the associations (e.g., attributes, benefits, attitudes) he or she has experienced with the brand until this point in time. As these brand associations are clarified, the consumer places the brand in a distinct location in his or her mind. Repositioning is also a useful strategy that takes place when a company introduces new brand associations through advertising, which provide new messages with the goal of altering the brand’s position in the mind of the consumer.

Successful brand positioning strategies are derived from the corporate brand’s core values (de Chernatony & Harris, 2000). Urde (2003) defines core values as the “overarching concepts that summarize the identity of the corporate brand and as guiding lights for the brand building process” (p. 1017). The author distinguished three types of values. The first value type, values that are related to the organization, hints at the company’s vision or mission statement. The second value type, values that sum up the brand, “describe the innermost core of the brand” (Urde, 2003, p. 1018). This value is referred to as the brand essence, or “brand mantra” as Keller (1999, p. 44) refers to it. The brand mantra is a short three to five word phrase that embodies the core of the brand’s positioning. Brand mantras can be used to improve internal brand
management and remain constant throughout the life of the brand. By using a clearly defined brand mantra, companies can ensure that their members at all levels are sensitive to the fundamentals of the brand and their own role in its management. Examples of two companies that have superior brand mantras are Disney (“fun family entertainment”; Keller, 1999, p. 43) and Nike (“authentic athletic performance”; Keller, 1999, p. 43). The third value type, values as experienced by the customer, indicates what a customer is willing to give up in order to purchase a brand and is also known as added value. Itami and Roehl (1987) discussed customer added value as a main driver of competitive advantage for the brand. By understanding the core values at the organizational and brand levels and allowing those values to be drivers of the brand positioning strategy, researchers believe that value will be added for the consumer, resulting in increased equity for the brand (e.g., Hankinson, 2000; Urde, 2003).

Keller (1999) stated that successful brand positioning should be approached internally through the development of brand essence and externally through management of the core brand associations (e.g., attributes, benefits, attitudes) in the minds of consumers. An important area of study in brand positioning research as well as branding research as a whole has been whether to start from a “bottom up” customer market focus (i.e., external focus) or a “top down” organization focus (i.e., internal focus) when developing brand strategy (e.g., Bickerton, 2000; Lederer & Hill, 2001; Leitch & Motion, 2007; Punjaisri & Wilson, 2007; Urde, 2003). Bickerton (2000) and Urde (2003) developed conceptual frameworks mapping the brand building process simultaneously from internal and external perspectives. The authors concluded that a combination of both processes is beneficial to continuously monitor brand activity from various vantage points. Additional researchers (e.g., Brexendorf & Kernstock, 2007; Powell, 2007; Punjaisri & Wilson, 2007) discussed the important role employees at all levels of the company
have in understanding and living the brand values as well as ensuring that their behaviors are indicative of the brand’s positioning. For example, sales floor employees at Polo Ralph Lauren help convey the essence of the lifestyle brand through their interactions with consumers, just as the designers reference the brand positioning in their design creation, and marketers use the brand positioning as a basis for the development of ad campaigns.

**Brand loyalty.** Brand loyalty is an important goal in the brand management process that results from brand positioning. Bloemer and Kasper (1995) define brand loyalty as “(1) the biased (i.e., non-random), (2) behavioral response (i.e., purchase), (3) expressed over time, (4) by some decision-making unit, (5) with respect to one or more alternative brands out of a set of such brands, which (6) is a function of psychological (decision making, evaluative) processes resulting in brand commitment” (p. 313). From the company standpoint, brand loyalty reduces the cost of attracting new customers, which can be up to six times that of what it costs to retain an old customer. Companies also benefit from the fact that brand loyal customers show less price sensitivity and purchase more frequently and in higher quantities than non-brand loyal consumers (Okonkwo, 2007). Similar to brand positioning, numerous brand loyalty studies (e.g., Gapp & Merrilees, 2006; Papasolomou & Vrontis, 2006; Punjaisri & Wilson, 2007) have focused on the idea that in order to achieve customer loyalty, a company must first establish loyalty at the internal level through internal brand building.

Papasolomou and Vrontis (2006) conducted an exploratory study of the financial service industry in the United Kingdom focusing on employees’ views of and experiences with their companies’ internal marketing (IM) program. The authors defined four activities as being important in the development of IM: (1) viewing and treating employees as internal customers, (2) training and education, (3) setting quality standards, (4) and rewards systems (p. 178).
Results indicated that organization-wide implementation of IM is necessary and that it is important for employees to understand not only that IM is useful in building a strong corporate brand, but also to understand “what are the antecedent enabling elements (e.g., internal service quality, internal customer satisfaction, employee commitment and motivation) and how these can be built, strengthened and sustained” (Papasolomou & Vrontis, 2006, p. 194).

Punjasri and Wilson (2007) provided additional insight on IM through interviews with 699 employees in an Asian hotel chain. Findings indicated positive relationships between IM processes and brand promise delivery as well as IM’s positive influences on brand attitudes such as brand loyalty, brand identification, and brand commitment. Results suggested that “internal branding not only directly influences the extent to which employees perform their role in relation to the brand promise, but also influences the attitudes employees have towards the brand, which in turn affects employee performance” (Punjasri & Wilson, 2006, p. 57). Gapp and Merrilees (2006) also discussed IM as being a:

precondition for profitable interactions in the marketplace [stating that] when employees understand and accept that the values are genuine, they align their attitudes and behavior to the brand values, which results in greater satisfaction for both customers and employers leading to customer preference and loyalty. (p. 163-164)

Vallaster (2004) and Vallaster and de Chernatony (2005) discussed the challenges of aligning employees’ behaviors to brand values through IM in international organizations. The authors suggested that the success of internal brand building in a multi-cultural organization depends on leadership’s capacity to “leverage cognitive, affective, and communicative differences amongst culturally-diverse employees” (Vallaster & Chernatony, 2005, p. 181). In order to accomplish this, “two behavioral competencies are crucial: (a) defining a clear brand
vision, and b) facilitating verbal and non-verbal social interaction patterns (showing commitment, trusting employees, and living brand values)” (Vallaster & Chernatony, 2005, p. 181).

From the consumer’s standpoint, brand loyalty reduces search costs, increases trust in the promises of the brand, and increases the consumer’s propensity to participate in online shopping (Okonkwo, 2007). An area of consumer-based brand loyalty research in recent years has been the comparison of consumer loyalty in online versus offline environments. In the current market environment, companies from all sectors are faced with the decision of whether to incorporate virtual interfaces into their business strategies. As consumers become more dependent on technology, researchers have argued that companies that do not embrace digital communication will not be well poised to navigate the competition (Shankar, Smith, & Rangaswamy, 2003).

Balasubramanian, Konana, and Menon (2003) stated that because “some traditional service quality dimensions that determine customer satisfaction, such as the physical appearance of facilities, employees, and equipment, and employees’ responsiveness and empathy are unobservable” (p. 871) online, trust plays a central role in facilitating online consumer satisfaction and loyalty. Shankar et al. (2003) stated that loyalty and consumer satisfaction are positively correlated, with this relationship being stronger in the online than the offline environment. The authors developed a conceptual framework for increasing online brand loyalty centering on the development of trust through online rewards programs, quality and depth of information offered, ease of accessibility, and increased value for frequent users. Gommans, Krishnan, and Scheffold (2001) developed a similar framework with the five underlying drivers of online or e-loyalty being: (a) value propositions, (b) brand building, (c) trust and security, (d) website and technology, and (e) customer service. Both studies called for more research on the
development and maintenance of e-loyalty in the cyberspace to further develop this area of marketing strategy.

**Brand equity.** Brand equity or brand value is the end result of strong brand building and provides substantial competitive and economic advantages for a company. Kamakura and Russell (1992) stated that brand value measures “perceived quality, the value assigned by consumers to the brand, after discounting for current price and recent advertising exposures” (p. 9). In his 1993 article, Keller elaborated on this definition and stated that, in a general sense, “brand equity is defined in terms of the marketing effects uniquely attributable to the brand-for example, when certain outcomes result from the marketing of a product or service because of its brand name that would not occur if the same product or service did not have that name” (p. 1). Brand equity measurement is extremely complex in nature and is a central area of focus for marketing scholars. Previous brand equity research can be classified into two main approaches:

1. **Customer-Based Brand Equity (CBBE),** where the value of the brand is determined by customers’ associations with a product brand; and

2. **Corporate Brand Equity (CBE),** where the value of the brand is determined by stakeholders’ associations toward a corporate brand (Shamma & Hassan, 2011, p. 11)

The first concept, CBBE, is a subjective understanding of brand equity that refers to consumers’ perceptions of the brand. This understanding is strategically valuable in improving marketing productivity. Aaker and Biel (1993) defined this consumer perception of brand equity as “the value added to the functional product or service by associating it with the brand name” (p. 2). Thus, CBBE is a consumer’s opinion of a brand as superior to another brand based on perceptions that the consumer has formed. Aaker (1991, 1996) measured CBBE based on the
following five dimensions: brand name awareness, brand loyalty, perceived quality, brand associations, and other proprietary brand assets that were early indicators of the importance of tenets now categorized into CBE. Yoo, Donthu, and Lee (2000) developed a conceptual framework that expanded on Aaker’s model to include marketing mix elements as antecedents to brand equity dimensions and overall brand equity as a means of explaining each dimension’s contribution to brand equity as a whole. Empirical testing was then conducted to examine the relationship of marketing mix elements to brand equity and its dimensions. Their finding was that marketing mix elements were indeed precursors to the brand equity dimensions that comprised total brand equity.

Keller (1993) also developed a conceptual framework to measure and manage CBBE. He defined this customer-based brand equity as “the differential effect of brand knowledge on consumer response to the marketing of the brand” (p. 1). Conceptualizing brand equity from the perspective of the individual consumer, Keller (1993) developed a framework for what the consumer actually knows about the brand by examining the differential effects of brand knowledge on consumer perceptions. In the study, brand knowledge was comprised of brand image and brand awareness. Keller then discussed managerial implications and what such information means for creating successful marketing strategies.

Yoo and Donthu (2001) developed and validated a multi-dimensional consumer-based brand equity scale (MBE). The goal of the study was to use the conceptual frameworks of brand equity from Keller (1993) and Aaker (1991, 1996) to “develop a psychologically sound and cross-culturally generalizable measure of brand equity” (Yoo & Donthu, 2001, p. 11). The MBE encompasses 10 items across the following three dimensions of brand equity: brand awareness/associations, perceived quality, and brand loyalty. Yoo and Donthu (2001) gathered
survey results from 1530 undergraduate students (of American, Korean American, and Korean ethnicity) at major universities in South Korea and the United States. Participants evaluated 12 brands across three product categories (camera film, athletic shoes, and televisions). The authors provided information in three areas: (a) delineated how brand equity results from antecedents such as marketing elements, (b) explained how a base for brand extensions and co-branding efforts can be evaluated, and (c) illuminated a causal order of brand equity dimensions (i.e., brand awareness/associations preceding perceived quality and perceived quality preceding brand loyalty). Results also cited cross-cultural differences in perceptions of brand equity, which is useful knowledge for marketing a brand in multiple cultural environments.

Another perspective related to estimating CBBE is the financial accounting perspective. This concept of brand equity measurement is finance-based and aims to account for the value a brand holds as reflected on the balance sheet. Simon and Sullivan (1993) defined brand equity from the financial perspective as “incremental cash flow which accrues to branded products over unbranded products” (p. 28). Measuring this intangible asset can be extremely beneficial in relation to financial statements, disclosing to investors, and when handling mergers and acquisitions (Heding et al., 2009). For example, Interbrand Group calculates brand equity using a subjective multiplier of brand profits based on the performance of the brand along seven dimensions (leadership, stability, market stability, internationality, trend, support, and protection) (Keller, 1993). This estimation technique “extracts the value of brand equity from the value of the firm’s other assets” (Simon & Sullivan, 1993, p. 28).

Traditionally, branding research was focused at the product level and was concerned with consumers’ perceptions about a product brand. However, “as consumers become more knowledgeable about products and corporations as a whole, such as: employee work...
environment, social responsibility, and community involvement, corporate branding is increasingly gaining importance and attention by marketing scholars” (Shamma & Hassan, 2011, p. 12). Balmer (2001) defined corporate branding as “the conscious decision by senior management to distill and make known the attributes of an organization’s identity in the form of a clearly defined branding proposition” (p. 281). By creating positive relationships with stakeholders (e.g., employees, shareholders, suppliers, general public), variables such as corporate associations, corporate image, and corporate reputation are strengthened, resulting in added value for the organization as a whole and the brands in the company portfolio (Motion, Leitch, & Brodie, 2003). This corporate-wide added value concept is referred to as corporate brand equity (CBE). In addition to drawing customers, strong CBE can attract qualified employees, suppliers, and investors.

Research on CBE is becoming increasingly common in the field of brand management. Fombrun, Gardberg, and Server (2000), along with the market research firm Harris Interactive, developed the Reputation Quotient (RQ) that “measures a company’s reputation by examining how a representative group of stakeholders perceives companies on 20 underlying attributes that constitute the six pillars of reputation” (Fombrun & Gardberg, 2000, p. 14). The six pillars include: (a) emotional appeal, (b) products and services, (c) vision and leadership, (d) workplace environment, (e) financial performance, and (f) social responsibility. Initially, two studies were conducted by Fombrun et al. using RQ. The first identified the top 30 best-regarded companies which included Coca-Cola, Wal-Mart, and Disney. The second study focused on the reputation of digital companies. At the time, e-companies were emerging in the market and were not rated very strongly on reputation, but repeating this study could be useful today as companies are continuing to expand into e-tailing and might benefit from information the RQ provides about
the public’s perception of their success in the digital arena. Fombrun et al.’s research is meaningful because it provides a quantifiable measure of corporate reputation as a contributor to CBE.

Berens, van Riel, and van Bruggen (2005) investigated the effect of corporate brand dominance (CBD) or the “visibility of a company’s corporate brand compared with the visibility of a subsidiary brand in product communications” (p. 36). This dominance is measured as related to product attitudes formed by consumers and can be a result of CBE. CBD is considered to be at a high level in companies using a monolithic branding strategy that keeps one brand synonymous with the corporate name (e.g., BMW, Mercedes) and is considered to be at a low level in companies using an endorsed branding strategy where the product brand is but part of the corporate brand image (e.g., Sony Playstation, Polo by Ralph Lauren). Two variables were used in the study: (a) corporate ability (CA) and (b) corporate social responsibility (CSR). Results indicated that CA associations most influenced consumer product evaluations in companies that use monolithic branding strategies. CSR associations proved to be important factors in influencing consumer product evaluations in companies that use endorsed branding strategies.

Helm (2005) conducted a study of German consumers to explicate measures of corporate reputation formation, one aspect of CBE. Results indicated 10 elements that merit attention by companies as they hone their corporate reputation in the minds of shareholders and increase their CBE: (a) quality of products, (b) commitment to protecting the environment, (c) corporate success, (d) treatment of employees, (e) customer orientation, (f) commitment to charitable and social issues, (g) value for money of products, (h) qualification of management, (i) credibility of advertising claims, and (j) financial performance.
Many studies have illustrated the importance of CBBE in understanding consumers’ perspectives of the product brand and CBE in understanding stakeholders’ perspectives of the corporate brand. However, many marketing scholars have called for a holistic approach to brand valuation which combines the principles of CBBE and CBE. For example, Shamma and Hassan (2011) suggested the importance of examining stakeholder’s perceptions of the product brand and customers’ perceptions of the corporate brand in order to offer a more comprehensive view of brand equity valuation. The authors argued that by integrating CBBE, product brand equity (PBE), and CBE into total brand equity (TBE) valuation, the importance of both customer and non-customer stakeholders can be addressed and managed. The authors also examined the relationship between TBE and corporate performance on the variables of: (a) market performance (e.g., market share, profitability), (b) financial performance (e.g., earnings/shares, stock value), and (c) social performance (e.g., public support, goodwill) and suggested that further empirical testing be conducted to verify these positive relationships.

Gylling and Lindeberg-Repo (2006) discussed the importance of aligning the company, stakeholders, and consumers “as it is the entire corporation that is being branded” (p. 257). Gylling and Lindberg-Repo called for the alignment of strategic vision, brand identity, and brand knowledge in order to link the corporate and consumer-based aspects of the brand into the same conceptual framework. Anisimova (2010) claimed that misalignment between the company perspectives and consumer perceptions of the corporate brand results in performance implications such as reduced consumer satisfaction and reduced consumer loyalty. Interviews with senior managers from three corporate brands in the Australian automobile industry were employed to test these hypotheses. Results indicated that company-customer misalignment does
have negative performance implications, supporting Anisimova’s (2010) assertion that a holistic approach to CBBE and CBE is necessary to ensure synergy between brand messages.

A final area of growing importance in brand equity research is how to ensure that brand strategies are successfully transferred to the Internet when companies employ digital marketing and e-tailing into their business strategies. Simmons (2007) proposed a conceptual framework for “i-branding” that is composed of four pillars: (a) understanding customers, (b) marketing communications, (c) interactivity, and (d) content, with content being unique to Internet-based branding. Simmons suggested the framework has implications for understanding and applying online strategies. Simmons, Thomas, and Truong (2010) expanded on Simmons’s earlier framework by identifying and testing the use of specific Internet tools (e.g., online surveys, database marketing), which can be applied to “create brand equity for products classified by experience, credence, and search characteristics” (p. 1260). Additional research has been conducted to determine how to effectively measure brand equity in an online environment (e.g., Christodoulides & Chernatony, 2004; Rios & Riquleme, 2008). With limited measures available, both studies mentioned the need for more research on digital brand equity due to the rapidly increasing presence of online marketing and digital consumer environments.

**Marketing the Luxury Goods Brand**

The unique nature of the luxury goods industry poses particular challenges to brand management and has recently become the focus of numerous academic studies. Navigating the idiosyncracies of the many branding variables to successfully manage a luxury brand is a very meticulous process requiring more strategic than tactical decisions (Andal-Ancion et al., 2010). Marketing scholars have taken many approaches to the understanding of luxury brands with the actual definition of “luxury” being open for debate (Atwal & Williams, 2009). Research has
dealt with the concept of luxury as related to consumer perceptions, marketers’ perceptions of their individual brands, and luxury as an abstraction, with little to no industry-wide consensus on its meaning (Berthon et al., 2009). An understanding of luxury can be initiated by a review of luxury marketing and the growth of the luxury brands.

The main challenge that luxury marketing presents stems from the fact that luxury has evolved naturally over time “with luxury brands first being adopted by the affluent and wealthy before inevitably being translated and reinterpreted down to mass markets” (Atwal & Williams, 2009, p. 388). Historically, luxury was used as a visible depiction of social stratification; aristocrats were obligated to practice ostentatious spending to reinforce their rank in society and preserve social distance. Then, the 17th and 18th centuries brought the Enlightenment and the decline of traditional ideas about the social structure. Globalization helped to further eradicate any transcendent social stratification. As a result, “meritocracy [was] substituted with aristocracy” and “each person in a democratic world [had] even chances of succeeding” through hard work (Kapferer & Bastien, 2009, p. 313). Although the social structure of the past was no longer relevant in some countries, many individuals still desired some form of social stratification to indicate one’s place in society. Thus, the market for luxury brands began to emerge in the mid-19th century, with many of the original luxury brands such as Louis Vuitton and Hermes, still being top performers in today’s luxury goods industry.

Phau and Prendergast (2001) described the traditional luxury brands, those with origins in the 1800s, as ones that “evoke exclusivity, have a well-known brand identity, enjoy high brand awareness and perceived quality, and retain sales levels and customer loyalty” (p. 123). Nueno and Quelch (1998) described luxury brands as ones for which the “ratio of functional utility to price is low while the ratio of intangible and situational utility to price is high” (p.62). The
authors cited variables common to luxury brands such as limited production resulting in exclusivity, heritage of craftsmanship, premium quality, and recognizable style or design to name a few.

In recent years, the concept of “new” luxury has emerged due to the rise in income of middle market consumers (Atwal & Williams, 2009). Silverstein and Fiske (2003) defined “new” luxury as “products and services that possess higher levels of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach” (p. 48). The authors also stated that unlike old luxury goods, “new” luxury goods “generate high volumes despite their relatively high prices” (p. 48). With this distinction in brands, scholars may need to approach the brand management of traditional luxury and “new” luxury brands separately, simultaneously examining how both traditional and “new” brands can successfully navigate current and future market environments. The following section presents basic definitions specific to luxury brand management, discusses relevant studies to both old and “new” luxury, and further illustrates the need for more research in the luxury brand sector.

**Motivations related to luxury consumption.** A basic understanding of the motivations of consumers to purchase products is the foundation of marketing (Solomon, 2004). Therefore, understanding the complexity of marketing the luxury brand is predicated on the understanding of factors motivating consumers to purchase luxury products. Vigneron and Johnson’s (1999) conceptual framework was developed to analyze the prestige-seeking consumer behavior (PSCB) which drives consumers to purchase luxury products. This framework cites five perceived values that motivate luxury purchases. In the first value, the Veblen Effect or Perceived Conspicuous Value, consumers associate high price with prestige, as price is an indicator of their wealth or status. This value increases in strength as prices rise. In the second value, the Snob Effect or
Perceived Unique Value, consumers desire the rarity and exclusivity that luxury goods provide by being sold in more limited quantities than mass goods and being unattainable to many consumers due to their price. However, research suggests (Cutler, Erdem, & Javalgi, 1997; Phau & Prendergast, 2001) that Perceived Unique Value may not be as important to consumers in collectivistic cultures (e.g., Hong Kong, Singapore) where “conformity to the collective acceptance of the community restricts the culture of self-expression” (Phau & Prendergast, 2001, p. 134). In the third value, the Perfectionism Effect or Perceived Quality Value, consumers purchase prestige brands because of their knowledge that the product is of premium quality and craftsmanship; high prices help to affirm this knowledge. Beverland (2004) and Alexander (2009) used case studies to illustrate the importance of heritage and pedigree in conveying authenticity, quality, and craftsmanship in luxury goods; they call these associations ‘brand auras.’ In the fourth value, the Bandwagon Effect or Perceived Social Value, consumers are less concerned with price and more concerned with the effect they make on others (e.g., peer groups) while consuming prestige brands. In the fifth and final value, the Hedonic Effect or Perceived Emotional Value, consumers are concerned with their own thoughts and feelings that are affected by luxury purchases and place little importance on price as a contributor to these emotions.

These five prestige-seeking consumer behaviors are thus symbolic benefits of luxury brand use that can be summarized as being symbolic to others (i.e., conspicuous) or symbolic to the self (i.e., enhancer of self-concept; Berthon et al., 2009; Fionda & Moore, 2009; Kapferer & Bastien, 2009).

Through the five symbolic benefits, Vigneron and Johnson’s (1999) conceptual framework shows both external and internal loci values of luxury products for the consumer. Over time, the locus value for luxury consumers shifted from the functional dimension, to the
symbolic dimension, and then to the experiential dimension. For example, during the 19th century, value was determined based on craftsmanship and durability of products (e.g., Louis Vuitton trunks) or the functional dimension of value. As the locus shifted, emphasis was placed on the symbolic dimension as marketers created dream-worlds around their brands that epitomized the aspirational desires of their target consumers (Berthon et al., 2009). An example of a luxury brand in this symbolic dimension would be a Ferrari, as it symbolizes wealth, prestige, and performance to observers while also enhancing the owner’s self image. Pine and Gilmore (1998) suggested that the locus of luxury value in the 21st century centers on the experiential dimension as consumers absorb brand-related stimuli through multiple channels of communication (e.g., the Internet, social media, smartphones) and assign value based on a brand’s ability to manifest in one of four experiential dimensions. The experiential dimension is one of individual subjective value with brand-related stimuli translating to brand meaning to the individual consumer. Because any luxury good could be considered experiential with the right marketing strategy, luxury marketers are in a unique position to provide pleasurable experiences for their consumers. However, experiential marketing presents many challenges as consumers’ experiential value can change over time; an example of this would be a fine wine. A consumer might believe that paying an exorbitant price for a bottle of Chateau Margaux is frivolous, but after developing a taste for the wine, the price is validated through the pleasurable experience associated with the wine’s consumption.

Tsai (2005) presented a Personal Orientation toward Luxury Brand Consumption model (PO-LBC) that further examined the hedonic motivators (i.e., symbolic to the self) to purchasing luxury goods. The model cites independent self-construal, or an “individual’s inclination to perceive a clear boundary that separates the self from others and to prioritize personal goals over
group goals,” (p. 438) as a motivator of self-gift giving, self-directed pleasure, congruity with the internal self, and quality assurance. These actions result in personal orientation toward luxury consumption (as opposed to non-personal orientation) and lead to re-purchase intentions being determined. Tsai’s model is also indicative of consumers valuing personal experiences through consumption in the 21st century market environment.

**Experiential marketing.** In the 21st century, consumers are over-stimulated by imagery from the media, the Internet, and all places in between. These consumers are used to being entertained in all aspects of their lives and entertainment through consumption is becoming standard practice. Schmitt (1999) stated that “marketing was developed in response to the industrial age, not the information, branding and communications revolution we are facing today” (p. 55). This traditional marketing corresponded to the functional dimension and somewhat to the symbolic dimension of luxury products for consumers. In the information age, companies must shift from the traditional, features-and-benefits approach to one in which consumers are seen as “emotional beings concerned with achieving pleasurable experiences” (Schmitt, 1999, p. 55) in order to reach the experiential dimension of consumers’ value in luxury products.

Pine and Gilmore (1998), the frontrunners of experiential marketing research, discussed the progression of economic value over time. Their Economic Distinctions chart demonstrates how economic offerings have transitioned from being commodity-based to goods-based to service-based to the current economic state of experience-based. The nature of each of these offerings is fungible, tangible, intangible, and memorable, respectively. The authors stated that in order to be competitive, companies must stage memorable experiences for their target consumers. Their proposed framework illustrates the four realms of an experience as being
escapist, entertainment, educational, and aesthetic, and varying across two dimensions: the degree of participation required (i.e., active or passive) and the connection (i.e., absorption or immersion) that unites the customer with the experience. Atwal and Williams (2009) adapted these dimensions to be “involvement [which] refers to the level of inter-activity between the supplier and the customer” and “intensity [which] refers to the perception of the strength of feelings toward the interaction” (p. 342). The authors stated that these new dimensions better articulate the consumer perceptions that marketers aim to create in each of the four experiential realms.

Schmitt (1999) cited the four key distinctions of experiential marketing as “focusing on consumer experiences, treating consumption as a holistic experience, recognizing both the rational and emotional drivers of consumption, and using eclectic methodologies” (p. 60). Because luxury goods can be experiential in nature, luxury marketers are in a unique position to apply experiential principles to their marketing strategies with maximum results in the form of increased brand loyalty (Atwal & Williams, 2009).

In their 2003 article, Hogan et al. discussed the customer experience touch-point chain developed by Lippincott Mercer, a global brand strategy and design consultancy. The authors acknowledged that successful brand building does not mean that companies invest everywhere that the brand touches its consumers, but that they must “identify and then spend aggressively only on the interactions that they know will have the most impact on revenue growth” (p. 46). The customer experience touch-point chain illustrates the “before”, “during”, and “after” customer interactions with the brand and the impact that those touch-points have on building or reducing brand equity. The framework is useful in providing companies a means of evaluating the key customer segments and providing them with positive experiences beginning at the pre-
purchase stage (i.e., before), continuing through purchase (i.e., during), to the post-purchase stage (i.e., after), and again at the pre-purchase stage of another transaction.

Williams (2006) discussed experiential marketing as related to the hospitality and tourism industry. The author argued that companies in this sector must integrate innovative experience design into their core capabilities. By going beyond service excellence and leveraging the experiential nature of tourism, companies in the tourism sector can use this new marketing paradigm to improve brand loyalty. The author presented a framework illustrating the four realms of the tourism and hospitality experience that were adapted from Pine and Gilmore (1999). Examples of how companies can exist in each realm and create holistic experiences for the consumer were provided. Disneyland, MGM Grand casinos, and the Guinness Storehouse were cited as tourism destinations that are successfully utilizing experiential marketing. Many researchers (e.g., Hogan, Almquist, & Glynn, 2003; Schmitt, 1999; Williams, 2006) have developed frameworks aiming to assist companies in developing experiential branding strategies, but additional research on this marketing orientation is needed to expand the current knowledge base.

Managing growth trade-offs. According to brand management expert Kevin Keller (2009), “the most fundamental challenge of marketing and brand management for all brands including luxury brands is how to reconcile or address the many potential trade-offs that exist in making marketing decisions” (p. 293). In other words, companies need to determine what these trade-offs are and how to manage them based on the specific nature of their target markets and the luxury products being sold. Three notable trade-offs in the luxury goods industry are (a) classic vs. contemporary images, (b) exclusivity vs. accessibility, and (c) retention vs. acquisition. These trade-offs are all interrelated and pose a dilemma for luxury marketers in that
strategies that emphasize heritage, exclusivity, and retention are not useful in managing contemporariness, accessibility, and acquisition.

Keller (2009) cited two “critical” areas that luxury marketers must consider to successfully manage growth trade-offs for their brands: brand equity measurement and brand architecture. Keller (2009) suggested that brand equity be measured along the variables of imagery, feelings, expectations, brand strength, and brand stature. The first three variables relate to brand equity at the micro level with the latter two addressing brand equity at the macro level. To address brand strength and stature, Keller used Young and Rubicam’s BrandAsset Valuator (BAV). Based on “research involving approximately 500,000 consumers in 44 countries, BAV provides comparative measures of the brand equity of thousands of brands across hundreds of different categories” resulting in five pillars of brand equity (differentiation, energy, relevance, esteem, knowledge; Keller, 2009, p. 294). Differentiation, energy, and relevance combine to create Energized Brand Strength, an indicator of the brand’s future value. Esteem and knowledge make up Brand Stature, which relates to a brand’s past performance. Together, Energized Brand Strength and Brand Stature form the Power Grid, a useful guide in illustrating the stages in the cycle of brand development.

With Young and Rubicam’s BAV, traditional and “new” luxury brand marketers have a formula for the brand equity pillars on which they could focus to ensure that their brands remain competitive in the market. Namely, traditional brands should focus on maintaining Brand Stature while “new” luxury brands focus on attaining Energized Brand Strength. The BAV is also appropriate for both areas of marketers because Young and Rubicam (Y&R) acknowledge the distinction between “new” and traditional luxury brands in their BAV database. Implications for marketers are that cross-comparisons between traditional and “new” luxury brands can be made
by identifying the more dominant pillars of brand equity management in each type of brand. For example, consumer engagement (i.e., experiential marketing) is more important in the marketing of “new” luxury brands than with traditional luxury brands where the emphasis remains on status. However, Keller (2009) noted that “leadership brands [or those with strong brand recognition] show high levels on all pillars” (p. 294).

In managing growth trade-offs, Keller (2009) calls decisions regarding the brand portfolio brand architecture. Brand architecture refers to the brand portfolios or the brands a company owns and the organization or relationship of these brands to each other within the brand portfolio. One way to create architecture or build a brand portfolio is through brand extensions. Brand extensions can be defined as “product line extensions marketed under the same general brand as a previous item or items” and are “usually aimed at another segment of the general market for the overall brand” (Brand Extension, n.d., para. 1). Keller discussed the importance of building optimal architecture within brand portfolios and stated that “developing a brand portfolio with plainly distinct and unrelated brands is clearly the simplest and ‘cleanest’ way for marketers of luxury brands to seek new sales at different price points with minimal chances of dilution” (p. 299). Giorgio Armani was cited as a company that created brands at lower market levels (e.g., Giorgio Armani Prive´, Emporio Armani, Armani Exchange, Armani Jeans). The brands and the associated products are clearly differentiated at each price point. By utilizing this brand architecture strategy, companies can develop brand portfolios that maximize coverage and minimize overlap of target markets while allowing for the transfer of parent brand associations to sub-brands in the portfolio.

Berthon et al. (2009) proposed a more abstract typology or architecture of luxury brands that has significant implications for marketers in how they manage growth trade-offs. The
Aesthetics and Ontology (AO) Framework typifies luxury brands as belonging to one of four modes: the classic, the modern, the postmodern, or the wabi sabi, which is the Japanese aesthetic for transience (Berthon et al., 2009). The framework is multi-faceted and complex, but the implications are explicit. Luxury brands are not the same as non-luxury brands and should not be marketed in the same manner as non-luxury brands. Berthon et al. (2009) suggested that marketers should locate where their brand falls on the AO grid with the understanding that marketing strategies are different for each company. However, Berthon et al. (2009) asserted that “each quadrant could, in and of itself, represent a different market segment for the same luxury brand” [and] “that the same luxury good can mean different things at different times to the same or different people is one of the nuanced paradoxes of luxury brands” (p. 56).

This idea of luxury brand paradoxes leaves marketers to determine the best way to market the brand in different quadrants without sacrificing loyal consumers in the brand’s main quadrant. In other words, marketers must evaluate the trade-offs to marketing in one quadrant over another. This AO grid research uses Chateau Margaux, a Bordeaux wine known for its heritage, quality, and price as an example of the paradox of meaning. This brand falls into the wabi sabi quadrant in which the aesthetic mode represents an expert or an enthusiast of the brand and the ontological mode represents the transient or impermanent nature of the brand. Consumers of Chateau Margaux have traditionally been connoisseurs of fine wine, mainly live in Western Europe and North America, and also consume other fine wines of similar price and quality. Recently, however, the brand has seen an increase in sales in Asia and Eastern Europe, most likely due to rising income resulting from economic growth. To this new market, the brand falls into the modern quadrant, being purchased because of its high price and reputation. Hence, the brand’s marketers face the dilemma of allocating marketing dollars to the growing, modern
segment, which could initially yield more sales for the brand, but might not retain loyal consumers in the long run. Alternatively, they can continue to market to connoisseurs in the wabi sabi category who will likely remain lifetime consumers of the brand. Decisions of this type and magnitude are distinct to the luxury industry, and marketers and brand managers should “decide which goods, at what time, and how they should move, if at all, from one quadrant to the other” (Berthon et al., 2009, p. 59).

In addition to determining which market segments to target and when to expand into new markets, managers of luxury brands must also determine if they will expand their brand portfolio. This management is part of the strategic brand architecture for a company and helps “to organize the offerings of the luxury brand in the best possible way to maximize growth in sales and equity across multiple market segments and, possibly, price points” (Keller, 2009, p. 298). Keller also states that “as a general rule, luxury brands must be very selective and strategic in any licensing or brand extensions, especially in terms of any downward stretches” (p. 298).

Reddy, Terblanche, Pitt, and Parent (2009) discussed the allure of luxury brand extensions. While a great deal of marketing research has focused on the benefits and detriments of brand extensions, limited research has been conducted in the field of luxury brand extensions. The study by Reddy et al. (2009) is noteworthy because the authors proposed a framework by which luxury marketers can evaluate the state of their brands and determine if extensions are feasible drivers of brand success. Reddy et al. (2009) introduced the Premium Adjacency Matrix in which all luxury brands can be mapped into one of four quadrants: (a) star brand, (b) aspiring star brand, (c) waning star, and (d) dying star. Premium degree of a brand was defined as “the extent to which customers perceive it to offer more quality than comparable offerings, and are willing to pay a premium price” (p. 189) and was measured in relation to the brand’s price
elasticity with the less elastic brands showing a greater premium degree. Adjacency was defined as “the extent to which a particular brand extension is consistent with the values embodied by the core brand” (p. 191).

Reddy et al. (2009) employed a questionnaire used by consumers to rank 150 luxury brands against each other. Financial data was also used to supplement findings and final results were verified by at least one executive from each firm used in the study. Results placed each luxury brand in one of the four quadrants of the premium adjacency matrix and scenarios for facilitating movement among quadrants were examined. For example, Pierre Cardin was once considered a star brand but due to dilution of the brand through extensive licensing outside related product categories, the brand is now considered a dying star. On the other hand, Gucci, who was considered a dying star due to extreme licensing in the 1980s, was rejuvenated to star brand status by implementing rigorous quality control standards and restricting licensing. The aspiring star quadrant was also classified as a transitory quadrant in which marketers should seek to advance their brand to star status rather than digress to become a waning star brand.

Conclusions were drawn and three recommendations were made for the successful licensing of luxury brands. Luxury brands must preserve the brand’s heritage or story in their extensions. Second, the emphasis on profitability should be on long-term success rather than short term gains. Finally, luxury marketers must think of brands as symbols and should consider the brand’s symbolic ability or inability to succeed in non-adjacent product categories.

Managing growth trade-offs and successfully incorporating new age marketing orientations such as experiential marketing remain two areas of luxury brand marketing that merit further research. Several researchers (e.g., Okonkwo, 2007; Keller, 2009; Andal-Ancion et al., 2010) have indicated that both topics should be considered from the perspective of traditional
luxury companies as well as “new” luxury companies, as these companies follow very different business models. How “new” luxury brands, lacking the storied histories of older brands, can successfully establish brand identity in the luxury industry and how older brands can adapt to changing consumer and market environments while maintaining their heritage should continue to be addressed by marketing scholars with implications for luxury companies worldwide as they compete for market share.

**History of the Luxury Goods Brand**

Following changes in Western societies during the Italian Renaissance of the 15th and 16th centuries and the French Baroque period of the 17th century, the emerging societal interests in art, travel, and discovery occurring during the 19th century brought fashion and luxury to the forefront as indicators of status and knowledge (Cawthorne, Evans, Kitchens-Smith, Mulvey, & Richards, 1998). The changes in society and other aspects of culture led to the emergence of fashion leaders, forming the foundation for today’s luxury brands. Several prominent Parisian designers generated the forces to start and sustain this movement. From the couture houses of Paris, came the first luxury brands. Changes in the profile of the general apparel consumer are noted in numerous sources for the 19th and 20th centuries. Two major changes that directly affect the luxury goods market are the growth of the middle class and the increased wealth of consumers to buy luxury products (Cawthorne et al.; 1998; Lipovetsky, 1994; Okonkwo, 2007).

In *The Empire of Fashion*, Gilles Lipovetsky (1994) classified three modern eras in fashion. The first began in the 1860s with couturier Charles Frederick Worth and the second in the 1960s with the ready-to-wear revolution. Mass media and mass production increased the breadth of the ready-to-wear revolution as fashion knowledge became more available and product offerings became attainable to more and more consumers. Finally, the third era of
modern fashion, which began in the late 1980s, can be characterized by extreme diversity among designers, acceptable looks, and blurred lines between what is “in” and “out” of fashion. The following review examines the luxury industry beginning in the mid-1800s when the first luxury brands came into being. Key designers of each era are discussed and their contributions are denoted as related to marketing and ultimately brand management in the luxury goods marketplace of the 21st century.

**Worth and the early modern designers: The first era of modern fashion.** Worth arrived in Paris during the mid-19th century (Tungate, 2008). At that time, dressmakers in Paris were only suppliers, catering to the whims of their wealthy clients. None of their own tastes were incorporated into gown designs. Worth, however, did not conform to this tradition. He saw himself not as a dressmaker, but as a fashion designer who could create better designs for his clients than they could request for themselves. Worth first worked in a drapery, a business specializing in “creating fashion designs by manipulating, pinning, and cutting muslin or other fabric over a dress form” (Calasibetta & Tortora, 2003, p. 130) and using the resulting pattern to make actual garments. After the owners of the drapery denied him the opportunity to incorporate his own creations into store offerings, Worth, with the help of a wealthy Swedish draper, Otto Bobergh, opened his own couture house in 1858 (Tungate, 2008). Calasibetta and Tortora (2003) defined a couture house as “a business in which original apparel designs are created by designers and the items are manufactured…using exceptionally fine sewing and tailoring and expensive fabrics” (p. 115). The couture house, known as the House of Worth, provided individual designs for specific customers. Worth’s talents soon caught the eye of many members of the French elite, and most importantly Empress Eugenie, the wife of Napoleon, whose patronage “opened the floodgates for Worth” (Polan & Tredre, 2009, p. 10). With his design recognition and success,
Charles Frederick Worth became a famous couturier, which is a “male designer or proprietor of a couture house” (Calasibetta & Tortora, 2003, p. 115). Worth also became one of the most notable players in the emergence of the fashion brand.

Throughout his career, Worth revolutionized how dressmaking was perceived. The haute couture system that he created in the mid-to late 1800s remained the dominant force of fashion change until the emergence of ready-to-wear in the 1960s (Polan & Tredre, 2009). Worth, often called the Father of Haute Couture, was also a marketing genius. His business created many of the ingredients now used in contemporary fashion marketing. He was the first couturier to give his clients a show (i.e., fashion or runway show) featuring his work and then allowed them to choose the garments they liked. He also identified fashionable women in society who would wear his dresses and generate a “buzz” for his work (e.g., endorsement of celebrity models). Finally, Worth was an outstanding brand spokesman, and he was the first designer to put his signature on his creations. His likeness was akin to that of contemporary designers in that he was elitist, flamboyant, and a perfect visual depiction of the brand that he represented (Tungate, 2008). After his death in 1895, The House of Worth continued to be run by his family for four more generations until its close in 1954 when a perfume company bought the name (Cawthorne et al., 1998). During his career, Worth remained the most respected courtier in the world, the first modern designer of luxury fashion, and a supreme force in the fashion industry.

As the luxury fashion market continued to develop, many talented designers launched their businesses, creating fierce competition. Paul Poiret is an example of such a competitor. In the early 20th century, Poiret aimed to simplify women’s fashion by doing away with the corset and creating clothing that followed the natural lines of the body. After working for the courtier Jacques Doucet as well as for the House of Worth, he opened his own courtier house in Paris in
1903 (Tungate, 2008). Many of his former employers were not ready to embrace Poiret’s radical ideas, such as the kimono coat and harem pantaloons. Throughout his career, Poiret pushed boundaries of fashion design by finding inspiration from eastern cultures as well as designing garments using draping rather than tailoring techniques.

Poiret’s management decisions were often as unique and controversial as his design decisions (Milbank, 1985). For example, in 1914 he created Le Syndicat de Defense de la Grande Couture Francaise, an organization condemning the widespread copying of original, French, haute couture designs by U.S. designers. This proactive stance supporting haute couture was followed by his own production of reduced-price copies of his designs in 1916. These copies were advertised in Vogue and promoted in the United States (Polan & Tredre, 2009). This marketing ploy helped spread the desire for the luxury brand in clothing fashions to the United States. Although ground-breaking and fashion forward in results, Poiret’s extravagant personality led to financial and personal troubles late in his career. Nevertheless, at his best, Paul Poiret “stripped away the absurdities of late nineteenth-century European fashion and ushered in a new age for his customers, urging women to, in his own words, ‘simply wear what becomes you’” (Polan & Tredre, 2009, p. 23).

Throughout fashion history, the social, economic, governmental, and business environments have been major factors affecting changes in fashion. “Fashion historians contend that fashion is a reflection of the times in which it is created and worn,” and that “fashion responds to the zeitgeist, or spirit of the times” (Brannon, 2006, p. 13). Gabrielle “Coco” Chanel, another fashion and ultimately luxury brand icon, had an extraordinary ability to identify these changes and incorporate changing societal needs into her designs. This attribute is common to the designers who have been successful over decades and not just short periods of time. Chanel
once stated, “Fashion is something in the air, you feel it coming, you smell it” (Polan & Tredre, 2009, p. 39).

An example of Chanel’s fashion leadership and marketing acumen is seen in the changes in her designs as a result of World War I. During World War I (1914-1918), women’s roles in society changed as they worked in the fields and in factories while the men were at war. One of these changes was the idea of women wearing trousers. Women working in factories could no longer wear the large crinolines and high yardage skirts of the late 19th century. Chanel responded by creating menswear-inspired designs made from jersey and flannel materials previously used only in menswear (Milbank, 1985). By adopting a “less is more” approach to style, Chanel challenged social, physical identity, giving women less constrictive and more practical options to dress for their daily lives (Cawthorne et al., 1998). Although her designs were inspired by the lives of working women, most of Chanel’s customers were members of the elite society of Paris.

As World War I ended, Chanel opened her fashion house or la maison de couture at 31 rue Cambon in Paris and continued to build her luxury fashion brand based on her clothing designs that borrowed heavily from the male wardrobe. The depression of the war years was ending, and “the early 20s brought with them a joie de vivre and energy all of their own and Chanel’s vision of vital beauty fit perfectly into the zeitgeist” (Cawthorne et al., 1998, p. 44). Again, Chanel responded to the changing societal conditions with design leadership that ultimately helped to usher in the change itself. For example, Chanel created beach or bathing attire such as loose, baggy trouser length pants and leisure pyjamas. Her designs helped to make tanning and being outdoors fashionable. Chanel also responded to the rapid growth of the cosmetics and beauty sector by creating her own branded perfume, Chanel No. 5, in 1922. This
brand, even in the 21st century, “continues to propagate the style, the allure, and the resonance of a personality” of the designer (Tungate, 2008, p. 14). In contrast to Poiret’s dramatic use of color, Chanel created the little black dress as a signature piece of her collection. Black, previously a color reserved for formal mourning, was made chic or popular by Chanel.

In Post-World-War II, Chanel was exiled to Switzerland as a result of her personal relationship with her German lover, Hans Gunther von Dincklage, who was also a diplomat and spy. Chanel returned to Paris in 1954 aiming to return her house to its pre-war glory (Polan & Tredre, 2009). The Chanel suit, her 1950s creation, fueled her successful comeback and was copied in Europe as well as the United States. Chanel lived the rest of her life as a prominent fashion figure, recognized for her influence on modern women’s fashion. Since her death, Karl Lagerfeld has been at the helm of the House of Chanel. In 2010, the company name is still one of the top luxury brands in the world (Polan & Tredre, 2009).

At the time Chanel was building her brand, many other designers with promotional or marketing panache were emerging onto the fashion scene. Christian Dior invented the New Look in Paris in 1947. These decadent and flamboyant designs were reminiscent of pre-war fashions. Although many women protested, lots of women were again ready for feminine, over the top garments. The New Look did its job as a marketing technique; by creating controversy, it put Dior on the map in the fashion world and restored haute couture in Paris (Cawthorne et al., 1998). After his 1947 styles, Dior’s designs became more wearable and practical catering to a wider clientele, and by the 1950s, the House of Dior was responsible for 50% of the haute couture exports to the United States (Polan & Tredre, 2009). Dior is also attributed with abolishing the previous slow and evolutionary change of fashion by introducing new looks each season. Thus, consumers began to expect seasonal newness and a faster pace for fashion change
(Cardin & Charney, 1992). Perhaps Dior’s most important contribution to modern fashion was that he had no reservations about putting his name on mass-produced garments. He licensed his name, or gave other companies in new markets the right to use his name on their products for a fee or royalty (Brand Extensions, n.d.). Items such as scents, accessories, stockings, and handbags were sold with the Dior name but not made by the House of Dior. Through licensing agreements, products under the Dior brand were produced in 87 countries and distributed throughout Europe and the Americas. Thus, Dior can be attributed with turning haute couture from a “cottage industry to an international business” (Cawthorne et al., 1998, p. 92).

The designer as the brand: The second era of modern fashion. As the ready-to-wear revolution began, the haute couture sector of the fashion industry continued its focus on creating garments of the highest quality and construction while the ready-to-wear sector of the industry focused on improving manufacturing technologies needed for mass production and on marketing style trends to the mass market (Brannon, 2006). Haute couture presented one-of-a-kind design for an individual while ready-to-wear produced clothing made in standard sizes (Kincade & Gibson, 2010). At the forefront of the ready-to-wear revolution was Pierre Cardin, whose important contributions lied more in creating commercial opportunities for designers and their brands than in creating unique, new designs. Cardin is attributed with “fostering that first marriage of big-name designer and mass-market sales that is now a dominant force” (Polan & Tredre, 2009, p. 100). In the 1950s, Cardin began mass producing and distributing cheaper copies of his designs. He quickly made more money selling multiple units of the same design than he did in selling a few single-item haute couture designs. In 1959, Cardin showed a ready-to-wear line at Printemps, a department store in Paris and by 1963 he opened the first ready-to-wear department in that store. Cardin was also the first designer to sign licensing agreements
with ready-to-wear manufacturers, and by 1998, Cardin held more than 800 licenses in 94 countries and had lent his name to everything from cigarettes to baseball caps (Brannon, 2006). Although Cardin had the vision to recognize markets such as China and Russia as emerging powerhouse markets, his licensure decisions ultimately led to the dilution of the brand’s strength. Cardin’s egotistical approach to business led to the company’s current brand image issues. The first brand extensions that Cardin issued were into the cosmetics and perfume product categories that proved successful as they were logical extensions into lower price categories. However, Cardin attributed the success of these early extensions to the strength of his brand, and continued brand extensions into products such as binoculars, mattresses, and frying pans, to name a few. These products had limited association with fashion or luxury products. The company saw profit margins drop considerably after he licensed products to goods that extended too far from the original product category (Reddy, Terblanche, Pitt, & Parent, 2009). Cardin’s licensure strategy illustrates the importance of making management decisions that will preserve the exclusivity and value of the brand.

In 1985, Millbank wrote, “The most consistently celebrated and influential designer of the past twenty-five years, Yves Saint Laurent can be credited with both spurring the couture’s rise from its sixties ashes and with finally rendering ready-to-wear reputable” (p. 308). Saint Laurent was the first designer to create a unique ready-to-wear line that was not an adaptation of haute couture. Saint Laurent, Dior’s successor at the House of Dior, also mastered the zeitgeist, or spirit of the times. Similar to Chanel, his work is attributed with creating youthful, energetic styles that embodied women’s growing political and social freedoms and pulled heavily from the active men’s wardrobe. Similar to Dior, Saint Laurent was not only a genius of haute couture, but also had the foresight to recognize the need to create luxury prêt-a-porter, or the French
ready-to-wear, in order to grow his business into new markets. Prêt-a-porter is a unique French classification of fashion goods that are created by couture houses and provide multiple copies of unique designs for an exclusive market (Kincade & Gibson, 2010). Saint Laurent started his ready-wear store, Rive Gauche in Paris in 1966 and began mass producing and distributing his designs (Tungate, 2008). Also similar to Dior, Saint Laurent created a complete collection each season, but Saint Laurent was known for more heavily accessorizing his collections than previous designers in order to have more product offerings and round out his looks. When interviewed by Saint Laurent’s biographer, Christian Lacroix, a designer who grew up during Saint Laurent’s reign, stated the following:

There have been other great designers this century but none with the same range.

Chanel, Schiaparelli, Balenciaga, and Dior all did extraordinary things. But they worked within a particular style. Yves Saint Laurent is much more versatile, like a combination of all of them. I sometimes think he’s got the form of Chanel with the opulence of Dior and the wit of Schiaparelli. (Rawsthorn, 1998, p. 330)

Another of Saint Laurent’s contributions to the luxury industry was helping to break the taboo of using less expensive materials for luxury goods. Saint Laurent embraced an understated fashion style and adopted the use of denim, a fabric usually associated with the blue collar or working man’s clothing. Many other luxury brands such as Dior and Louis Vuitton followed this trend in subsequent years (Okonkwo, 2007), and American designers such as Calvin Klein and Ralph Lauren, who would gain prominence in the 1970s, were also extremely successful using denim in their designs.

The changing social climate of the late 1950s led the way to the popular culture and youth culture movements of the 1960s. This decade also ushered in the age of celebrities,
musicians, and even designers themselves as celebrity endorsers. A celebrity endorser is “any individual who enjoys public recognition and who uses this recognition on behalf of a consumer good by appearing with it in an advertisement” (Carroll, 2009, p. 150). In addition, fashion played a key role in the women’s liberation movement by providing an outlet of individual expression for women as well as a trendy vocation choice, which led to the development of numerous fashion schools in Europe and America (Okonkwo, 2007). Mary Quant, a self-trained Welsh designer, was the embodiment of the 1960s culture. Quant’s ready-to-wear store, Bazaar, opened on King’s Road in London in 1955 and caused a fashion revolution. The eccentricity, novelty, and experimentation in her designs led to enduring 1960s creations such as the mini-skirt and the hot-pant, which were embraced by a generation of women not wishing to dress like their mothers. These designs were inspired by female students Quant observed around the streets of London, and were an early example of how designs could “trickle up” from the streets just as effortlessly as they could “trickle down” from couturiers’ designs. Quant opened a second store in 1957 and not only expanded her offerings into adjacent product categories (e.g., shoes, bags), but also began incorporating novel and non-fabric materials, such as PVC, into her designs (Cawthorne et al., 1999).

Quant is significant in the discussion of the history of the luxury brand because she is representative of a pivotal time in which fashion was moved in a new direction that could not be resisted by the average consumer. Many new designers also recognized this impending change. For example, in 1965, Emanuelle Khanh, a member of the new wave of young French designers working in up-market ready-to-wear, insisted, “Haute couture is dead,” and claimed that she would instead “design for the street…a socialist kind of fashion for the grand mass” (Polan & Tredre, 2009, p. 104). Quant’s business management strategy was also very progressive: she
ordered short production runs of youthful ready-to-wear clothes instead of the large runs of same style clothing. Quant’s clothes were considered cheap, but still garnered consumer interest due to the continual production of new designs year round. Her designs were neither highly accessorized nor complex structures. Therefore, their simplicity made them easily mass produced (De la Haye, 1996).

**The rise of the conglomerate: The third era of modern fashion.** Brannon (2006) characterized the third era of modern fashion as increased consumer autonomy and individualism, spurring consumers to define what is fashionable in their own terms. In this era of modern fashion, beginning in the 1980s and continuing on into the second decade of the 2000s, consumers made decisions on fashion without the need for fashion gatekeepers (e.g., designers, merchants, and the press) to legitimize their style. These individualized choices created the marketing implication that consumers were no longer loyal to only one brand. The diverse consumer environment of this era allowed for “new” luxury designers to emerge that did not boast “heritage” as their selling strategy, generated dramatic shifts in business strategies of older luxury firms, and created an undeniable realization by the luxury industry as a whole that successful brand management practices were absolutely necessary to remain competitive.

The 1970s brought continued development of the manufacturing and retailing sectors of the fashion industry, especially in the United States. Boutique retail, formerly popular for unique fashions, was overshadowed by department store retail. Designers such as Calvin Klein and Ralph Lauren launched companies that offered simplistic designs for everyday wear and placed these products in department stores instead of their own couture maisons or exclusive stores. Ralph Lauren, in particular, is a perfect example of a “new” luxury brand. For years, European luxury brands had used “heritage” and “tradition of craftsmanship” to entice their consumers and
validate setting elevated prices. Lauren realized that in the United States, history was irrelevant (Tungate, 2008). He then created a “lifestyle” or implied environment that surrounded his brand and marketing strategies. Lifestyle Marketing based on the lifestyle perspective centers on the idea that individuals segment themselves based on factors such as their preferred leisure activities and interests as well as how they prefer to spend their disposable income. These lifestyle choices “in turn create opportunities for market segmentation strategies that recognize the potency of a consumer’s chosen lifestyle in determining both the types of products purchased and the specific brands more likely to appeal to a designated lifestyle segment” (Solomon, 2004, p. 267). This marketing technique proved to be just as effective at seducing customers as the heritage of European luxury brands had been. In The End of Fashion (1999), Agins stated that Lauren will:

- go down in fashion history for introducing the concept of ‘lifestyle merchandising’ in department stores, [and that] Lauren’s stores stirred all kinds of longings in people, the dream that the upwardly mobile shared for prestige, wealth, and exotic and exotic adventure. (p. 87)

Clothing fashions from the 1980s can be characterized by the rise of the supermodel and the heavy influence of punk culture. These characteristics were also influenced by modern art. The 1980s brought about several major changes in the luxury goods sector of the fashion industry. The first and most important change was the recognition by some luxury goods companies that the brand itself must be properly managed and protected. The 1980s marked the transition of the brand itself from an identifier of a product to one of the company’s most important assets, one that, although intangible, could be credited with huge financial returns for the company. Recognition of the brand’s power motivated some companies to take steps to
strengthen their brand assets. An example of this action was the appointment of Karl Lagerfeld by Chanel in 1983 to aid in the revival of the iconic French brand (Okonkwo, 2007).

The most significant event in the luxury goods sector during the 1980s was in 1989 when Bernard Arnault assumed his role as President of Louis Vuitton Möet-Hennessey (LVMH). Arnault had one goal in mind as he honed the LVMH market process: the creation of Star brands. The only way to achieve star brand status, according to Arnault, is to be “timeless and modern, fast growing and highly profitable all at once” (Wetlaufer, 2001). A star brand is a luxury brand that “is considered premium to its peer group and extended along adjacent product categories” (Reddy et al., 2009, p. 192). Arnault had as a strategic goal, an ambitious development plan for turning LVMH into the world’s largest luxury conglomerate comprising roughly 50 of the world’s most powerful brands. Arnault’s successes led to the creation of other luxury conglomerates such as Richemont, which owns Cartier and Chloe; the Prada Group, which owns Prada and Miu Miu; and LVMH’s biggest competitor, Pinault, Printemps, Redoute (PPR), which owns the Gucci Group.

In 1990, the luxury goods market was estimated to be worth $60 billion (McKinsey Corp, 1990). This size can be attributed to the following factors: (a) expanded product portfolios by luxury firms to include more leather goods and jewelry, (b) overall global explosion of luxury consumption resulting in firms’ international expansion to emerging markets such as Japan, (c) the rise of rapidly growing conglomerates such as LVMH, (d) continued emphasis on the importance of managing the brand as an intangible asset generator, and (e) the gradual lowering of high entry barriers to the luxury goods sector resulting in the entrance of the newcomer luxury brands (e.g., Jimmy Choo, Alexander McQueen, and Stella McCartney). The addition of these brands fueled the already competitive environment in the luxury sector of the fashion industry.
(Okonkwo, 2007). Although luxury goods industry achieved positive growth from a business perspective during the 1990s, fashion as an art and a sense of unique design seemed to be lost. In the 1990s, apparel became a commodity as designers created functional, minimalist styles that often appeared bland and old-fashioned (Tungate, 2008). Agins (1999) emphasized the importance of branding during this era “when just about every store in the mall was peddling the same styles of clothes” (p. 15).

Technological improvements in manufacturing, distribution, and retailing led to a major change in the apparel market in the late 1990s with the emergence of fast fashion companies (e.g., Zara, H&M, and Top Shop) that provided consumers with runway styles at significantly lower costs and in a short time to market. Although these companies are not considered luxury, they have had a direct impact on the luxury fashion sector as well as luxury consumers’ shopping behavior because they bring runway fashions to the average consumer within days of being exhibited in fashion shows in Paris and other major market cities. In an interview, fashion guru and advisor to Arnault, Jean-Jacques Picart, summarized the fast-fashion versus luxury quandary, stating the following:

There are two different shifts happening at once. First of all, Chanel, Dior, Gucci, and the others will continue to develop luxury as a business. At the same time we are seeing a complementary reaction, which is that a consumer may accept paying for the latest Dior bag, very trendy, that she’s seen in all the magazines and advertisements; but she’ll see no shame in going to Zara and buying a T-shirt for 10 Euros, because it’s pretty and it’s a fair quality for the price. Then she may go to another store, a bit more expensive but not as well known, perhaps run by a younger designer, where she’ll buy a skirt. And these items, when brought together, reassure her and send a message to
others that she’s an intelligent consumer, not dazzled by marketing, in charge of her own image. (Tungate, 2008, p. 40)

After months of negotiations in 2004, Karl Lagerfeld embraced the fast fashion revolution partnering with H&M. The result was an innovative co-branding collaboration. The Karl Lagerfeld for H&M collection was released on November 12, 2004, and sold out by the end of the day in stores all over the world (Van Riper & Furman, 2004). Although H&M was a clear winner in terms of publicity and prestige gains, Lagerfeld no doubt sparked consumer interest in haute couture or luxury goods and became a viable “trade-up” option for consumers looking to complement their mass fashion goods with luxury ones. This phenomenon, known as the “luxurification of society,” in which consumers “trade up for products that meet their aspiration needs” (Yeoman & McMahon, 2006, p. 320), has begun to re-shape 21st century luxury brand marketing strategies. As a result of the emergence of fast fashion companies that provide high fashion for the masses, consumers are no longer content to remain in their allotted fashion sectors. Consumers in the 2000s move freely from one sector to the other, pairing looks and styles from old luxury brands, “new” luxury brands, fast fashion retailers, mass production, and all places in between.
Chapter III. Methods

This study examined the paradoxical nature of the luxury brand. Creating marketing strategies that aim to grow the company but avoid overdiffusion of the brand while staying true to core brand values has continually presented challenges for luxury firms. The purpose of this study was to develop a luxury brand management framework that takes into account current and past consumer environments as well as changes and developments in globalization and technologies. This framework contributes to the growing body of company-based research on luxury brands. By examining successes and failures throughout the life of the selected luxury company, the researcher was able to provide a guide for companies with luxury brands, both old and new, in shaping their marketing strategies. The research period of the study was from the mid-1800s to the first decade of the 2000s. The following six research questions were established to achieve the study’s purpose:

1. How has the business environment of the luxury goods industry evolved with regards to (a) the strategic marketing orientations of luxury firms, (b) trends in the luxury consumer environment, and (c) changes and developments in globalization and technology impacting the industry as a whole?

2. What are the indicators of business strategy successes and failures for the sample luxury company (Louis Vuitton) for the corporate environment on the variables of (a) company history, (b) brand portfolio, and (c) financial measures (i.e., sales, profits, and losses)?
3. What are the indicators of brand management successes and failures for the sample luxury company on the variables of (a) brand identity and (b) effective adaptation of the company’s strategic marketing vision?

4. What are the indicators of brand management successes and failures for the sample luxury company in managing growth trade-offs on the variables of (a) brand equity and (b) brand architecture?

5. What are the indicators of brand management successes that have led to the sample company’s (a) brand sustainability and (b) their effective responses to consumer market change?

6. What is the structure of a luxury brand management framework as reflected in the information collected in the overview of the industry (Research Question 1) and in the detailed examination (Research Questions 2-5) of the sample company?

A qualitative research design was utilized for this study. Qualitative research is broad in its approaches, but all forms have two things in common. First, they focus on “phenomena that occur in natural settings that is, in the ‘real world,’ [and second, they] involve studying those phenomena in all their complexity” (Leedy & Ormrod, 2005, p.133). Peshkin (1993) stated that qualitative studies usually serve one or more of the following purposes: description, interpretation, verification, and evaluation. The current study serves all of the aforementioned purposes as it involves examining obtained data in order to gain new insights on company marketing strategies, through which the researcher can evaluate the effectiveness of those marketing strategies as consumer environments and marketing activities as a whole have changed over time.
The middle of the 19th century was selected as the starting point for the study because this period represents the beginning of a formalized consumer market in luxury brands. A case study approach was selected because this qualitative design provides an “intense description and analysis of a phenomenon or social unit such as an individual, group, institution, or community” (Merriam & Associates, 2002, p. 8). Rossman and Rallis (2003) suggest that case-studies’ in-depth description “illustrates the complexities of a situation, depicts how the passage of time has shaped events, provides vivid material and presents differing perspectives or opinions” (p. 104). Often, studying two or more cases that are different in certain key ways can help researchers to make comparisons, build theory, or propose generalizations, thus, enhancing the reliability of the research (Leedy & Ormrod, 2005). Although this research includes only one case study, it does include multiple brands, as the sample company formed into a conglomerate in 1987. This allowed the researcher to conduct cross-brands analyses for comparison purposes in which commonalities and differences across brands are sought as suggested by Miles and Huberman (1994).

**Sample**

To accomplish the study’s purpose, an apparel company that markets luxury products was selected. An in-depth exploration of the company’s history, successes, failures, and marketing strategies as it evolved over time was conducted. The time frame was determined by the year the selected company, Louis Vuitton, was founded in 1854. This time coincides with the time frame for the historical review of the luxury goods industry and its notable brands. This period initiates in 1858, when Charles Frederick Worth opened his maison in Paris and ushered in the first era of modern fashion (Lipovetsky, 1994).
To support this sample selection, *The Global Luxury Brand Value Scoreboard (2004-2006)* by Interbrand was employed. The values shown in the scoreboard “are solely attributable to the brands and exclude the company’s assets and earnings” (Okonkwo, 2007, p. 104). In the scoreboard, Louis Vuitton ranked number one. A second report on brands is the annual list of *Brandz Top 100 Most Valuable Global Brands*. This annual report developed by MilwardBrown Optimor, a WPP company, was also reviewed. *Brandz Top 100 Most Valuable Brands* is the most comprehensive annual ranking of brand value and analyzes the world’s leading brands and the economic and competitive dynamics that influence brand value fluctuations (“Brandz Top 100,” 2011). In this report, brand valuation is achieved by “identifying the portion of total company earnings generated by each business that carries the brand and from these branded earnings, capital charges are subtracted,” [which ensure that the report] “only captures value above and beyond what investors would require any investment in the brand to earn – the value the brand adds to the business. This provides a bottom-up view of the earnings of the branded business” (“Brandz Top 100,” 2011, p. 52). In the luxury section of this report, Louis Vuitton also ranked number one.

By examining both brand value rankings, Louis Vuitton was identified as a luxury company with brand valuations at the top of the list in the luxury goods sector. In addition, the company began as a single company with a luxury brand and continues to represent the lead brands of its conglomerate. By selecting a company that is a part of a larger organization, the researcher was able to examine the parent company, LVMH, in order to identify and discuss notable successes or failures pertaining to mergers and acquisitions, licensing, and restructuring over the years. When discussing the expansion of LVMH’s brand portfolio, the researcher elaborated on specific examples of acquired companies that are satisfying new consumer markets.
and/or changing consumer environments. The fact that the LVMH conglomerate includes companies from categories such as fine wines and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewelry, as well as other selected retailing ventures such as Sephora, a high end department store specializing in beauty care and fragrances, illustrated the scope of the organization and its ability to saturate the consumer market by carefully managing its brand portfolio.

**Validity and Reliability of Study**

The most important component of any research study is its ability to demonstrate rigor. Rigor is defined as the attempt to make “data and explanatory themes as public and as replicable as possible” (Denzin, 1978, p. 7). In quantitative or experimental research, rigor is confirmed by satisfying internal and external validity, reliability, and objectivity (Anfara, Brown, & Mangione, 2002). Johnson and Harris (2002) stated that one problem with qualitative research is that no standard practice is available for establishing reliability, validity, or any other quality indicator. Many authors have suggested several labels for these terms to satisfy criteria similar to quantitative studies to attain rigor in qualitative research, such as confirmability, transferability, dependability, credibility, sensitivity, and honesty, to name a few (e.g., Creswell & Miller, 2000; Davies & Dodd, 2002; Eisenhart & Howe, 1992; Guba & Lincoln, 1981, 1982; Lincoln & Guba, 1985). However, this plethora of terms and lack of standards has created confusion about the best means by which qualitative researchers can ensure rigor in their studies.

In the face of confusion, Morse, Barrett, Mayan, Olson, and Spiers (2002) made a plea for a “return to terminology for ensuring rigor that is used by mainstream science” (p. 1). The authors referenced Kvale’s (1989) definition of rigor and asserted that “to validate is to investigate, to check, to question, and to theorize” and that “all of these activities are integral
components of qualitative inquiry that ensure rigor” (Morse et al., 2002, p. 14). They suggested that in each paradigm rigor is the desired goal met by specific verification strategies, and while these strategies differ for qualitative and quantitative methods, the term validity is the most relevant term for these processes. Thus, the researcher used validity and reliability as well as verification strategies throughout the course of the study to ensure quality and demonstrate rigor.

Validity. Simply defined, the internal validity of a study concerns the “accuracy or truthfulness of the findings” (Ary, Jacobs, Razavieh, & Sorensen, 2006, p. 504). Hammersley (1992) stated that an “account is valid or true if it represents accurately those features of the phenomena that it is intended to describe, explain, or theorize” (p. 69). One of the most common techniques to enhance the internal validity of a qualitative study is triangulation or “the use of different methods of gathering data to compare different approaches to the same thing” (McMillan, 2008, p. 296). To triangulate the study, the researcher gathered general apparel business and company data from trade publications for the apparel industry such as Women’s Wear Daily (WWD) and Apparel Industry Magazine (AIM), scholarly articles relevant to the study topic, financial data from government offices, information from the sample company’s website as well as the website of the company’s parent website, and articles from national news publications. The researcher also documented theme development and cross checked data sources for accuracy.

Rossman and Rallis (2003) suggest four additional strategies to enhance the validity of the study: prolonged engagement, member checks, peer debriefing, and engagement in discussion with a community of practice. Because only one researcher was involved in data collection for this study, member checks were not used. In place of member checks, the researcher consulted periodically with a faculty member who is knowledgeable about the apparel
industry and qualitative research and could contribute additional insights to the study and serve as an auditor. The researcher used peer debriefing in the form of an individual who has worked in the luxury industry in the past and is still a frequent consumer of luxury goods. This colleague also provided the researcher with engagement checks. Prolonged engagement was provided by the researcher’s personal experience in the apparel industry and her personal consumer approach to luxury goods.

External validity is the extent to which generalizations from the data can be made to other cases or situations (Gray, 2009). Although generalizability is not as pertinent to qualitative research as it is to quantitative research, providing detailed, accurate, and thorough descriptions of the context and findings is necessary to aid in identifying underlying theories or themes in subsequent research. To enhance external validity, this study examined a company (Louis Vuitton) that was selected based on its perceived representativeness of a typical luxury goods company. The company was ranked number one by the two major brand valuation reports (Interbrand and Brandz Top 100). Because its brand valuation is top ranked in these reports, the researcher assumed that Louis Vuitton is both a financial and marketing leader in the luxury sector of the retail industry and, thus, representative of an archetypal luxury company. Therefore, the possibility that a study examining a larger sample of luxury companies would yield similar findings is viable.

**Reliability.** Reliability in qualitative research is also different from reliability in quantitative research.

Rather than looking for consistency of behavior, qualitative researchers are interested in the accuracy and comprehensiveness of their observations and inferences. Hence reliability is the extent to which what is recorded as data is what actually occurred in the
setting that was studied, as well as whether interpretations and conclusions are accurate.

(McMillan, 2008, p. 296-297)

Ary et al. (2006) suggested four methods to ensure qualitative reliability, three of which are relevant to the current study. First, an audit trail was used to track the process by which the decisions are made about the research. As data sources were selected and reviewed, the researcher carefully tracked how the themes and relationships that emerged from the raw data were subsequently used to accomplish the study’s purpose of developing a luxury brand management framework. Audit trails allowed the researcher to conduct internal checks to determine whether the findings were grounded in the collected data and also allowed a third party auditor to determine if study procedures were reliable and whether findings were logically derived from the collected data.

Stepwise replication was also employed, where the researcher and a chosen peer reviewer divided the data, analyzed it independently, and then compared their separate analyses. This strategy was conducted prior to developing the luxury brand management framework to confirm or reject the themes and relationships that aided in framework development. At this stage, the researcher had the opportunity to relinquish poorly supported ideas and utilize the creativity and insight of another investigator. Finally, triangulation was used to increase reliability by examining data collected from multiple sources to determine if similar findings have occurred. Information was collected until the categories represented by the research questions were saturated. Another factor in reliability is the researcher’s ability to conduct qualitative research. This researcher has training and experience in the use of qualitative research through coursework as well as a previous qualitative study she conducted.
Limitations

All research has limitations and some are inherent in the use of qualitative research methods. The first limitation is the sample. To provide for depth of analysis, only one company was selected for this study whereas a quantitative study might have examined hundreds of companies. The company was selected due to its perceived representativeness of an archetypal luxury goods company, but many other luxury goods companies do exist.

In addition, this research was limited to available company and trade literature, trade publications, scholarly articles, and textbook publications on the subject matter. The research lacked structured interviews or data collection from individuals within the sample company. These interviews would have served to confirm or reject themes and relationships proposed by the researcher regarding the sample company’s brand management strategies.

Another potential limitation is researcher weakness. Data analysis of brand management, luxury brand management, history of the luxury goods industry, history of marketing orientations, and company overview provided an extensive review of the sample company and the luxury brand market, but outcomes of the research were dependent on the researcher’s ability to identify themes and make inferences with the goal of achieving the study’s purpose; however, the researcher’s experience through coursework and field work reduced this potential limitation.

Data Collection

A comprehensive review of available literature, including both primary and secondary sources, was conducted. Relevant articles from trade publications (e.g., Women's Wear Daily [WWD], Apparel Industry Magazine [AIM], Daily News Record [DNR]) were collected as these publications provided the most up-to-date information on company news, trends, and happenings in the apparel industry as well as company specific information. Although both AIM and DNR
are no longer in current publication, archival copies are available from the university library and served as records for the sample company within the context of the study time period. WWD has been in publication since 1910 and DNR since 1892. Additionally, national newspaper publications, such as the Wall Street Journal, and leading business magazines including BusinessWeek, Forbes, Fortune, Harvard Business Review Magazine, and The Economist were surveyed for information relevant to the sample company as well as information on the luxury goods industry as a whole. Records for these data sources are available from 1889 to present.

For the collection of data on the sample company, information was gathered from the company’s website. Additional company documents, such as 10-K reports, were obtained from Lexis Nexis Academic to identify, analyze, and compare financial data. Additional databases accessed through the university library (e.g., ABI/INFORM, Business Source Complete, Factiva) were employed to identify any additional sources of information on the company’s corporate structure, business models, and marketing initiatives. General and specific Internet searches were used to identify pertinent resources.

Information on the sample company and relevant information on the luxury goods industry as a whole was collected from Luxe-etc., a business consultancy specializing in the luxury industry, and Luxury Briefing, the pioneer luxury industry journal. In addition, secondary sources such as academic journal articles, popular press and business trade books, and relevant textbooks were searched for more references, case study presentations, and other information.

Data Analysis

Qualitative data analysis involves examining thick descriptions of the sample gathered during data collection with the goal of interpreting, explaining, and understanding the phenomena that are present and potentially gaining new insights into the data (Gray, 2009). The
researcher used content analysis to investigate the research questions. Bryman (2004) states that content analysis “is probably the most prevalent approach to the qualitative analysis of documents [and that it] comprises a searching-out of underlying themes in the materials being analyzed” (p. 392). Hseih and Shannon (2005) define qualitative content analysis as “as a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns” (p. 1278).

Two analytic strategies, categorical and holistic, are recognized by qualitative methodologists at the data analysis stage, and both are used in case studies (Rossman & Rallis, 2003). The researcher focused holistically on the selected (in this case) organization to describe phenomena pertaining to the research questions. The research questions also explicated the variables that were then identified in the data, coded, and sorted into categories. These categories provided direction for further content analysis and the subsequent emergence of themes.

To address Research Questions 1 through 5, the researcher examined the evolution of the luxury goods industry beginning in the mid-1800s to the first decade of the 2000s. First, an in-depth exploration was conducted to provide rich descriptions of the luxury goods industry as a whole (e.g., market variables, corporate variables, and consumer variables) from the macro to the micro level.

To prepare for the data analysis of RQ 2-5, the researcher explicated the operational definitions that described the variables. In an effort to “increase the accuracy of predetermined categories,” (Hseih & Shannon, 2005, p. 1283) an auditor reviewed these definitions before the coding process began. These definitions were used throughout data collection to aid the researcher with constant comparative analysis. This process allowed the researcher to compare the collected data with standard definitions for the terms (Rossman & Rallis, 2003).
Using the table of definitions for comparative analysis, data was coded by the researcher. A code is “a word or short phrase that captures and signals what is going on in a piece of data in a way that links it to some more general analysis issue” (Emerson, Fretz, & Shaw, 1995, p. 146). Ryan and Bernard (2000) state that, “coding forces the researcher to make judgments about the meanings of contiguous blocks” and that coding is “the heart and soul” of text analysis (p. 780). The coding operation helped to identify units of meaning such as words, phrases, sentences, specific events, financial data, or other terms that occurred frequently, exhibited patterns of similarity or difference in the data, and determined the larger categories into which the data was grouped. After the coded data was grouped into categories, these categories were refined and condensed into a manageable number. This process resulted from multiple iterations of the data. Finally, the researcher examined relationships or patterns across categories to identify major themes in the data. This integration of the data into themes “yield[ed] an understanding of the context and people being studied” (Ary et al., 2006, p. 494) and aided in the creation of the conceptual framework that satisfied the purpose of the study.

Tables 1 to 5 summarize the operational definitions of the variables and how each variable was measured. Measurements were obtained from the review of literature. Most of these definitions are from basic marketing and other business literature and are not specific to the luxury industry. As content analysis was performed, the researcher refined the tables (see Tables 11-15) to ensure that they coalesced with the research objectives, as recommended by Hseih and Shannon (2005).
Table 1. Variables, Operational Definitions, and Measurement for the Study of the Business Environment of the Luxury Goods Industry

(Research Question 1)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception and</td>
<td>Business Environment and</td>
<td>“Choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value” (Kotler &amp; Keller, 2006, p. 6)</td>
<td>Efficiency and effectiveness of (a) design, (b) production, (c) distribution, and (d) responsiveness to changing market conditions and consumer demands</td>
</tr>
<tr>
<td></td>
<td>Strategic Management Response</td>
<td></td>
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<tr>
<td></td>
<td>Consumer Luxury Consumer</td>
<td>People who will use the products or services that a company is trying to sell (Solomon, 2004)</td>
<td>(a) Demographic change, (b) population shifts, (c) consumer trends (e.g., masstige shoppers, see-saw customers), and (d) consumer attitudes (Andal-Ancion et al., 2010).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consumers willing to “pay premium prices for an experience that is unique, special, and captivating in every way” (Andal-Ancion et al., 2010, p. 6).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Globalization</td>
<td>“Increasing internationalization of the production, distribution and marketing of goods and services” (Levy, 1995, p. 353)</td>
<td>(a) Growing luxury markets in developing countries, (b) lower entry barrier to the luxury goods industry, and (c) changes in supply chain management throughout the apparel industry</td>
</tr>
<tr>
<td></td>
<td>Technology</td>
<td>“Includes the use of new equipment as well as new processes” (Ko, Kincade, &amp; Brown, 2000, p. 1096)</td>
<td>(a) Company level (e.g., production, distribution, logistics), and (b) Store level (e.g., self-service, social media, mobile applications, e-tailing (Burke, 2002)</td>
</tr>
</tbody>
</table>
Table 2. Variables, Operational Definitions, and Measurement for the Study of the Corporate Environment

(Research Question 2)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpretation of corporate variables as a measurement of company success or failure</td>
<td>Company History</td>
<td>Associations with a brand’s past and certain noteworthy events in its history that aim to create strong associations for consumers increase perceptions of brand equity (Keller, 2009)</td>
<td>(a) Important business environment changes over the life of the brand, (b) important changes in corporate structure (e.g., mergers and acquisitions, licensures), (c) past affecting current/future business decisions, and (d) use of histories/stories to facilitate brand image</td>
</tr>
<tr>
<td></td>
<td>Brand Portfolio</td>
<td>“A range of brands a company has in the market&quot; (Heding, Knudtzen, &amp; Bjerre, 2009, p. 13)</td>
<td>(a) Connectedness each brand has to other brands in the portfolio, (b) position each brand occupies in the market, and (c) extent to which market is saturated by brand portfolio (Lederer &amp; Hill, 2001)</td>
</tr>
<tr>
<td>Financial Measures</td>
<td>Tangible (e.g., sales, profits and losses) and intangible (e.g., brand image, brand value) measures that indicate the extent to which a company is successful (Matthiesen &amp; Phau, 2010)</td>
<td>(a) Sales, (b) profits and losses, (c) brand value, and (d) market share</td>
<td></td>
</tr>
</tbody>
</table>
Table 3. Variables, Operational Definitions, and Measurement for the Study of Brand Management

(Research Question 3)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpretation of brand variables as a measurement of marketing strategy success or failure</td>
<td>Brand Management Strategies</td>
<td>Unique to each brand; a strategic, visionary, and proactive approach to enhancing internal and external opportunities of the brand (Heidig et al., 2009)</td>
<td>(a) Competitive and financial strength, (b) strong brand performance, (c) consistency in communications and coherent brand personality, and (d) social and cultural responsiveness (Heidig et al., 2009)</td>
</tr>
<tr>
<td></td>
<td>Brand Identity</td>
<td>“The identifiable attributes and identifiable elements that make up the brand and how these are perceived and interpreted by people that come into contact with the brand” (Okonkwo, 2007, p. 110)</td>
<td>(a) Brand image associations in the form of attributes, benefits, and overall consumer attitudes, and (b) brand personality (Keller, 1993, 1998; Okonkwo, 2007)</td>
</tr>
<tr>
<td></td>
<td>Marketing Vision</td>
<td>“Top management’s aspirations for the company” (Hatch &amp; Schultz, 2001, p. 130)</td>
<td>(a) Vision inspires all its subcultures, (b) vision is effectively communicated to stakeholders, and (c) company image is aligned with stakeholder’s image of the company (Hatch &amp; Schultz, 2001)</td>
</tr>
</tbody>
</table>
Table 4. Variables, Operational Definitions, and Measurement for the Study of Growth

Trade-Offs

(Research Question 4)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Growth trade-offs</td>
<td>“How to attract new customers without alienating existing customers in order to grow” (Keller, 2009, p. 300)</td>
<td>(a) Classic vs. contemporary images, (b) exclusivity vs. accessibility, and (c) retention vs. acquisition</td>
</tr>
<tr>
<td></td>
<td>Brand Equity</td>
<td>“Marketing effects uniquely attributable to the brand-for example, when certain outcomes result from the marketing of a product or service because of its brand name that would not occur if the same product or service did not have that name” (Keller, 1993, p. 1)</td>
<td>(a) Corporate brand equity, (b) consumer-based brand equity, (c) digital brand equity, and (d) Young and Rubicam’s Brand Asset Valuator (Keller, 2009)</td>
</tr>
<tr>
<td></td>
<td>Brand Architecture</td>
<td>Brand portfolios (in the case of conglomerates) or the brands a company owns and the organization and relationship of these brands to each other within the brand portfolio. Includes vertical extensions, sub-branding, and licensing (Keller, 2009)</td>
<td>(a) Growth in sales, (b) equity across multiple market segments, and (c) equity across multiple price points</td>
</tr>
</tbody>
</table>
Table 5. Variables, Operational Definitions, and Measurement for the Study of Strategic Plans
(Research Question 5)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpretation of the</td>
<td>Brand Sustainability</td>
<td>“The ability for brands to last and recoup investments” (Wreden, 2005, p. 219)</td>
<td>(a) Long-term return on investment, and (b) continued relationships with customers, supply-chains, and stakeholders</td>
</tr>
<tr>
<td>development and</td>
<td></td>
<td>(a) Long-term return on investment, and (b) continued relationships with customers, supply-chains, and stakeholders</td>
<td></td>
</tr>
<tr>
<td>implementation of</td>
<td></td>
<td>(a) Long-term return on investment, and (b) continued relationships with customers, supply-chains, and stakeholders</td>
<td></td>
</tr>
<tr>
<td>strategic plans as</td>
<td>Effective Response</td>
<td>The constant monitoring of business action plans for their effectiveness in reaching company goals and the implementation of changes addressing potential challenges and changes in the environment (Kincade &amp; Park, 2011)</td>
<td>(a) Evidenced in historical data, financials, and brand portfolio,</td>
</tr>
<tr>
<td>indicators of brand</td>
<td></td>
<td>(b) adaptation of marketing vision,</td>
<td>(b) adaptation of marketing vision,</td>
</tr>
<tr>
<td>management success</td>
<td></td>
<td>(c) strong brand equity, and</td>
<td>(c) strong brand equity, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(d) brand sustainability</td>
<td>(d) brand sustainability</td>
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</tbody>
</table>

The purpose of this research, as expressed in Research Question 6, was to develop a luxury brand management framework to serve as a guide for companies with luxury brands, both old and new, in shaping their brand strategies while taking into account current and future economic factors and consumer environments. The researcher initially proposed a conceptual framework based on environmental determinism and fashion adoption theory (see Chapter 1). She believed these theories would be guides to the coding and analysis of the data with the understanding that qualitative research is “less driven by very specific hypotheses and categorical frameworks and more concerned with emergent themes and idiographic descriptions” (Cassell & Symon, 1994, p. 4). Through data collection and the coding of information relevant to the variables in the selected business categories (business environment, corporate environment,
and marketing strategy) the researcher was able to revise and further explicate the conceptual framework.
Chapter IV. Case Study

This chapter presents the case study for the selected luxury company, Louis Vuitton, and covers the findings for Research Questions 2-5. The data, mainly pertaining to brand management of the company, were collected from relevant trade publications and newspapers, journals, library databases, and the company website. The case study begins with the company’s inception: however, this research is more focused towards events in recent history (circa 1990s to 2012). This recent period is of interest due to numerous changes in corporate structure and business strategies, beginning with the merger of Louis Vuitton with Möet-Hennessy (i.e., manufacturer and retailer of wines, spirits, and fragrances) in 1987. This merger formed LVMH Möet-Hennessy-Louis- Vuitton, which is a Société Anonyme or an SA conglomerate, and marked the subsequent ascension of Bernard Arnault to chairman and CEO of LVMH in 1989.

This chapter explores specific history and business strategies of Louis Vuitton and its parent company. The case study analysis provides a context of contributors to the company’s brand sustainability and its continual recognition as the top brand in the luxury industry. Although Louis Vuitton is the central company in this case study, LVMH and brands in the LVMH portfolio are discussed to provide insight into how the brands are managed in relation to one another and to cite successes, failures and lessons learned in brand portfolio management surrounding the core brand of Louis Vuitton. In further support of the inclusion of LVMH and its multiple brands, most listed financials represent the entire LVMH conglomerate. Any financials specific to individual brands in the LVMH portfolio have been acquired by third party sources, such as market research firms and business databases and not directly from LVMH reports.
Additionally, the exploration of the wide array of brands in the LVMH portfolio, differing in size, market share, and brand equity, illuminate the branding strategies being used by LVMH to achieve their end goal of bringing the star brand status of Louis Vuitton to the company’s entire portfolio. This breadth of the case study provides additional information for the creation of a luxury brand management framework to serve as a guide for both old and “new” luxury brands in developing or honing their brand management strategies while accounting for changes in the business environment.

Research Question 2 indicates that in order to provide an overview of Louis Vuitton’s corporate environment, the following variables should be explored: company history, brand portfolio, and financial measures. To limit redundancy with regard to company history and provide a succinct transition from the discussion of Louis Vuitton to the brand portfolio of LVMH, the variable of company history covers the period from Louis Vuitton’s company inception in 1854 until the company’s merger with Möet-Hennessy in 1987. Examination of the brand portfolio variable is limited to the period from 1987 to 2011. Background for the apparel luxury goods industry and related environmental influences are covered in general in the review of literature. This section focuses specifically on the case study of interest.

**Corporate History of Louis Vuitton**

*Louis Vuitton.* The first railway opened in France in 1837 running from Paris to St. Germain. As an example of the influence of globalization and technology, this event coincided with the growth of the wealthy class and the increase in travel among these consumers. In that same year, a 15 year old Louis Vuitton came to Paris and became an apprentice packer and trunk maker. With his master, Vuitton traveled to the homes of the wealthy to pack their trunks prior to long trips. Because of his skill, he was soon appointed as French Empress Eugenie’s personal
luggage packer, or layetier (Pasols, 2005). His experience as imperial *layetier* (i.e., trunk packer) provided him with valuable knowledge of what made a superior travel trunk, and over a period of ten years, he became a master woodworker and designer.

In 1854 Louis Vuitton opened a workshop to sell his own designs and was soon reputed as a master luggage maker because of his impeccable craftsmanship and creativity. Vuitton had abandoned traditional dome-shaped trunks designed for stage coach travel in favor of designing more functional, flat trunks that could easily be stacked on railway carriages. The flat trunks were the first of their kind, made of wood, and covered in a new canvas called trianon grey that was waterproof and considered very stylish (Pasols, 2005). Vuitton’s workshop was near the couture houses of Paris and soon he was being hired to pack the couturiers’ designs for shipment. Among the couturiers to employ his services was Charles Frederick Worth, whose maison was just steps from Vuitton’s workshop. Worth was identified in the review of literature (see Chapter 2) as the inventor of haute couture, the first designer to put his signature on his creations, and an important force in the initiation and growth of the luxury goods business. As his business grew, Vuitton expanded, building workshops outside Paris in Asnieres in 1859 where supplies could more easily be transported along the Seine and there was room for expansion in the future. Vuitton also moved to a larger store in Paris in 1871 on the prestigious Rue Scribe. The new location was across the street from the Grand Hotel and the new Place de l’Opéra making this area an up and coming district in Paris and important to the fashion or apparel industry. Vuitton eventually stopped his packing job in favor of full time trunk-making and was soon supplying customized luggage to royals from around the world including King Alfonso XII of Spain and the future Czar Nicholas II of Russia. Due to the unrivaled quality of his creations, he was commissioned to make special luggage for expeditions such as a trunk bed for Savorgnan de
Brazza, who discovered the source of the Congo in 1876 (“LVMH,” 2000). Vuitton took his trunks to the Universal Exhibition held in Paris in 1867 and 1889 winning first a bronze medal, followed by a gold medal, for his designs (Pasols, 2005). The new style of trunks was so popular that other woodworkers began to copy Vuitton’s designs. Vuitton responded in 1876 by changing the trianon grey pattern to one of brown and beige stripes, and then to brown and beige checkers in 1888 (known today as the Damier or checker board canvas), but the problem of market competition persisted. Although receiving pressure from competitors, Vuitton still maintained superiority over the competition through continual innovation coinciding with changing modes of travel (“LVMH,” 2000). For example, he created wardrobe trunks that unfolded making their contents easily accessible by their owners when traveling in sleeper cars.

**George Vuitton.** While Louis Vuitton continued with production of custom-made and high quality luggage, his son George played an active role in company management. George expanded internationally, opening a store brand in London in 1885. In 1892, George Vuitton took over the family business after his father’s death at age 71. That same year, George wrote a highly acclaimed book translated as, *Travel from Olden Times to Our Time.* The book “linked the distant past with the near future, explaining where we came from to provide a better understanding of where we are going” (Pasols, 2005, p. 112) and generated consumer interest and stimulated sales for the Louis Vuitton brand. Imitation of his father’s products continued to be a problem, and in 1896 George Vuitton designed and patented what is recognized as the first designer label on a product, a canvas featuring the initials LV on a background of quatrefoils and flowers (“LVMH,” 2011). The distinctive monogram pattern, that is still the company’s signature today, resolved product imitation until the emergence of counterfeiting through xerography in the 1960s. After traveling to the Chicago Exposition of 1893, George Vuitton
aimed to expand the company’s distribution into new markets in the United States as well as in Brussels, Buenos Aires, Bangkok, Nice, and Montreal in the early 1900s (“LVMH,” 2000).

George Vuitton, like his father, was also responsive to changing modes of transportation, and created trunks to be used in cars, airplanes, and hot air balloons, as well as a wide array of accessories such as canteens and steamer bags. The company built a new retail and corporate office building on the Champs-Elysees in Paris in 1914 in order to better serve its growing distribution network. At the time, the new location was the largest travel-goods retail store in the world. The company factory in Asnieres was soon used to its fullest capacity during World War I. From 1914 to 1918, Louis Vuitton trunks were required by the allied military effort which was located only 60km from the factory. George Vuitton and his staff had trouble meeting that demand and the challenges continued after the war as the company tried to supply products to their distributors with what was left of their factory. As noted in the review of literature (see Chapter 2), economic conditions improved after WWI and many Americans and Europeans resumed their pleasure travels, especially to Paris and the French Riviera. In post-WWI, the Louis Vuitton factory was back to filling orders for famous clientele such as Coco Chanel and Mary Pickford, while the Paris store aided foreigners in packing their purchases from the Parisian couture houses, and capturing the zeitgeist of the early 1930s by developing patterns geared toward eroticism such as tortoise shell and lizard skin (“LVMH,” 2000).

Gaston-Louis Vuitton. In the mid-1930s, as economic conditions once again deteriorated with the worldwide depression, an aging George Vuitton worked with his son Gaston-Louis to increase the company’s profitability. They first created an advertising and design office that would focus on enhancing the company catalog, which was becoming an increasingly important driver of general retail sales as special orders for custom made luggage
were decreasing. Gaston-Louis Vuitton took over the company in 1936 after his father’s death (Pasols, 2005). In 1939 World War II began in Europe. Due to the war effort in France, overseas shipments to European and American companies were halted resulting in the termination of contracts by Louis Vuitton distributors. For various war related reasons, the Louis Vuitton factory and retail stores were forced to close until the war ended. In the post-war period, much work had to be done to rebuild the company. Gaston employed his three sons Henry, Jacques, and Claude, as overseers of the three corporate functions of commercial management, financial administration, and factory management, respectively (“LVMH,” 2000). In 1954, the corporate offices and flagship store of Louis Vuitton moved from the Champs-Elysees to a new location on Avenue Marceau.

In 1959, Gaston revamped the canvas used in Louis Vuitton trunks. The new material was durable yet flexible enough to be used in purses, wallets, and the soft-sided luggage that was becoming popular among consumers. This change came as a response to improved transportation, which continued to reduce travel times, and increased consumer use of product. This innovation in canvas resulted in lighter weight, more practical luggage and handbags that, once again, set a new standard for the luggage industry and luxury goods products. Resulting products included the iconic pochette and speedy bags that are all still in production today (Pasols, 2005). With Louis Vuitton’s success and brand recognition, came an emergence of counterfeiters during the 1960s that illegally reproduced Louis Vuitton products. Counterfeiting increased in the 1960s with the improved technology of photocopying or the xerography process, which made clear, accurate copies easily accessible (“LVMH,” 2000). The company would begin to combat this threat to their intellectual property with legal action in later decades.
Relaunch and international growth. After the death of Gaston-Louis Vuitton in 1970, the Vuitton business was in disarray and the family was divided on how the company should be managed. Vuitton’s son-in-law, Henry Racamier, who had previously founded a very successful steel company, was asked to come out of retirement and take over the company in 1977 (Tagliabue, 2003). Beginning his tenure at age 65, Racamier utilized his management skills from the steel industry to modernize the company’s production and marketing functions. At the time Racamier joined Louis Vuitton, the family business had only two retail locations, one in Paris and one in Nice, yielding annual revenue of roughly $20 million (“LVMH,” 2011).

As the consumer demand for designer brands grew in the 1970s, Racamier leveraged the prestige synonymous with the Louis Vuitton name to expand the company to locations in Europe, the United States, and most notably the Asian market (“LVMH,” 2000). He opened Louis Vuitton’s first retail stores in Tokyo and Osaka, Japan in 1978, followed by Hong Kong, Singapore, and Guam in 1979, and a store in Seoul, South Korea in 1984 (Galloni, 2004). The company opened a store in New York City in 1981 paving the way for expansion in the United States and pursued opportunities in European countries such as Austria and Germany as the European Union expanded (Pasols, 2005) Racamier also implemented a new distribution strategy that favored creating “its own subsidiaries through local partnership in other countries” instead of opening franchises (Pasols, 2005, p. 280). This distribution strategy is still in place today and helps Louis Vuitton maintain tight control of its international operations and enjoy maximum return on investment from all of its locations.

Racamier is also credited with being a champion of sponsorship and patronage for the Louis Vuitton brand. He established the Vuitton Cup, a preliminary competition and lucrative partnership with the world’s most prestigious yacht race, the America’s Cup. This sponsorship
began in 1983 and lasted 24 years (“Louis Vuitton ends,” 2007). In addition, he established the Louis Vuitton Foundation for Opera, Music and the Arts in 1986 and became a major benefactor for the organization. Also in 1986, the company moved its Paris location to the well regarded avenue Montaigne, began to incorporate modern technology into the factory at Asnieres, and opened a distribution center north of Paris. Evidenced by its strong showing on the Bourse in Paris and the New York Stock Exchange in the United States after its listing in 1984 and the fact that 90% of the company’s sales were outside of France (Asia accounted for 40% of that), Louis Vuitton was thriving (“LVMH,” 2011). Under Racamier’s leadership, corporate stakes were slowly being acquired in other highly reputed companies such as Veuve Clicquot (Pasols, 2005).

**Louis Vuitton Möet-Hennessy merger.** The 1980s were a period of corporate mergers and acquisitions in many businesses and industries. In the luxury goods industry, this business trend began with the Louis Vuitton Möet-Hennessy merger and continued throughout the 1990s. The formation of Louis Vuitton Möet-Hennessy in 1987 and the subsequent acquisition of a portfolio of smaller luxury brands by Bernard Arnault, sparked other attempts at consolidation in the industry leading to the formation of rival conglomerates such as PPR (Pinault, Printemps, Redoute), which owns the Gucci Group, Richemont, and the Prada Group. Other design houses such as Tommy Hilfiger and Donna Karen transitioned from being privately owned to publicly owned companies in order to finance their international expansion. Tommy Hilfiger was listed on the stock market in 1992 followed by Donna Karen (who was later acquired by LVMH) in the same year. Other firms remained in private ownership yet generated capital by selling a stake of their companies to investment firms. For example, in 1994, investment firm Goldman Sachs bought a 28% stake in Ralph Lauren for $135 million (Strom, 1994).
In 1987, Racamier was approached by Alain Chevalier, president of Möet-Hennessy, an esteemed Champagne and cognac producer also based in Paris. Stock value in Möet-Hennessy was rising mysteriously, and with the Möet, Chandon, and Hennessy families controlling only 22% of the company voting stock, Chevalier feared the company had become a takeover target (Greenhouse, 1989). The families from all sides (i.e., Möet, Chandon, Hennessy, and Vuitton) arranged a $4 billion merger of Louis Vuitton with Möet-Hennessy in which they would, together, control a total of 51% of LVMH’s stock. The merger was aimed to be mutually beneficial by protecting Möet-Hennessy from a potential takeover and increasing Louis Vuitton’s capital to finance more investments in the luxury goods industry. The agreement left each company autonomous over its own management and subsidiaries (“LVMH,” 2000). The conglomerate was named LVMH Möet-Hennessy Louis Vuitton SA. Because Möet-Hennessy was three times the size of Louis Vuitton, Chevalier was named chairman of the new holding company and Racamier assumed the role of executive vice-president (“LVMH,” 2011). Soon however, massive disagreements arose between Chevalier and Racamier. After Chevalier tried to initiate an agreement with the British liquor empire, Guinness, to increase its holdings from a 3.5% to a 20% stake, Racamier and the Vuitton family opined that the larger Möet-Hennessy company was trying to absorb the Louis Vuitton operations (Greenhouse, 1989). In 1988, in a strategic move, Racamier asked Arnault, a 39 year old financial engineer and property developer, to invest in LVMH stock.

At the time of Racamier’s request, Arnault had already developed a background in corporate mergers and acquisitions. Having had trouble breaking into the American real estate market after moving to New York in 1981, Arnault had already set his sights on the world of luxury goods, especially those related to apparel fashion. In 1984, Arnault learned that the
French government was to choose someone to takeover Agache-Willot, the bankrupt retail conglomerate that owned Dior, the company maintaining the iconic fashion designer’s name. In a few strategic maneuvers with his partners, Arnault acquired a controlling stake in the Agache-Willot company (Greenhouse, 1989). With majority voting rights, Arnault took his seat as Chairman of the Board and proved to be a shrewd businessman. He lay off 9,000 workers, sold off the divisions of Agache-Willot until Christian Dior Couture was the only unit that remained, and fired many of Dior’s executives. Within three years, the company was profitable again and would soon help Arnault facilitate his next major play in the luxury goods industry (Christian Dior SA, 2012).

Racamier believed Arnault would be an ally in the ongoing management struggle with Chevalier, but Arnault had other plans. His investment banker, Antoine Bernheim, of French investment bank Lazard Frères urged Arnault to ally himself with Guinness/Chevalier instead lest they thwart his efforts if he helped Racamier acquire more control. Thus, Arnault and Guinness formed a holding company in July 1988 and bought 24% of LVMH’s stock for $1.5 billion. Arnault stated that their purchase intention was to create a stable shareholder group to protect LVMH from takeover (Greenhouse, 1989).

A corporate war ensued between Racamier and the Vuitton family and Chevalier and the Arnault-Guinness holding company after rumors circulated on the Paris Bourse that the Vuitton family planned to buy enough LVMH stock to obtain a “33 percent ‘blocking minority,’ which would enable Racamier to cripple LVMH’s decision-making ability” (Greenhouse, 1989, p. 38). As a result, each side quickly bought the remaining available stocks. Arnault saw his opportunity to become the dominant shareholder and spent $600 million in three days on LVMH stock, which pushed the Arnault-Guinness holdings of LVMH to 37.5%. As the dominant shareholder,
Arnault made plans for his father to become chairman of the LVMH supervisory board, a position that Racamier had already promised to a member of the Louis Vuitton family (Greenhouse, 1989).

To avoid tarnishing the company’s brand image in the very public ordeal, Racamier and Chevalier tried to negotiate a peaceful agreement in December 1988, proposing they reverse the merger and sell many of the company’s shares to the public. In the proposal, Arnault would be given control of Parfums Christian Dior, an LVMH subsidiary that would be a companion to his Christian Dior Couture brand (Greenhouse, 1989). Feeling overshadowed in the arrangement, Arnault used Dior as a vehicle to purchase another $500 million worth of LVMH stock in two days boosting the Arnault-Guinness stock holdings to a 43.5% controlling interest and their voting rights to 35%. Arnault now had the blocking minority he needed to thwart the proposed separation.

Arnault then formed Christian Dior SA which would become a holding company for LVMH, controlling roughly 42% of its shares (“LVMH,” 2000). At that time, Chevalier realized that peaceful resolution of the merger’s parameters was unlikely and decided to resign. The next day, January 13, 1989, Arnault became Chairman and CEO of LVMH, but an 18 month legal battle ensued between Arnault and Racamier for control of LVMH (“LVMH,” 2000). With the power struggle continuing, the Möet, Chandon, and Hennessy families, who controlled 18% of the LVMH voting rights, pooled their support behind Arnault in hopes that an ending to the feud would allow Arnault to begin to focus on LVMH’s management. With the additional 18% voting rights, Arnault controlled LVMH’s voting majority and finally had the clout to oust Racamier from LVMH in 1990 (Tagliabue, 2003). By the time of Racamier’s departure, Louis Vuitton had
135 retail stores worldwide and nearly $2.5 billion in annual sales. LVMH had a market
capitalization of $10 billion (“LVMH,” 2011).

**Brand Portfolio Following the Merger**

During the 1990s, multiple mergers, acquisitions, and changes in ownership status
occurred in response to global expansion of markets and led to an increased need by luxury
companies to generate new and effective strategic marketing plans to address this complex,
large, and differentiated market. These companies chose many ways to create value, uniqueness,
and visibility for their brands. Marketing strategies included assigning brand value to companies.
(Okonkwo, 2007)

**Arnault’s brand strategy.** In July 1988, Arnault stated that his goal, within 10 years,
was to head the world’s largest luxury goods group (Greenhouse, 1989). This goal came to
 fruition much sooner than Arnault had anticipated as he spent the 1990s building LVMH into a
luxury conglomerate and changing the face of the luxury goods business. Arnault’s initial
strategy was to acquire undervalued heritage brands. These brands were known to have strong
associations to their past or to certain noteworthy events in their history, and, in extreme cases,
heritage brands “become iconic by combining all these associations into what is in effect a myth,
tapping into enduring consumer hopes and dreams” (Keller, 2008, p. 296). Arnault believed
brands with company organizations that had paired creative and motivated design teams with
entrepreneurial management would thrive in LVMH’s decentralized organizational structure and
be valuable assets in the long term (“Chairman’s message,” 2012). Brands with tightly held
licensing and underexploited accessories markets were especially attractive (Greenfeld &
Pascual, 2000). Aggressive global expansion and saturation of the four segments of the luxury
goods industry (i.e., apparel fashion, perfumes and cosmetics, wines and spirits, watches and
jewelry) were also immediate goals set for the conglomerate as these factors would help offset fashion and economic cycles. In addition to the four traditional luxury segments, Arnault established an additional luxury segment for LVMH, selective retailing. This segment included retailers of luxury goods. Other business ventures into luxury media (e.g., websites, magazines, newspapers, radio) as well as investment in a luxury travel company (i.e., yachts) would fall into the “Other Activities” segment of the company. In his initial acquisitions, Arnault “did not seek out synergies, or even strategic fit, but rather acquired brands with the belief that its [LVMH] experience in the luxury goods sector allowed it to more accurately value these brands than the market” (Gabriele & Rosa, 2009, p. 217). For the most part this strategy did not prove effective. LVMH’s acquisition spree of the 1990s resulted in financial difficulties that needed to be addressed by Arnault and the LVMH executives. LVMH’s was buying growth through acquisitions but experiencing sluggish sales growth from recurring operations, slipping profit margins, and a high debt-to-equity ratio. These factors forced the company to refocus their business strategy in the first decade of the 2000s towards digesting and growing their investments (Edmonson, Reier, & Flynn, 1997).

The Louis Vuitton brand in the 1990s. In the early 1990s, profits and sales for the Louis Vuitton brand were on the decline. Although the brand maintained an indisputable reputation for craftsmanship, the must-have bags of the 1980s were now considered “the bag your mother bought” (Guyon, 2004, p. 34). An oversaturation of the market had led to ubiquity, and most of the brand’s success was primarily due to appearance. In addition, most consumers could identify the Louis Vuitton monogram used on most products, but few were familiar with the brand essence of Louis Vuitton. Arnault, who “recognized the need to exploit the company’s potential immediately to assure its performance and thereby its longevity,” (Pasols, 2005, p. 301)
appointed Yves Carcelle CEO of Vuitton. Arnault believed that Carcelle would be a visionary manager just as the many generations of Vuitton managers had been before him and would reverse the decline in sales and revenue for the brand. Arnault’s prediction was correct; Carcelle would more than double the number of Louis Vuitton stores during the first decade of his tenure. The number of stores increased from 125 stores in 1990 to 261 stores in 1999 and solidified the brand as a global fashion icon (Galloni, 2004). Additional changes were still to come for the company.

Carcelle’s foremost goal was to reposition the Louis Vuitton brand as being timeless yet modern, two characteristics Arnault associated with star brands (Wetlaufer, 2001). In order to infuse a new vitality into the sagging brand, traditional Vuitton product lines were released in vibrant colors in contrast to the traditional brown and beige colors, new product lines manufactured in leather in sharp contrast to the traditional canvas were introduced, and innovative new design styles such as the Alma bag and Satellite suitcases were introduced to the market. An additional driver of consumer demand was the artificial scarcity of limited release styles and colors that were created by restricting production volume. The 100th anniversary of the monogram was celebrated in 1996 and provided the unique opportunity to celebrate the history of the brand while illustrating to consumers that Louis Vuitton was just as in tune with the zeitgeist in the 1990s as it was a hundred years earlier. Executives from Louis Vuitton’s marketing and creative departments as well as a few hand selected fashion personalities joined together to brainstorm for the event. The resulting idea was ground-breaking in strategic management marketing (Pasols, 2005).

The Louis Vuitton executives determined the best way to illustrate the fact that the monogram was classic yet incredibly modern was to have seven avant-garde fashion designers
each create a new style of the iconic monogram handbag, a bag with the traditional Louis Vuitton rounded styling made in the classic monogrammed canvas. Each designer was to have free reign to design the bag however he/she chose. The seven designers were as follows: Vivienne Westwood, Azzedine Alaïa, Helmut Lang, Issac Mizrahi, Romeo Gigli, Manolo Blahnik, and Sybilla (Pasols, 2005). Each of these designers was a highly recognized designer in the luxury goods industry with well-known high fashion product offerings. The new products included the small shoe trunk created by Manolo Blahnik, the fabled shoe designer, and the monogram bag constructed in panther skin by Azzedine Alaïa. These designer products were showcased at 100th anniversary parties in the world’s fashion capitals during 1996, and the replicas were fought over by consumers in Louis Vuitton’s stores. The anniversary event was a success in generating consumer demand for and industry interest in the brand. The event was also timed to usher Louis Vuitton into the apparel fashion world, in contrast to bags and luggage, as the company announced they would soon be adding ready-to-wear and shoe collections to their product portfolio.

Louis Vuitton’s entry into ready-to-wear was not an obvious transition for the company, but a strategic decision that could have been disastrous if it was not approached very delicately. The move to ready-to-wear, an apparel segment of the fashion industry, marked a break from the founding family’s tradition, which was centered on the travel sector with tightly controlled production and distribution. Traditionally, segments of the apparel industry vary in terms of their specific design processes, manufacturing strategies, and materials and fabrics used in product development. Although Louis Vuitton specialized in luggage and handbags, never operating in the apparel market, the brand had always been highly engaged with the fashion industry (Pasols, 2005). For example, apparel designers such as Chanel, Dior, Patou, and Givenchy and members
of the apparel press such as Diana Vreeland and Anna Wintour, had been customers and champions of the brand. As apparel designers react to societal changes, the Louis Vuitton brand was also known for its responsiveness to the zeitgeist in its design creations such as its innovative luggage of the late 1800s and early 1900s that coincided with emerging modes of travel (Pasols, 2005). The introduction of ready-to-wear lines provided the brand with the opportunity to provide seasonal newness that would complement their traditional product offerings. Arnault and Carcelle tapped Marc Jacobs, a 34 year old designer already generating a high level of consumer and media interest in the apparel industry for his grunge designs, to become Louis Vuitton’s new creative director (“LVMH’s Bernard Arnault,” 1996).

**Marc Jacobs and ready-to-wear.** Jacobs joined Louis Vuitton in 1997 after Arnault agreed to also underwrite Jacobs’ namesake label. His first ready-to-wear line hit the runway in 1998. With each season, Jacobs seemed to better channel the Louis Vuitton brand essence in his designs. He is considered by many to be the most influential designer in fashion and has been a key factor in the success of the Louis Vuitton brand during the first decade of the 2000s. Most notable was his collaboration with American artist Stephen Sprouse in 2001 to create the Monogram Graffiti handbag and luggage lines and his multiple collaborating efforts with Japanese artist Takashi Murakami beginning in 2002 that yielded creations such as the Monogram Cherries line and the Monogram Multicolor lines in 33 colors on white or black canvas (Larocca, 2005). Jacobs’ own brand has also flourished under the LVMH umbrella as he has successfully navigated the strict line separating the Vuitton brand essence which is polished and elegant from that of the Marc Jacobs brand essence which is more unkempt and offbeat. In 2012, Jacobs is still garnering a great deal of success as Louis Vuitton’s creative director, and is
continually lauded for his role in making Louis Vuitton the top brand in the luxury industry as well as for his contributions to the luxury fashion world as a whole.

**The LVMH brand portfolio in the 1990s.** With his appointment of Yves Carcelle as CEO of Louis Vuitton in 1990, Bernard Arnault was released from daily company operations of Louis Vuitton to begin expanding his luxury conglomerate through acquisitions and pioneering ventures in emerging markets. In the review of literature, globalization was operationally defined as “increasing internationalization of the production, distribution, and marketing of goods and services” (Levy, 1995, p. 353). Rugman and Verbeke (2004) defined a global company as one having at least 20% of its sales in each of the three triad regions (i.e., Europe, North America, Asia Pacific) with less than 50% in any one region. Numerous studies exist citing the various motivations to internationalization (Fernie, Moore, & Laurie, 1998; Lu, Karpova, & Fiore, 2011; Moore, Doherty, & Doyle, 2010); however, no consensus has been reached that identifies one motivation or set of motivations as being dominant drivers.

A gap was found in the literature regarding the effect that time and changing conditions have on companies’ participation in foreign markets as “economic conditions alone have failed to account for the variations in foreign market participation levels (Moore & Burt, 2007, pp. 95). For example, the period from 1990-1995 which saw the most significant increase to date of fashion retailers entering a foreign market for the first time, took place during a period of considerable economic recession (Moore & Burt, 2007). This expansion into foreign markets could be the result of companies seeking sales in markets that are not lagging in economic growth.

The Gulf crisis and war in early 1991 marked the beginning of a global recessionary period that would continue until mid-1993 when a significant turnaround in consumer buying
occurred (Weisman, 1994). With the return of favorable economic conditions in Europe, North America, and Asia (most notably Japan), LVMH under Arnault’s direction, prepared its portfolio for aggressive brand acquisitions and its brands for global expansion. Tables 6-9 provide a detailed explanation of acquisitions and divestments in the LVMH brand portfolio by operating group. Four of the operating groups for LVMH correspond to the four segments of the luxury goods industry. In order to contain this study to an apparel-related focus, the Wines and Spirits Group and the Other Activities Group are not discussed.

Acquisitions (i.e., Pommery, Kenzo, and Berluti) initiated during the early 1990s had been pursued in a slow, contemplative manner. In contrast, in 1994, Arnault began to orchestrate changes at a much quicker pace culminating in an acquisition spree during 1996 and 1997 that totaled more than $3 billion (“LVMH,” 2000). LVMH’s acquisition strategy quickly changed the face of the luxury goods industry as competitors, such as Gucci and Prada in Italy and Richemont in Switzerland, also adopted multi-brand acquisition strategies spurring a global arms race to control the biggest market share across a range of luxury goods categories. LVMH’s quantity and speed of acquisitions far surpassed that of competitors and gained Arnault the nicknames, “the Pope of Fashion” and “the Wolf in Cashmere,” for his aggressive and somewhat obsessive efforts to gain control of promising luxury brands (Tagliabue & Horyn, 2001; Greenfeld & Pascual, 2000). The acquisition spree would culminate in a battle royale in 1999, when LVMH would try to bring the resistant Gucci into its portfolio of brands.

Among the acquired companies, LVMH allowed management to remain autonomous from the LVMH management to protect each brand’s identity, but Arnault paid close attention to distribution and manufacturing processes to ensure quality and exclusivity of LVMH brands. Arnault’s desire to impose production synergies in the brand portfolio proved challenging to the
acquired companies whose management were concerned about a compromise in brand identity (Gabriele & Rosa, 2009). This concern about brand identity and differentiation caused Arnault to adopt a more hands-off approach in the area of product development. Creativity as a process was central to Arnault’s business strategy and creative directors at each brand were given full authority over product designs (Givhan, 2011b). Arnault believed that in time the small local fashion houses that he was acquiring (mostly in Italy and France) would improve in profitability and be able to compete on a global scale. In contrast to his plan of rapid profitability and competitiveness, the growth process was slow and in some cases competitive profitability and positioning did not develop. During this period, LVMH relied on Louis Vuitton and its star brands from the Champagne and cognac businesses for the bulk of its sales and profits (Passariello, 2007a).

During summer 1997, LVMH, which generated 45% of its sales in Asian markets, was financially damaged with the onset of the Asian Financial Crisis. When other economies such as the United States and Europe were also adversely affected, consumer spending on luxury and other goods declined. Many market analysts believed that Arnault had overextended the finances of the conglomerate in this economic downturn as LVMH’s sales growth was generated through its acquisitions, while its net profits were faltering (Edmonson et al., 1997). Arnault, confident in his strategy for long term profitability and in his assertion that the situation in Asia was a temporary slump, did not slow in his acquisitions. The year 1999 marked the biggest acquisition year for LVMH and a record 23% growth in sales over 1998 (“LVMH,” 2000). LVMH exhibited strong sales growth until early 2001 when the global economy began to further weaken. In addition to a downward response in sales from the global economic weakness, LVMH’s profits suffered as the spending spree of recent years resulted in debt of roughly $6.2 billion (Tagliabue
& Horyn, 2001). Nevertheless, the star brand of the conglomerate, Louis Vuitton, was still generating revenue as was LVMH’s 20% stake in rival company, Gucci. Arnault stated that LVMH would limit acquisitions during 2001, but he would not exclude the acquisition of additional brands if they appeared to be a good strategic fit.

The challenges in 2001 were magnified on September 11, 2001, when terrorist attacks in the United States brought “a so called triple whammy- a decline in consumer confidence, a sharp drop in travel retail and a weaker yen-” that resulted in not only a reduction in consumer spending but also a sharp 20% decline in LVMH’s operating profit for the fourth quarter of 2001 (Ball, 2002, p. A14). Group net income for 2001 was $8.83 million, down from $637 million in 2000 (Tagliabue, 2002). LVMH was able to avoid a full-year net loss due to the capital gains it received from relinquishing its 20% stake in Gucci in early September. The only LVMH brand that showed resiliency in the wake of September 11th was again the star brand, Louis Vuitton, whose sales rose 10% in December 2001 with a 9% overall increase for 2001 (Ball, 2002).

The events of September 2001 and their subsequent negative effects on consumer spending, travel and the global economy, coincided with a change in strategies for LVMH. In early 2002, Arnault stated that the company would shift its focus to the internal growth of acquired brands judged to have star or growth potential (e.g., Celine, Fendi) while remaining open to the possibility of selling other brands that had not proved to be strategic assets for the company (Galloni, 2004). In this strategic change, Arnault did not discuss plans to sell retail outlets, DFS and Sephora, which had failed to meet expectations since their acquisition and had caused negative results in operating income for the conglomerate, especially in 2001. Instead he confirmed his goal for both companies to break even financially in 2002 and reach profitability
by 2003. Arnault cited an encouraging 9% increase in revenue for LVMH during the first two months of 2002 as a strong sign that the industry would soon rebound (Tagliabue, 2002).

Regardless of strategic motivations, the fact that many opportunities exist for luxury brands that expand globally, under the right management strategies, is undeniable. Miller, Choi, and Chen (2005) suggested that brands in the “creative industries” such as fashion, media, consumer electronics, and film hold a uniqueness value and brand awareness that significantly increases their global demand pull and helps them to globalize fully. The authors also cited social identification, a consumer-related variable, as a powerful driver of demand in countries where a growth in wealth is evident, especially among the middle class. Thus, luxury brands are perfectly poised to expand globally into emerging markets in Asia, the Middle East, Russia, and South America, where the growth of wealth among consumers is well documented (Moore et al., 2010).

Unprecedented world-wide growth in the luxury market initiated a deconstruction process during the 1990s as companies “radically altered their ownership status and strengthened their financial capability in order to take advantage of new market opportunities” (Fernie et al., 1998, p. 374). The high capital investment that was required, the complexities of operating in foreign markets, and market variables such as competition and uncertain return on investment, put smaller luxury companies at a disadvantage but created an opportunity for the larger organizations setting the stage for mergers and acquisitions to take place (Fernie, Moore, Lawrie, & Hallsworth, 1997).

**Acquisitions and divestments in the LVMH brand portfolio**

The brand portfolio of LVMH has undergone a great deal of structural changes since the formation of the LVMH Möet-Hennessy-Louis-Vuitton SA conglomerate in 1987. Generally, activity within the brand portfolio can be divided into two distinct time periods. The years 1987-
2001 marked a period of significant expansion of the LVMH brand portfolio through acquisitions and buyouts. During this period, the changes in LVMH initiated by Arnault preceded a restructuring of the luxury goods industry as his expansion strategy was imitated by other conglomerates (Greenfeld & Pascual, 2000). Thus, the years 1987-2001 not only marked structural changes in the LVMH brand portfolio, but a consolidation of the luxury goods industry as a whole. During the time period from 1987-2001, Arnault was often criticized as having overextended the LVMH brand portfolio, but he contended that the company’s strategic plan was focused on the long term (Edmonson et al., 1997). That strategic plan was a two-fold strategy of “building value-added brands and increasing their presence and market shares worldwide. Product innovation and control of production and distribution are keys to achieving these two goals” (Weisman, 1996, p. 2). Arnault also talked frequently about creating synergies within product groups during this time period, but few synergies were actually realized (Gabriele & Rosa, 2009).

Beginning in 2001, the global economy began to slow. The sluggish global economic condition was exacerbated by the terrorist attacks of September 11, 2001, in the United States. In early 2002, LVMH began to redirect its strategy to organic growth of its star brands and brands considered to have star potential. Organic growth refers to the growth rate that a company can achieve by increasing output and enhancing sales. This excludes any profits or growth acquired from takeovers, acquisitions, or mergers. Takeovers, acquisitions, and mergers do not bring about profits generated within the company, and are therefore not considered organic (“Organic growth,” n.d., para 1)
The idea behind the organic growth strategy was to build promising brands within the brand portfolio so that the conglomerate would be less reliant on Louis Vuitton and its Champagne and cognac businesses, for the bulk of the company’s sales and profits (Passariello, 2007a).

A detailed look at each of LVMH’s operating groups in the pre and post-2001 time periods is necessary to identify brand management successes and failures that have helped each group to hone their strategic plans and brand identity. The process by which each group has saturated its segment of the luxury goods industry as well as the target markets within each segment also provided insight that aided in the development of the luxury brand management framework that fulfilled this study’s purpose.

This section will begin with a detailed discussion of Dior Couture, relevant to LVMH as its parent company, Christian Dior SA, is the conglomerate’s holding company. The LVMH operating groups are presented in the following order: Watches and Jewelry, Perfume and Cosmetics, Selective Retailing, and Fashion and Leather Goods.

**Dior Couture.** Christian Dior Couture (i.e., Dior Couture) was Arnault’s first luxury brand, before his involvement with LVMH, and the means by which he established the cross-shareholding structure that allowed him to gain control of LVMH. An examination of this company from 1984 to 2011 provides an illustration of Arnault’s business formula for success in the management of luxury goods brands. After purchasing Agache-Willot from the French government, Arnault disassembled the company and sold enterprises from the company until only Dior Couture remained. Although Dior Couture, after the restructuring, was again profitable, the company merited structural reorganization according to Arnault. After Arnault had formed Christian Dior SA and used it to gain control of LVMH in 1988, he began to implement those organizational changes for Dior (Christian Dior SA, 2012). Dior Couture, now a
wholly owned subsidiary of Christian Dior SA, comprised haute couture and luxury ready-to-wear fashion and accessories for men and women.

Although Dior Couture is not a direct part of LVMH, the company’s success is still extremely important at LVMH due to its cross-shareholding structure with the conglomerate and its shared CEO, Arnault. However, Dior Couture is not included in the LVMH Fashion and Leather Goods Group, but profiled separately at LVMH meetings and in LVMH company reports (“Luxury goods retailing,” 2011). Therefore, Dior Couture is also discussed separately in the discussion of the LVMH operating groups and profiled separately in Table 6.

Table 6. Dior Couture- Holding Company for LVMH

<table>
<thead>
<tr>
<th>Company</th>
<th>Founded</th>
<th>LVMH Acquired</th>
<th>Sold</th>
<th>Brand Positioning</th>
<th>LVMH Allure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dior</td>
<td>1947</td>
<td>1987*</td>
<td>N/A</td>
<td>Classic French brand that catapulted to success with the New Look and has since been an industry leader in haute couture</td>
<td>Bernard Arnault’s first company purchase and a vehicle through which he gained control of LVMH</td>
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* Purchased in 1984 by Arnault as part of Agache-Willot and used as a cross-holding company for LVMH.

Dior was once considered France’s most prestigious label. “Its founder was credited with reviving the country’s stagnant fashion industry after World War II with a single collection of lush skirts and wasp-waist jackets that came to be known as the ‘New Look’” (Givhan, 2011b, p. 52). Christian Dior was also one of the first designers to capitalize on the power of licensing agreements (Cawthorne et al., 1998); however, overextension through licensing in the 1970s drastically diluted the brand’s value. Licensing and a proliferation of designer products in multiple outlets was a common company strategy in the 1970s (License, n.d.). By the time Arnault took charge of the company in 1984, over 250 licensing agreements were in place (Christian Dior SA, 2012). The company’s most pressing problems stemmed from over-licensing
and an increasingly dowdy image compared with that of other hot young designers (Christian Dior SA, 2012). In restructuring of the companies within LVMH, Arnault’s broad mission for Dior Couture was to bring

Dior's business model into the modern luxury age, transforming it from a licensing-driven company to one centered on control of production and distribution. That not only meant rebuilding the organization, and launching into the lucrative accessories category, but reenergizing the house and making it relevant to a new generation (Socha, 2007, p. 22)

In 1988, Arnault appointed shrewd businesswoman, Beatrice Bongibault, as managing director of Dior Couture; Bongibault would guide the company as Arnault directed his attention to the legal battle for control of LVMH. Bongibault, who came to Dior Couture from Chanel, had been instrumental in the 1982 hiring of German-born designer, Karl Lagerfeld, as Chanel’s new design director. This maverick move would ultimately revitalize the Chanel brand and help position it to younger consumer demographics (Goodwin, 1990). Bongibault planned to rejuvenate Dior Couture in the same manner. In 1989, she replaced the house’s couturier and design director, Marc Bohan, who had been with the company for 28 years, with the Italian ready-to-wear designer, Gianfranco Ferre (Morris, 1989).

With the guidance of Arnault, Bongibault and Ferre aggressively built the company’s ready-to-wear business that had been a long-term problem area for the company. Distribution for ready-to-wear was made extremely selective, in contrast to the widespread distribution of the 1970s, and apparel collections were complemented by a major marketing push into accessories. Advertising budgets in 1990 were increased 20% from the previous year with 31% of that being directed towards campaigns in the United States (Constance & White, 1990). Retail franchise agreements were also curtailed in favor of wholly-owned retail networks and controlled
production of goods. Plans to open additional company-owned boutiques were made with meticulous preparation. Dior’s couture collections, operated by Ferre, also garnered praise and clients that had left after the firing of Bohan, were once again placing orders (Constance & White, 1990). Bongibault’s most important contribution to Dior Couture, and a move that was copied by other design houses, was to significantly reduce the company’s license agreements and increase direct creative and quality control over those that remained. This decision improved quality, cut costs, and restored exclusivity to the brand (Christian Dior SA, 2012). Although her leadership provided financial and market growth for Dior Couture, Bongibault was fired by Arnault in late 1990 among speculation of embezzlement.

Arnault asked Sidney Toledano from Lancel to join Dior Couture as general manager in 1994 (he would later become CEO in 1998). Toledano continued Arnault’s plan for continued growth and development for Dior Couture by introducing leather goods, footwear, and fine jewelry collections. During 1994 and 1995, Toledano continued the buyback of Dior licenses and began to expand Dior Couture’s network company-owned retail stores by 10 to 15 stores per year. By 1997, only 63 licenses remained of the 250 in place in 1984 (Weisman, 1998b). Toledano also tried to capitalize on first mover advantage, or the performance gain that a firm attains from being the first of its kinds to enter a new market, in emerging markets such as Eastern Europe, the Middle East, and India (Socha, 2007; Suarez & Lanzolla, 2007). In recent years, he has committed Dior Couture to becoming an industry leader in high-tech communications (e.g., the Internet, mobile phones) and to maximizing presence in the digital space to further connect the brand to new and existing consumers (Socha, 2007).

Toledano shared Arnault’s philosophy of “merging subversive talent with dusty historical brands” and giving designer’s the reins to be disorganized and spontaneous (Givhan, 2011b, p. 108
In 1996, the two managers hired eccentric British designer, John Galliano, to move from Givenchy to Dior. The hiring of Galliano illustrated Arnault’s penchant for hiring edgy, critically acclaimed young designers known for captivating, infuriating, and exciting the fashion press, a strategy meant to “bring in the buzz that drives the biz” (Greenfeld & Pascual, 2000, p. 49). When discussing Galliano’s avant-garde collection, Arnault stated that “his ideas are not meant to be worn, but the ideas descend down to prêt-a-porter and to everything in the line. And that’s what we sell” (Greenfeld & Pascual, 2000, p. 49-50).

As creative director, Galliano’s major accomplishment came in 1999 with his Matrix couture collection and a hip-hop inspired ready-to-wear collection. The executives’ gamble on Galliano had positive financial and market gains as media hype generated on the runway was facilitating renewed interest in the iconic Dior brand. Somehow Galliano’s fantastical runway shows and edgy designs meshed with the conservative culture of the traditional Dior Couture brand and transformed the couture company into a modern luxury company. Arnault and Toledano also hired two additional creative directors, jewelry designer Victoire de Castellane in 1997 and menswear designer Hedi Slimane in 2000. Having multiple strong design personalities in one company was a decision met with criticism in the luxury goods industry where one personality traditionally guided the creative design process, but this approach proved to work well for Dior. Beginning in 1999, the company began to have big double-digit increases, with the exception of the drop experienced by most consumer-product companies in 2001. Sales reached $1 billion in 2007 (Socha, 2007).

Under the direction of CEO, Sidney Toledano, and Chairman of the Board, Bernard Arnault, Dior Couture experienced major changes in March 2011. John Galliano, who had been with Dior Couture for 15 years, was fired and subsequently stood trial in criminal courts for
reports of anti-Semitic heckling. During the Fall/Winter 2011-2012 couture show that took place in Paris just three days after Galliano was fired, Sidney Toledano took the stage to open the show. After an emotionally charged apology for the recent events, Toledano drew attention to the seamstresses, fitters, and artisans behind the collection reminding everyone that “fashion [existed] before it became thick with theatricality and flamboyance. It was an acknowledgement of fashion as fine clothes” (Givhan, 2011, p. 73) and the Dior brand as an intimate business of refinement and tradition in which the unsung heroes were those hardworking individuals behind the scenes. The CEO’s handling of the March 2011 events was praised by industry professionals, yet the Fall/Winter 2011-2012 received poor reviews.

Galliano’s exit signaled a change in Arnault’s strategy. Although he indicated no plans to transform Dior into a minimalist label, Arnault stated that his focus now centered on finding a new creative director motivated to create a good product rather to elevate his or her own star power (Givhan, 2011a). In 2011, despite Galliano’s exit, Dior reported robust growth and market share gain (Elliott, 2011). This financial situation could be attributable to the low commercial relevance of Dior Couture’s haute couture collection in comparison to accessories, ready-to-wear, and leather goods that had been developed in more recent years, but also to the strategic management of the brand by its two visionary leaders.

**Watches and jewelry.** LVMH launched its Watches and Jewelry Group in 1999, with the purchases of Ebel, Chaumet, and TAGHeuer (“LVMH tender offer,” 1999; see Table 7). At the time the Watches and Jewelry Group was formed, LVMH was already active in the apparel fashion, perfume and cosmetics, and wines and spirits segments of the luxury goods industry as well as a fourth group that they called Selective Retailing. Thus, the entry by LVMH into watches and jewelry completed the company’s organizational restructuring and positioned
LVMH to cover all segments of the luxury goods industry (Weisman, 1999a). The three acquisitions within a two-month window of time were followed closely by the purchase of Zenith (see Table 7), a Swiss watch and movement manufacturer for companies such as Rolex and Concord. The acquisition provided the Watch and Jewelry Group with much-needed production capacity (Weisman, 1999a). In addition to the four newly acquired companies, the Watches and Jewelry Group also comprised Fred Joaillier, a Paris based jeweler, and Dior watches. Distribution for both companies was licensed to Bendedom Inc. (“Bernard Arnault acquires,” 1995). Table 7 provides a detailed illustration of acquisitions and divestments within the Watches and Jewelry Group brand portfolio.

Table 7. LVMH Watches and Jewelry Group Brand Portfolio

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Founded</th>
<th>LVMH Acquired</th>
<th>Sold</th>
<th>Brand Positioning</th>
<th>LVMH Allure</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRED Joaillier</td>
<td>1936</td>
<td>1995</td>
<td>N/A</td>
<td>Avant-garde French jeweler characterized by luminous, daring, lively, and elegant pieces</td>
<td>Opportunity to aid in global expansion for celebrated French jeweler with strong celebrity following and presence in cinema</td>
</tr>
<tr>
<td>Ebel</td>
<td>1911</td>
<td>1999</td>
<td>2004</td>
<td>Swiss watchmaker with values rooted in classical elegance and sculptural designs, reputation for fine workmanship and precision</td>
<td>Brand positioning a nice complement to brands in Watches and Jewelry Group portfolio, addition of brand focused toward women’s watches</td>
</tr>
<tr>
<td>Chaumet</td>
<td>1780</td>
<td>1999</td>
<td>N/A</td>
<td>Timeless French jeweler and watch designer that perpetuates tradition while embracing modernity</td>
<td>Well-reputed French heritage brand</td>
</tr>
<tr>
<td>TAGHeuer</td>
<td>1860</td>
<td>1999</td>
<td>N/A</td>
<td>Swiss watchmaker established as uncontested world leader in prestige sport watches</td>
<td>One of the largest and most desired brands in the luxury watch industry</td>
</tr>
<tr>
<td>Company Name</td>
<td>Founded</td>
<td>Acquired</td>
<td>Sold</td>
<td>Brand Positioning</td>
<td>LVMH Allure</td>
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</tr>
<tr>
<td>Zenith</td>
<td>1865</td>
<td>1999</td>
<td>N/A</td>
<td>Swiss watchmaker who manufactures its own mechanical movements and chronographs</td>
<td>Provided Watches and Jewelry group with much needed production capacity</td>
</tr>
<tr>
<td>Dior Watches</td>
<td>1975</td>
<td>2000</td>
<td>N/A</td>
<td>Luxurious and iconic watches exuding elegance and prestige</td>
<td>Complement the Dior couture collections and Parfums Dior</td>
</tr>
<tr>
<td>De Beers Diamond Jewelers*</td>
<td>2001</td>
<td>2001</td>
<td>N/A</td>
<td>World’s largest diamond company</td>
<td>Provided LVMH entry into retail diamond market</td>
</tr>
<tr>
<td>Hublot</td>
<td>1980</td>
<td>2008</td>
<td>N/A</td>
<td>Highly innovative Swiss watchmaker, leader in technological development of movements and contemporary design</td>
<td>Acquired during period of extraordinary growth in high-end Swiss watch market due to demand in emerging markets</td>
</tr>
<tr>
<td>Bulgari</td>
<td>1884</td>
<td>2011</td>
<td>N/A</td>
<td>Italian jeweler with distinctive style balancing classicism and modernity</td>
<td>Company culture identical to LVMH, potential synergies through production and distribution</td>
</tr>
</tbody>
</table>

* The year 2001 marked beginning of joint retail partnership between De Beers and LVMH in which De Beers expanded into a retailer from its previous role as a marketer and miner of rough diamonds.

Note: Sources for Table 1 include: Kletter, 2003; “LVMH, De Beers launch,” 2001; Murphy, 2008; “The Bulgari family,” 2011; Weisman, 1999a; Watches and jewelry, 2012.

In 2000, LVMH consolidated its U.S. Watch and Jewelry operations into a new group, the LVMH Watch & Jewelry USA Group. This Group would handle the sale and distribution of TAGHeuer, Chaumet, Dior, and Fred Joaillier; however, Ebel would remain in charge of its own worldwide distribution (Shuster, 2000). The first big move for management of the new Group was the takeover of the U.S. distribution of Christian Dior watches and Fred Joaillier from Benedom Inc. This change confirmed the Group’s commitment to establish itself in the U.S.’s upscale watch market and to maintain tight control on the distribution of its brands (Shuster, 2000).
Another important development in the Watches and Jewelry Group was in 2001 (see Table 7) when LVMH entered into a joint retail partnership with De Beers, the world’s leading diamond miner, to sell jewelry under the De Beers brand name (“LVMH, De Beers,” 2001). The partnership capitalized on the potential of the De Beers name and helped the two companies vie for market share in the $50 billion a year, retail diamond market. The brand has since moved from wholesale products (e.g., raw diamonds) into finished products (e.g., rings) and has built a strong retail network in established markets such as London and emerging markets such as Moscow and Dubai (Watches and jewelry, 2012).

The Watches and Jewelry Group has experienced stronger adverse effects to poor economic conditions than the other LVMH Groups. Arnault’s strategic shift in 2002 was to focus on organic growth of brands with star potential in a time of economic slowdown. In the Watches and Jewelry Group, the brand with the most immediate star brand potential was TAGHeuer. De Beers and Zenith also received additional organizational attention. In the Group as a whole, strategic plans included driving long-term development through new product innovation, investments in brand image and in-store presentation, thrusts in advertising and marketing, and market share gains in emerging countries (“Translation of the French,” 2011). In 2003 LVMH sold EBEL to the Movado Group Inc. in an aim to focus its brand portfolio in a time when the global economy was strengthening and global demand for watches was showing signs of improvement (“LVMH to sell Ebel,” 2003). As of spring 2012, Ebel is the only brand that LVMH Watch and Jewelry Group has divested since its formation in 1999.

The year 2004 marked a significant improvement in operating income for this Group and the growth trend continued through 2008. TAGHeuer also confirmed its star brand status in 2004 through its significant market share gains in the United States and Asia and improved overall
profitability (Annual results 2004, 2005). The brand also launched its first relationship marketing campaign in late 2003 in the UK. The successful campaign initially targeted existing customers through a quarterly newsletter which aimed to capitalize on the brand’s strong links with sports. By giving customers information about TAGHeuer sponsored events (i.e., Formula One races, golf tournaments in which brand ambassador Tiger Woods was playing) and providing special invitations or preferential opportunities to purchase hard to find tickets, the campaign aimed to bring TAGHeuer consumers together and provide them with an experiential aspect of brand use (Jardine, 2003). The Zenith brand also exhibited improved sales in 2004 as a result of repositioning efforts (Annual results 2004, 2005).

The acquisition of Hublot in 2008 (see Table 7) added to the Group’s complementary watch portfolio. The addition of Hublot further bolstered LVMH’s portfolio of Swiss watch brands at a time of extraordinary growth of demand in emerging markets. When asked about the purchase price, rumored to have been valued at 12 times Hublot’s estimated operating profit in 2008, Philippe Pascual appeared very confident. LVMH’s then head of Watches and Jewelry Group dismissed the economic downturn in the United States and Hublot’s high purchase price by stating that LVMH believed this to be “a very well-thought-out and reasonable acquisition regardless of short-term ups and downs” and that “more than the timing, we were looking for the ideal complementarity “ (Meichtry & Spencer, 2008, p. B7). The Hublot purchase illustrated LVMH’s ability to look past current conditions toward an overall strategic vision; immediate plans included the construction of a manufacturing plant in Nyon and the re-launch of classic product ranges (Murphy, 2008).

During 2008, revenue increased 19% in Asia (excluding Japan) and 20% in Europe, both in local currencies. However, the U.S. economy had entered a recession and revenue from stores
in both the United States and Japan also declined. The years 2009 and 2010 were focused towards improved productivity of existing networks, rigorous cost management initiatives, and continued focus on creativity and product innovation across all brands. During 2010, market share gains were realized in a recovery environment. The activities in the Watches and Jewelry Group mirrored changes in the industry. The watches and jewelry segment as a whole experienced 22.6% growth in 2010 surpassing the 17.6% market growth for the luxury goods industry as a whole (“Luxury goods retailing,” 2011).

The biggest acquisition in dollar measures by LVMH Watch and Jewelry Group was the acquisition, through cross-shareholding exchange, of iconic Italian jeweler, Bulgari, in 2011 (see Table 7). LVMH issued 16.5 million of its shares in exchange for the 152.5 million Bulgari shares held by the Bulgari Family. The trade made LVMH the majority shareholder in Bulgari and the Bulgari Family the second largest family shareholder of LVMH stock (“The Bulgari Family,” 2011). A notable condition of the agreement was the Bulgari family’s appointment of two representatives to join the LVMH Board of Directors. Additionally, Francesco Trapani, Bulgari’s CEO and great-grandson of Sotirio Bulgari, would join LVMH’s executive committee and would become President of LVMH Watches and Jewelry Group during the second half of 2011 (“The Bulgari Family, “ 2011). In addition to similar brand values and company objectives, the LVMH and Bulgari partnership is a suitable strategic pairing in that the family shareholders of each company are directly involved in management activities. Integration of Bulgari into LVMH Watches and Jewelry Group in 2011 resulted in a 98% increase in revenue over 2010. Furthermore, organic growth in the Watches and Jewelry Group from 2010 to 2011 was 23% which was the strongest increase in revenue from recurring operations since 2006 (“Translation of the French,” 2011).
A noticeable trend in the watches and jewelry segment of the luxury goods industry, in the post recession period of 2010, is consumers becoming more concerned with actual worth of products, opting to invest in bespoke pieces that will last. Along similar lines, companies are bringing their watch movement production in-house to substantiate prestige and legitimacy of their products. Watch and jewelry companies are also benefitting from demand in China, who is becoming the largest consumer market of luxury products, with consumers purchasing both at home and while traveling. Neighboring markets such as Hong Kong, Malaysia, and Taiwan also have significant growth potential for this segment of the luxury goods industry (“Luxury goods retailing,” 2011). Based on company reports, the LVMH Watches and Jewelry Group is addressing all of the aforementioned industry trends in its strategic initiatives. The outlook for this Group appears to be very positive. In 2010, LVMH controlled 22.5% of the watches and jewelry segment of the luxury goods industry, closely trailing Richemont who controlled 24.6% of the market (“Luxury goods retailing,” 2011). The Group’s retail network reached 327 store locations in 2011, an increase from 122 locations in 2010. Of this change, 170 new stores were resultant of the consolidation of Bulgari and 35 were new retail ventures (“Translation of the French,” 2011).

**Perfumes and cosmetics.** LVMH’s Perfume and Cosmetics Group can be unofficially categorized into two types of brands. The first, are the older, more established brands, such as Dior and Guerlain, that have made overtures toward younger demographics, but remain geared toward their core, mature clientele. The second type of brand is the young brands. These brands have become attractive to the Group as ones positioned toward a younger audience and having strong presence in the United States (Weil, 2000). Table 8 provides a detailed illustration of acquisitions and divestments within the Perfume and Cosmetics Group brand portfolio.
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Founded</th>
<th>LVMH Acquired</th>
<th>Sold</th>
<th>Brand Positioning</th>
<th>LVMH Allure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parfums Christian Dior</td>
<td>1947</td>
<td>1968*</td>
<td>N/A</td>
<td>Fragrances that express a state of mind and way of life, seductive and sexy, yet sophisticated</td>
<td>Complement the Dior couture collections and Dior watches</td>
</tr>
<tr>
<td>Parfums Givenchy</td>
<td>1957</td>
<td>1988</td>
<td>N/A</td>
<td>Exudes elegant and effervescent French style with unique combination of gaiety and sophistication</td>
<td>Complement the Givenchy fashion brand</td>
</tr>
<tr>
<td>Kenzo Parfums</td>
<td>1987</td>
<td>1993</td>
<td>N/A</td>
<td>French brand created by a Japanese designer, focus on nature, poetry, East meets West, and a playful marriage of contrasts</td>
<td>Complement the Kenzo fashion and other designer perfume brands in the LVMH portfolio</td>
</tr>
<tr>
<td>Guerlain</td>
<td>1828</td>
<td>1994</td>
<td>N/A</td>
<td>Perfumer with exceptional longevity redefined with creativity and modernity in present day</td>
<td>One of the most prestigious French perfumery and cosmetics houses</td>
</tr>
<tr>
<td>Perfumes Loewe</td>
<td>1976</td>
<td>1996</td>
<td>N/A</td>
<td>Spanish perfume brand with very balanced range of fragrances meant to be elegant without being ostentatious and comprised of the highest quality materials</td>
<td>Leader of the Spanish perfume market for the last 20 years, strong brand with international presence, complement to Loewe fashion brand</td>
</tr>
<tr>
<td>Marie-Jeanne Goddard</td>
<td>1981</td>
<td>1998</td>
<td>N/A**</td>
<td>French cosmetics chain with clean and modern stores and strategic locations, promotes prestige cosmetics brands</td>
<td>Opportunity to convert 75 stores to Sephora and move toward consolidation in the distribution of cosmetics in France</td>
</tr>
<tr>
<td>BeneFit Cosmetics</td>
<td>1976</td>
<td>1999</td>
<td>N/A</td>
<td>American cosmetics brand famous for quality iconic products with clever names, compelling packaging, and innovative formulas</td>
<td>Further saturation of perfume and cosmetic market, increased appeal to young consumers, particularly Americans</td>
</tr>
<tr>
<td>Company Name</td>
<td>Founded</td>
<td>LVMH Acquired</td>
<td>Sold</td>
<td>Brand Positioning</td>
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</tr>
<tr>
<td>MAKE UP FOR EVER</td>
<td>1984</td>
<td>1999</td>
<td>N/A</td>
<td>French brand catering to professional makeup artists, styles range from basic to the more unconventional</td>
<td>French brand with cult following among makeup artists</td>
</tr>
<tr>
<td>Hard Candy</td>
<td>1995</td>
<td>1999</td>
<td>2002</td>
<td>American startup targeting young consumers, originated as a nail polish company specializing in unique shades and branched into color cosmetics, remains color oriented</td>
<td>Second American brand brought into Perfume and Cosmetics Group, intended to enhance presence among young, American consumers</td>
</tr>
<tr>
<td>Bliss Spa</td>
<td>1996</td>
<td>1999</td>
<td>2004</td>
<td>American spa startup focusing on its signature treatment products and reputation for impeccable service</td>
<td>First American cosmetics brand brought into Perfume and Cosmetics Group</td>
</tr>
<tr>
<td>Fresh</td>
<td>1991</td>
<td>2000</td>
<td>N/A</td>
<td>Modern day skincare and cosmetic brand, pioneering use of natural ingredients to create products as indulgent as they are effective</td>
<td>American lifestyle beauty brand with clear brand identity and strong presence in the U.S., particularly among young consumers</td>
</tr>
<tr>
<td>Emilio Pucci Parfums</td>
<td>1966</td>
<td>2000</td>
<td>N/A</td>
<td>Italian perfume brand with contemporary image, grounded in Italian culture and heritage, yet resolutely avant-garde</td>
<td>Complement to Emilio Pucci fashion brand, fragrance reiterates the avant-garde vision of the label</td>
</tr>
<tr>
<td>Urban Decay</td>
<td>1995</td>
<td>2000</td>
<td>2002</td>
<td>American cosmetics startup targeting young consumers characterized by a defiant attitude and punk rock spirit</td>
<td>Another acquisition in the LVMH strategy to acquire hot American startup companies and expand them into international markets, nice complement to Hard Candy</td>
</tr>
<tr>
<td>Acqua di Parma</td>
<td>1916</td>
<td>2001***</td>
<td>N/A</td>
<td>Sought after classic Italian fragrance brand whose products are still distilled and packaged by hand</td>
<td>Complement to Perfume and Cosmetics Group with very tightly held distribution network</td>
</tr>
<tr>
<td>Company Name</td>
<td>Founded</td>
<td>LVMH Acquired</td>
<td>Sold</td>
<td>Brand Positioning</td>
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</tr>
<tr>
<td>Marc Jacobs Perfume</td>
<td>2001</td>
<td>2001</td>
<td>2003</td>
<td>American perfume brand developed as an extension of the Marc Jacobs label that is owned by LVMH</td>
<td></td>
</tr>
<tr>
<td>Fendi Perfumes</td>
<td>1985</td>
<td>2005</td>
<td>N/A</td>
<td>Italian perfume brand with artsy and festive spirit, yellow and gold hues prominent in packaging and advertising</td>
<td></td>
</tr>
<tr>
<td>Kenneth Cole Perfume</td>
<td>2002</td>
<td>2001****</td>
<td>2003</td>
<td>Perfume brand based on the values of cutting-edge fashion and social responsibility complementary of the internationally recognized Kenneth Cole lifestyle brand</td>
<td></td>
</tr>
<tr>
<td>Sack’s</td>
<td>2000</td>
<td>2010</td>
<td>N/A</td>
<td>Rio de Janiero-based online retailer and major company in specialty beauty sector in Brazil</td>
<td></td>
</tr>
<tr>
<td>Nude Skincare</td>
<td>2007</td>
<td>2011</td>
<td>N/A</td>
<td>Biocompatible luxury skincare line owned by U2 front man Bono’s wife, Ali Hewson</td>
<td></td>
</tr>
<tr>
<td>Ole Henriksen</td>
<td>1985</td>
<td>2011</td>
<td>N/A</td>
<td>Scandinavian skin care range for men, brand values include nature, science, beauty, and wellness</td>
<td></td>
</tr>
</tbody>
</table>

* Purchased by Möet-Hennessy which would later merge to form LVMH
** Consolidated into Sephora
***LVMH acquired 50% capital in 2001 and the remaining 50% in 2003
****Kenneth Cole entered into license agreement with LVMH for the company to create, distribute, and market Kenneth Cole fragrance and body products

Note: Sources for Table 2 include: About Kenzo, 2012; Annual results 2002, 2003; Born & Naughton, 2003; Diamond, 1999, March 18; Diamond, 1999, May 14; Diamond, 2000; Gabriele & Rosa, 2009; Ilari, 2007; “Kenneth Cole productions,” 2001; La Ferla, 2003; “LVMH buys Ole
The year 1999 marked a big acquisition year for young brands in LVMH’s Perfume and Cosmetics Group. Arnault and his team, in an effort to gain market share in the United States and appeal to the young and hip segment of the beauty market, acquired four American cosmetic companies, Bliss Spa, Hard Candy, Urban Decay, and BeneFit Cosmetics (see Table 8). The newly acquired companies, with the exception of BeneFit, were all in the start-up phase. The acquisitions were complemented by the purchase of Make Up For Ever (see Table 8), a 15-year old French brand catering to professional makeup artists, that had little distribution but good visibility among target consumers in the United States. Make Up For Ever’s U.S distribution had been limited to date. However, the brand was widely distributed in Korea, Japan, and the Middle East, making Asia the brand’s largest sales market. Favorable sales in Asia were highly valued by LVMH as a key to the international growth strategy of its array of brands (Weil, 1999). Fresh, a Boston-based toiletry company, known for groovy packaging and politically correct natural formulas was added to the portfolio in 2000.

Similar to the other LVMH groups, the Perfume and Cosmetics Group, also returned to a strategy of organic growth of its brands with the most promising growth potential after the world economy worsened in 2001. Emphasis was placed on initiatives for Parfums Christian Dior, the Group’s star brand, expanding its product range into makeup and skincare (Annual results 2002, 2003). Hard Candy and Urban Decay, with management teams having trouble gelling with LVMH’s culture, were sold to the Falic Group in 2002. This move illustrated LVMH’s decision to relinquish “unprofitable businesses instead of pouring more funds into them” (Gabriele & Rosa, 2009, p. 217). The Marc Jacobs and Kenneth Cole perfume licenses were sold to Coty, Inc. in 2003 as LVMH continued to shed non-core assets. The Marc Jacobs and Kenneth Cole
licensing agreements had permitted LVMH to create, distribute, and market fragrances for the two designers under American Designer Fragrances, a division of New York based Parfums Givenchy Inc., which LVMH launched in 2000 (Born & Naughton, 2003). The division had also housed the Michael Kors fragrance that was divested in 2003 along with LVMH’s minority stake in the Michael Kors fashion label. The divestments marked the end of the American Designer Fragrances division under Parfums Givenchy Inc. and a renewed focus on U.S. distribution of Givenchy fragrances as well as a focus on the Guerlain brand, also housed under Parfums Givenchy Inc. (Born & Naughton, 2003). Concluding its structural changes in the Perfume and Cosmetics Group, LVMH sold Bliss Spa to Starwood Hotels & Resorts in 2004 (“Starwood will buy,” 2004).

According to Mintel, the perfumes and cosmetics segment was losing share of the luxury market before the global economic downturn began but experienced a minor relative boost during 2009 as its affordability compared to hard luxury goods (i.e., jewelry, watches) was attractive to consumers (“Luxury goods retailing,” 2011). However, as the global economy began to improve in 2010, and sales in both hard and soft luxury (i.e., fashion, leather) recuperated, perfume and cosmetics was outperformed. During 2010, the luxury perfumes and cosmetics segment exhibited 12.5% growth, compared to 17.6% growth in the entire luxury goods sector. Year-end figures for 2010 stated that the estimated €29.6 billion perfumes and cosmetics industry comprised roughly 31% of the global luxury goods industry, a 2.5% decrease in market share in five years (“Luxury Goods Retailing,” 2011). However, LVMH’s market share of the perfumes and cosmetics industry increased from 9.8% in 2006 to 10.4% of the market in 2010; market leaders in the segment are Shiseido, Estée Lauder, and L’Oréal.
In 2010, LVMH created a new structure within its Perfume and Cosmetics Group. The formation of a new division, LVMH Fragrance Brands, comprised of Givenchy, Kenzo, Pucci, and Fendi (see Table 8), merged the sales force of the four brands in an attempt to give greater weight to the brands in the market, “while maintaining each one’s individual creative, marketing and communications activities” (Weil, 2010, p. 13). Global brand presidents were named for each brand; Parfums Christian Dior and Guerlain were not affected by the structural change. Formation of the new division within the Group illustrated LVMH’s desire to capitalize on economies of scale and to extend the global reach of its sales force, while at the same time spreading best practices among the brands that would allow them to better compete with industry leaders like L’Oréal (“LVMH scent unit,” 2011). The division’s first order of business was the flailing Fendi perfume brand.

When Fendi’s beauty license with Gucci Group’s YSL Beauté ended in 2005, LVMH acquired the license and discontinued all of Fendi’s existing scents (Epiro & Weil, 2009). Fendi’s first scent with distribution partner, Parfums Christian Dior, and first scent to be introduced since the mid-1980s, was unveiled in Rome in summer 2007 at a much anticipated event. Industry sources estimated that Fendi Palazzo sales would exceed $50 million worldwide in its first year on the market (Epiro & Weil, 2009). The fragrance was initially distributed in the United States, Canada, and Europe followed by Asia in 2008. Michael Burke, CEO of Fendi, had also announced plans to grow the Fendi fragrance portfolio and distribution network over the next few years. However, sales were lackluster and LVMH pulled the brand’s sole scent off the market 18 months after its launch. The move sent a strong message that LVMH was committed to preserving its brand’s image and would not sacrifice that image in favor of short term gains; the flagship Fendi fragrance needed to be revamped (Olsen, 2010). LVMH Fragrance Brands
bought Fendi back into the fragrance market in September 2010 with the launch of Fan di Fendi at the Rome flagship store. The exclusive launch was extremely successful and was followed by worldwide distribution beginning in September 2011 (“LVMH scent unit,” 2011). Pucci also benefitted from the LVMH Fragrance Brands structure unveiling the Miss Pucci fragrance in 2010 to very favorable reception. Givenchy and Kenzo also saw steady growth of their flagship fragrances in 2010 and both launched new fragrances in 2011 (“Translation of the French,” 2011).

Benefit cosmetics (see Table 8) is another brand that has had a great deal of success under the LVMH umbrella. The San Francisco based company operates 30 freestanding boutiques with 14 in the United States. Other locations include the U.K., Hong Kong, China, and Australia (Naughton, 2011b). By aiming to provide exceptional retail experiences and service within the brand’s stores, the company has followed the example of other LVMH brands (i.e., Louis Vuitton, Guerlain, Fendi, Pucci, etc.). For example, Benefit’s New York flagship opened in September 2011, and featured the company’s signature Brow Bar, which provides services such as brow shaping, waxing, and makeup application lessons. The décor of rosy pink hues, crystal chandeliers, and pink armoires that house product offerings, created an experiential sales environment that epitomized the brand’s image (Naughton, 2011b). Benefit also successfully entered the skin care category in 2011 with a full skin care line to supplement the company’s cosmetics line (Naughton, 2011a).

Mintel stated that a challenge in the perfume and cosmetics segment of the luxury goods industry has been beauty houses’ hesitation to incorporate the online environment into their sales strategy (“Luxury goods retailing,” 2011). Perfume and cosmetics appear to be behind other segments in the luxury goods industry in terms of capitalizing on the power of the Internet.
LVMH, however, has experienced success in online perfume and cosmetics sales through Sephora, a company in its Selective Retailing Group, who has brick-and-mortar stores worldwide as well as a strong online presence in the United States and Europe. In 2010, LVMH Perfume and Cosmetics Group purchased a controlling stake in leading Brazilian online beauty specialist, Sack’s ("LVMH to acquire Sacks," 2010; see Table 8). Brazil is one of the fastest-growing beauty markets worldwide ("Luxury goods retailing," 2011). LVMH proposed that the purchase will be mutually beneficial for both the Sack’s and Sephora brands. To achieve this plan, Sephora will enter the Brazilian online environment and eventually open brick-and-mortar stores with Sack’s providing “an infrastructure and an expertise in regulatory matters in a country where rules are plentiful and complex” (Born, 2010, p. 8). The plan is that Sack’s, which does 60% of its sales in fragrances, will be complemented in the Brazilian online environment by Sephora. This company has much more extensive offerings in color cosmetics and makeup and can help Sack’s develop its business and increase its saturation of the Brazilian beauty market ("LVMH to acquire Sack’s," 2010).

Another opportunity in the perfume and cosmetics segment of the luxury goods industry is the growing men’s toiletries and fragrances market. Datamonitor suggested that perfume and cosmetics companies could benefit by extending their product offerings to male consumers (“LVMH,” 2010). Datamonitor cited demographic trends such as the growing numbers of young, males in the world’s population and the rise in single-person households, coupled with increased activity within the men’s magazine market, as factors influencing men’s willingness to spend more time and money on their appearance (“LVMH,” 2010). The European men’s toiletries and fragrances market as well as markets in emerging countries like New Zealand and Australia have all shown steady growth in recent years. More surprising perhaps, sales in this niche market in
the U.S. reached $2.7 billion in 2010 (“LVMH,” 2010). Thus, male consumers in the United States, traditionally drawn to products and brands reinforcing American ideals (i.e., ruggedness) and masculinity are also becoming a viable target market. LVMH’s Perfume and Cosmetics Group strategically addressed this growing market with the purchase of Ole Henriksen, a Scandinavian skin care company catering mainly to male clientele (“LVMH buys,” 2011). The brand, which was already sold at Sephora locations, provided LVMH the opportunity to better target male consumers and Ole Henriksen into new markets.

A final trend in perfume and cosmetics identified by Mintel is an industry wide trend toward sustainability (“Luxury goods retailing,” 2011). This includes the use of organic formulations, ethical claims (i.e., no animal testing), and environmentally friendly packaging. LVMH closely links a long-standing commitment to environmental protection to its values and business practices, and has a company-wide charter that defines environmental protection criteria and goals (LVMH and the environment, 2012). LVMH’s strategic acquisition of brands that share this vision such Fresh and Benefit, and most recently, Nude Skincare in 2011, further solidifies this commitment. Nude Skincare, founded by Bryan Meehan and Ali Hewson, wide of U2 front man Bono, is characterized as a “biocompatible luxury skin care” brand (Prior, 2011, p. 2). LVMH, who also owns a minority stake in Hewson and Bono’s eco-friendly ready-to-wear line, Edun, plans to expand the brand globally while preserving the brand’s commitment to the use of natural products (Prior, 2011).

The outlook for LVMH’s Perfume and Cosmetics Group appears to be positive. The Group averaged 10 new store openings in 2009, 2010, and 2011, with the Group’s store locations totaling 85 at the end of 2011. Revenue also increased each year from 2009 to 2011 with Europe and Asia (excluding Japan) comprising the Group’s biggest market share (“Translation of the
Plans for the Group in 2012 include continued focus on increasing market share across the portfolio and continuing to maintain an ambitious strategy of innovation and advertising investments (“Translation of the French,” 2011).

**Selective Retailing.** Selective Retailing is not one of the traditional four segments of the luxury goods industry, but is an LVMH group, formed with Arnault’s 1996 purchase of DFS (Duty-Free Shopping) Galleria, a specialty retailer that caters to international travelers (About DFS, 2012). Arnault’s motivation for establishing the Selective Retailing Group stemmed from his desire to “have better control over where and how LVMH goods are sold and to offset excessive reliance on any particular geographic region” (Tagliabue & Horyn, 2001, p. 1). The Group contains two divisions, Travel Retail and Selective Retail, and in 2011, comprised five brands. The Selective Retailing Group accounts for the second highest revenue for LVMH, behind the Fashion and Leather Goods Group. A discussion of this high performance group provides insight into some early challenges the Group had to overcome in the late 1990s and early 2000s, and illustrates LVMH’s commitment to diversifying its brand offerings to saturate all markets within the luxury goods industry. Table 9 provides a detailed illustration of acquisitions and divestments within the Selective Retailing Group brand portfolio.

Table 9. LVMH Selective Retailing Group Brand Portfolio

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Founded</th>
<th>LVMH Acquired</th>
<th>Sold</th>
<th>Brand Positioning</th>
<th>LVMH Allure</th>
</tr>
</thead>
<tbody>
<tr>
<td>DFS</td>
<td>1960</td>
<td>1996</td>
<td>N/A</td>
<td>World’s leading luxury retailer catering to the traveling public</td>
<td>Innovative concept providing opportunity for presence in emerging markets and vehicle through which to distribute brand’s in the LVMH portfolio</td>
</tr>
<tr>
<td>Company Name</td>
<td>Founded</td>
<td>LVMH Acquired</td>
<td>Sold</td>
<td>Brand Positioning</td>
<td>LVMH Allure</td>
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<tr>
<td>Sephora</td>
<td>1969</td>
<td>1997</td>
<td>N/A</td>
<td>Visionary beauty retail concept bringing a wide range of high-end beauty care products and fragrances under one roof, open-sell retail philosophy that tempts shoppers to sample</td>
<td>Leading French cosmetics and fragrance retailer that would leverage LVMH to control the distribution of its own luxury brands in the perfume and cosmetics sector</td>
</tr>
<tr>
<td>Le Bon Marche</td>
<td>1852</td>
<td>1998</td>
<td>N/A</td>
<td>French group encompassing department stores (Le Bon Marche’ Rive Gauche &amp; Franck et Fils), fine foods (Le Grande Epicerie), and real estate, all synonymous with Parisian culture and values</td>
<td>One of the top three department stores in Paris designed by the same architect who designed the Eiffel Tower, a destination among tourists and an opportunity for LVMH to bulk up its retail network in Paris</td>
</tr>
<tr>
<td>Phillips Auctioneers</td>
<td>1796</td>
<td>1999</td>
<td>2002</td>
<td>British auction house focusing on the sale of Impressionist, American, and Modern works of art in addition to watches, jewelry, and design</td>
<td>Goal was to make the auction house a distant third to Sotheby’s and Christie’s and thus, a major player in the art world, confirmed LVMH’s commitment to the arts</td>
</tr>
<tr>
<td>Miami Cruiseline Services</td>
<td>1963</td>
<td>2000</td>
<td>N/A</td>
<td>The world leader in the duty free sale of luxury goods on cruise ships</td>
<td>Opportunity to capitalize on duty free market on 10 different cruise lines worldwide with products such as liquor and tobacco, jewelry and watches, and fragrances and cosmetics</td>
</tr>
<tr>
<td>La Samaritaine</td>
<td>1870</td>
<td>2001</td>
<td>N/A</td>
<td>Famous Parisian department store focusing on the areas of fashion, beauty, decoration, and leisure</td>
<td>Another opportunity for LVMH to build distribution network in Paris and revitalize another historic department store</td>
</tr>
</tbody>
</table>
Note: Sources for Table 3 include: About DFS, 2012; About us, 2012; Dusil, 2009; Murphy, 2000; Raper, 1997.

In 1996, LVMH bought 61.3% of DFS and began the foundation for the Selective Retail Group. DFS is a San Francisco based distributor of luxury retail goods with revenue predominantly from sales in its boutiques in Asian markets (i.e., 65% of revenue). The business model of DFS centers on the following:

A duty is a tax or charge levied by a city or country. Some cities or countries elect to charge a duty on foreign products coming into their location. In other cases, cities or countries choose to levy duties only on selected types or quantities of products- most often, liquor, tobacco, and perfume. In the United States, all foreign-made products are dutiable. The locations which charge duties may also select one or more retailers to whom they grant the special privilege of offering dutiable goods “duty-free” if the goods are not consumer or used inside the location. Retailers bid for the exclusive privilege of offering these non-duty goods and the location awards the contract for a designated period of time (About DFS, 2012, para. 1-2)

Typically, duty free concessions are operated at airport stores making it easy for travelers to depart a location without using or consuming their purchase and without paying duties to remove the purchase from the locality. DFS operates in this format, but also has a unique distribution structure in which travelers can visit off-airport DFS Gallerias and shop in a more leisurely environment. Their purchases are then delivered to them at their departure gate in the airport.

Brands sold at DFS included those in the fashion, cosmetics and perfumes, and liquor segments of the luxury goods industry, and provided LVMH with an excellent opportunity to expand their
own brands’ distribution strategy through this controlled network. The duty free retailing format allows both the locale and the retailer to benefit from higher sales (About DFS, 2012).

The purchase of DFS by LVMH was followed almost immediately by the onset of the Asian Financial Crisis in 1997, and exacerbated by the decline in Japanese tourism, which had already entered a slump. At the time of purchase, the Asian market accounted for 45% of LVMH’s total sales and was the key market for DFS (“LVMH,” 2000). The combined crisis resulted in a 50% decline in profits for DFS during the first half of 1997. During 1998, sales in LVMH’s Selective Retailing Group, now comprised of DFS and the recently acquired Sephora beauty retailer, declined 22% overall, mainly due to flailing sales figures at DFS (“LVMH,” 2000). Concerns about sales and profitability heightened among LVMH shareholders after DFS announced that “it was negotiating a two-month delay in payments to all of its 5,000 suppliers to offset slowing sales in Asia” (“Problems at DFS,” 1998, p. 4). Daniel Piette, LVMH Group executive vice president and director of DFS stated that the payment delay was a component of DFS’s restructuring plan in response to the drop in sales. Other measures in the LVMH initiative for this group included reducing inventory levels, closing unprofitable stores, and reducing promotional spending (Barrett, 1998). Although negative in tone, the LVMH initiative maintained that the travel-related retailing business is cyclical one, and the company affirmed its belief in the business and the important role it would have in controlling the distribution of LVMH luxury products in the travel-retail market (Weisman, 1998a). Sales did, in fact, turn around for DFS, and although the Group was still posting losses, by the late 1990s, the amounts of loss were continuing to shrink (“LVMH,” 2000).

DFS sales showed a 20% loss in 2002 corresponding to slowed global tourism after September 11th 2001, but recovered in line with the recovery in tourism by 2003. In 2003, DFS
also reached positive operating income for the first time under the LVMH umbrella, in part due to its negotiations to pay lower airport concession fees. This change increased profit margins for the company (Annual results 2003, 2004). DFS’s success has remained cyclical with the Asian tourism market. As the Asian tourism market continues to grow fueled by the spending power of Chinese travelers visiting other Asian countries, DFS’s outlook has continued to improve (Annual results 2002, 2003). In recent years, LVMH has facilitated new growth by entering countries with emerging consumer markets such as Thailand, India, Macao, Hong Kong, Singapore, Dubai, and Abu Dhabi. DFS has also widened its brand assortment to include new and emerging luxury brands. Special attention to cost reduction in distribution has also maximized profits. The year 2011 marked strong growth in revenue for DFS and profits. These changes were driven by a steady rise in Asian tourism, especially in emerging neighboring countries, and a bounce back of the yen that enhanced the purchase power of Japanese travelers.

In the Selective Retailing Group, DFS was complemented with LVMH’s acquisition of Miami Cruiseline Services, a premier onboard duty free retailer of luxury brands (see Table 9). The company services 10 cruiselines worldwide with product assortments that include fragrances, cosmetics, apparel, fine jewelry, and watches (Annual results 2002, 2003). Through the purchase, Arnault aimed to offset the excessive reliance on Asian markets created by DFS marketing. This goal is illustrated by the fact that “90 percent of passengers on LVMH’s Miami Cruiseline ships are from North America, so its shops on the ships are a useful balance to LVMH’s heavy reliance on Japanese consumers” (Tagliabue & Horyn, 2001, p. 1). In the early 2000s, Miami Cruiseline Services has been a profitable investment for LVMH due to the increase in cruise travel worldwide. LVMH plans for continued success of the brand by
continuing to increase its visibility on cruise ships and by adapting its products and services to each cruise company’s destinations and routes.

In 1997, LVMH added another company to its Selective Retailing Group, Sephora, France’s biggest perfumery chain in terms of volume. The purchase confirmed LVMH’s strategy to control the distribution of its own luxury brands as well as those of competitors such as Chanel and L’Oreal, which also have beauty and fragrance products that are sold at Sephora locations. Sephora’s innovative business model brings an exhaustive array of 250 brands covering perfume, make-up, body care, hair care, men’s products, and beauty accessories together under one roof. Knowledgeable staff is on hand in the stores to assist customers and encourage them to test their products before purchase (“Luxury goods retailing,” 2011). The company also has its own brand that, in recent years, has collaborated with famous designers such as Karl Lagerfeld, to create product lines. In the late 1990s, the acquisitions of Sephora and DFS made LVMH the world leader in the distribution of perfume and beauty products (Raper, 1997). However, Sephora, whose sales were $225 million at its 54 store locations in 1997, was much smaller than DFS whose sales reached $2.74 billion in 1997 (Raper, 1997).

Similar to DFS, Sephora was also slow to achieve profitability. Low profit margins can be attributed to the rapid expansion strategy employed by LVMH that increased Sephora store locations from 54 to 460 stores from 1997 to 2000 (Tagliabue & Horyn, 2001). Although expansion could improve sales and should have improved profitability, LVMH experienced a 37% decline in its stock value from March 2000 to March 2001. This drop was attributed to the negative financial position of the Selective Retailing Group, which reduced overall margins for the LVMH conglomerate (Tagliabue & Horyn, 2001). For example, Sephora did not reach individual profitability until 2002 (Annual results 2002, 2003). The loss experienced within the
Sephora business units was large enough to off-set increases in sales from store expansion and profit margins in other groups.

Since 2002, Sephora has continued to increase in profitability. The company, which launched a transactional website in the United States in 1999, followed by a website launch in France in 2004, is excelling in the online environment. Internet sales have become a core activity for the company, which also has transactional websites in Canada and China, and informational websites in many of its other markets. The transactional website allows consumers to actually purchase items, whereas the informational website only allows consumers to browse the merchandise. LVMH plans for Sephora to be selling online in most European markets before the end of 2012 (“Luxury goods retailing,” 2011). Sephora has also incorporated into its marketing strategy the intensive use of loyalty programs in the United States and Europe. The loyalty program, called Beauty Insider, awards consumers one point for every dollar spent. Loyalty points can then be exchanged for ‘deluxe’ samples of products (“Luxury goods retailing,” 2011). The initiative not only encourages loyalty among Sephora’s consumers, but also encourages consumers to sample Sephora’s up-market product offerings.

In 2011, Sephora gained media attention through its sponsorship of the reality TV show, Beauty Academy, in which talented, young make-up artists are discovered (“Luxury goods retailing,” 2011). The company also experienced market share gains in all regions with Internet expansion into Brazil and store expansion into Mexico, the Middle East, and Southeast Asia (“Translation of the French,” 2011). Sephora’s New York flagship boutique has begun to implement experiential components such as in-store nail bars. The New York flagship also has begun offering mobile payment options that allow sales representatives to process payments directly. This feature saves consumers from having to wait in line and allows them to work with
the same sales associate for their entire shopping experience. If successful, these customer service initiatives will be spread to other locations (“Translation of the French,” 2011). Sephora has also successfully launched a transactional iPhone application in the U.S. market (“Luxury goods retailing,” 2011).

In addition to his effort to use the Selective Retailing Group as a vehicle for distributing LVMH product brands worldwide, Arnault made two significant acquisitions aimed at expanding LVMH’s retail network in Paris. Le Bon Marche and La Samaritaine, acquired by LVMH in 1998 and 2001 respectively, are two iconic Paris department stores that were both in need of a massive overhaul at the time they joined the LVMH brand portfolio (Murphy, 2000). The acquisitions provided Arnault with the chance to restore two flailing landmarks to their former glory. Arnault, who is known to talk about the French brands in the LVMH portfolio with a strong sense of pride, stated, “I see myself as an ambassador of French heritage and French culture…What we create is emblematic…It’s linked to Versailles, to Marie Antoinette” (Adams & Elliott, 2010, p. 64).

After its purchase by LVMH, Le Bon Marche, the world’s first department store, remained operational while sales spaces such as women’s wear, the home department, and the leisure department, were renovated. With each physical change, LVMH management were also evaluating and making needed changes to each department’s brand offerings (Murphy, 2000). In 2008, Le Bon Marche entered the online shopping environment with the launch of experiential website (“Luxury goods retailing,” 2011). These massive physical and inventory changes resulted in a sales increase of 30% during its first three years with LVMH (Murphy, 2000). In 2011, Le Bon Marche continued to see sales growth, a result of increased spending by foreign consumers and the completion of renovations to the women’s footwear department. The year
2012 marks the department store’s 160th anniversary and the beginning of another ambitious expansion initiative that will revamp the men’s wear department and expand the sales floor by over 4,000 square meters (“Translation of the French,” 2011).

Reviving La Samaritaine, the second department store acquisition, proved more challenging. In 2005, La Samaritaine did not meet Paris’s fire safety standards and had to close its doors, resulting in a $189.1 million fine for LVMH (Socha & Maitre, 2009). Rather than divest the company, LVMH began to formulate strategic plans to re-position and re-open the space as a multi-use building. After years of negotiations with city authorities, LVMH received the green light for the project in 2009. The project, with a projected completion in 2013, will feature “250,000 square feet of shops, 225,000 square feet of office space, 75,000 square feet of apartments for students and families and a high-end hotel of as much as 150,000 square feet” (Socha & Maitre, 2009, p. 2). The project has become part of city plans geared toward the economic revitalization of central Paris and will create more than 2,000 jobs.

In 1999, LVMH Selective Retailing Group acquired British auction house, Phillips Auctioneers. Arnault’s goal was to position Phillips as a distant third to auction houses Sotheby’s and Christie’s making the company a major player in the art world. LVMH has traditionally maintained a close relationship with the arts, culture, and heritage, and believed Phillips would be a good strategic fit (“LVMH, Patron of the arts,” 2012). However, Arnault had not anticipated the expenses associated with running an auction house. Arnault poured an estimated $250 million into the company in two years (Peers & Barnes, 2002). Despite strong sales, high-profile hires from rival auction houses, and partnerships with prestigious Geneva art dealers, the company failed to reach profitability by the end of the decade. Changes proposed by Arnault further complicated the financial problems. For example, the Phillips brand strategy had centered
on offering up-front guaranteed payments to art sellers and below-market loans to buyers. These services, similar to those of Sotheby’s and Christie’s, increased buyer and seller loyalty to the auction house (Peers & Barnes, 2002). When Arnault, implemented a cost-cutting plan that eliminated these guarantees, many sellers pulled their business from the company. LVMH sold Phillips Auctioneers in 2002 as a part of its company-wide effort companies that were not core businesses.

The outlook for the Selective Retailing Group appears to be very favorable. The Group experienced an overall growth in revenue of 20% from 2010 to 2011, with a 19% organic growth, or growth from recurring operations. The Group, which has not made an acquisition since 2001, is committed to increasing its market share by expanding the distribution networks of DFS, Sephora, and Miami Cruiselines. The Group also remains focused on the renovation and improvement projects taking place at La Samaritaine and Le Bon Marche (“Translation of the French,” 2011).

**Fashion and Leather Goods.** The Fashion and Leather Goods Group is LVMH’s most profitable division and the home to the conglomerate’s biggest driver of sales and arguably the most successful Fashion and Leather Goods brand (i.e., Louis Vuitton) in the luxury goods industry (Passariello, 2007a).

Fashion & leather comprises some of the leading names in French fashion (Givenchy, Celine and Louis Vuitton), iconic Italian fashion houses (Fendi and Emilio Pucci), US brands (Marc Jacobs and Donna Karan), Spanish brand Loewe and Paris-based but ‘global traveler’-inspired Kenzo label. Each brand is uniquely positioned but innovation and creativity are the foundations for all (“Luxury Goods Retailing,” 2011, para. 5)
The management of the Louis Vuitton brand is overseen directly by Yves Carcelle with the close supervision of Bernard Arnault. A major directive within the Group is to continue to capitalize on and grow the Louis Vuitton brand as its revenue has been credited with the positive financials to counterbalance the poor financial situation of the less successful brands in the LVMH portfolio such as Christian Lacroix and DFS during its early years in the conglomerate (Matlack, Tiplady, Brady, Berner, & Tashiro, 2004). The sale of the Louis Vuitton product is also less cyclical than commonly perceived as it is rather timeless and overcomes seasonality in its appeal to consumers. With this stability, its sales have financially compensated for losses in revenue among LVMH’s more cyclical or seasonal businesses, such as Champagne; and for products such as watches, DFS, and cognac, that experience reduced sales during times of economic instability (Socha, 2010a).

Since LVMH’s company-wide shift from an acquisition strategy to a strategy of organic growth of brands with star potential in 2002, the Fashion and Leather Goods Group has experienced many successes. The Group’s revival of iconic brands such as Fendi and Celine and its success in emerging markets facilitated by the already existing relationships among emerging countries and the LVMH first movers, such as Louis Vuitton and Hennessey, are a few examples of these successes (Galloni, 2004). In addition, many challenges have stemmed from the acquisition spree early in the Group’s history as many of the brands that were acquired into this group were in worse financial and marketing shape than Arnault originally believed.

Since 2002, the dynamic strategy within LVMH’s Fashion and Leather Goods Group has centered on leveraging the Louis Vuitton’s star brand status to appeal to the aspirational nature of consumers in emerging markets and young consumers worldwide (i.e., Generation Y) that have increasing disposable income. The Group also comprises an array of niche brands such as
Berluti, Thomas Pink, and Edun which cater to the smaller markets of sophisticated luxury consumers and their need to differentiate (Bernstein Global Wealth Management, 2010). The overarching goal of the Group, and the conglomerate as a whole, is to apply the Louis Vuitton formula to the other Fashion and Leather Goods brands while utilizing economies of scale in advertising, shop leases, and department store space for the entire Group (Galloni, 2004; Guyon, 2004). This strategy has not always been successful. Table 10 provides a detailed illustration of acquisitions and divestments within the Fashion and Leather Goods Group brand portfolio.

Table 10. LVMH Fashion and Leather Goods Group Brand Portfolio

<table>
<thead>
<tr>
<th>Company</th>
<th>Founded</th>
<th>LVMH Acquired</th>
<th>Sold</th>
<th>Brand Positioning</th>
<th>LVMH Allure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louis Vuitton</td>
<td>1854</td>
<td>1987</td>
<td>N/A</td>
<td>Legendary French travel brand famous for its bags, luggage, and accessories that are as innovative as they are elegant and practical</td>
<td>Original company that merged with Möet-Hennessy in 1987 to form the LVMH conglomerate</td>
</tr>
<tr>
<td>Christian Lacroix</td>
<td>1987</td>
<td>1987*</td>
<td>2005</td>
<td>French fashion house funded by LVMH, known for its theatrical designs that are imaginative yet elegant, strong Mediterranean influence from Lacroix’s native South of France</td>
<td>Opportunity for Arnault and LVMH to become a patron for the designer whose creations made him an icon of 1980s style, aimed to prove LVMH capable of growing a brand internally</td>
</tr>
<tr>
<td>Givenchy</td>
<td>1952</td>
<td>1988</td>
<td>N/A</td>
<td>International French luxury brand, known worldwide for its Haute Couture, ready-to-wear collections and fashion accessories</td>
<td>Viewed by Arnault as underperforming brand with potential for languishing image to be revamped under LVMH</td>
</tr>
<tr>
<td>Company</td>
<td>Founded</td>
<td>LVMH Acquired</td>
<td>Sold</td>
<td>Brand Positioning</td>
<td>LVMH Allure</td>
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<tr>
<td>Berluti</td>
<td>1895</td>
<td>1993</td>
<td>N/A</td>
<td>French men’s shoemaker with cult following, shoe collections and leather goods are of unparalleled quality, comfort, and creativity</td>
<td>Opportunity to acquire a prestigious yet underdeveloped men’s brand whose product portfolio could be expanded to make it a global competitor in the growing luxury men’s business</td>
</tr>
<tr>
<td>Kenzo</td>
<td>1970</td>
<td>1993</td>
<td>N/A</td>
<td>Founded in Paris by Japanese designer Takada Kenzo under the name “Jungle Jap,” has maintained influence of nature, poetry, and blending of East and West in its product lines</td>
<td>Vibrant brand that enjoyed great success in the 1970’s, and a nice complement to the more couture oriented brands in the portfolio, opportunity to introduce the brand to young, contemporary consumers</td>
</tr>
<tr>
<td>Celine</td>
<td>1945</td>
<td>1996</td>
<td>N/A</td>
<td>French brand that began as a children’s shoemaker and transitioned into functional women’s ready-to-wear with a particular focus on materials and subtle tailoring</td>
<td>Another underperforming brand acquired due to its potential for long term success and strengthened brand equity under LVMH</td>
</tr>
<tr>
<td>Loewe</td>
<td>1846</td>
<td>1996</td>
<td>N/A</td>
<td>Most renowned Spanish luxury fashion brand famous for leather goods and accessories, strong presence in international markets, especially Japan</td>
<td>Opportunity to diversify the mostly French portfolio with a historic Spanish brand sharing LVMH’s strategy for aggressive international expansion</td>
</tr>
<tr>
<td>Stefanobi</td>
<td>1991</td>
<td>1996</td>
<td>20010</td>
<td>Milanese shoemaker with strong emphasis on quality and craftsmanship infused with creativity</td>
<td>Opportunity for production synergies among other LVMH shoe brands such as Berluti and Louis Vuitton</td>
</tr>
<tr>
<td>Company</td>
<td>Founded</td>
<td>LVMH Acquired</td>
<td>Sold</td>
<td>Brand Positioning</td>
<td>LVMH Allure</td>
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<tr>
<td>Marc Jacobs</td>
<td>1984</td>
<td>1997</td>
<td>N/A</td>
<td>American brand that originated in women’s collections and has expanded into men’s and women’s ready-to-wear, accessories, shoes, fragrances, and a diffusion brand called Marc by Marc Jacobs</td>
<td>Brought into the LVMH portfolio as part of negotiations with Marc Jacobs to become the creative director for Louis Vuitton in 1997 and develop a ready-to-wear line for the brand</td>
</tr>
<tr>
<td>Thomas Pink</td>
<td>1984</td>
<td>1999</td>
<td>N/A</td>
<td>Leading British luxury shirt maker famous for mixing classic tailoring with vivid, modern colors, wide range of high quality shirts complemented by ties and accessories</td>
<td>Opportunity for LVMH to help the brand to expand its operations outside the United Kingdom, especially targeting cities in the U.S. and Europe while increasing LVMH’s presence in the luxury menswear market</td>
</tr>
<tr>
<td>Michael Kors</td>
<td>1981</td>
<td>1999</td>
<td>2003</td>
<td>American fashion house known for chic, luxurious American sportswear with a nod to classic designs</td>
<td>Purchased 1/3 minority stake in company with plans to expand distribution in Europe and Asia, open more free-standing stores, and rev up the brand’s advertising initiatives, also increased business presence in North America</td>
</tr>
<tr>
<td>eluxury.com</td>
<td>2000</td>
<td>2000</td>
<td>2009</td>
<td>U.S. based e-commerce site developed by LVMH, exclusively devoted to luxury and the art of living, an important first step toward introducing LVMH luxury brands to the online marketplace</td>
<td>Helped LVMH develop an online presence for brands in its portfolio, ceased operations due to brands in the portfolio developing an online presence of their own</td>
</tr>
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<thead>
<tr>
<th>Company</th>
<th>Founded</th>
<th>LVMH Acquired</th>
<th>Sold</th>
<th>Brand Positioning</th>
<th>LVMH Allure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emilio Pucci</td>
<td>1947</td>
<td>2000</td>
<td>N/A</td>
<td>Italian brand that got its start in ski and sportswear, famous for its functional designs and eclectic motifs in bright colors</td>
<td>Opportunity for LVMH to acquire another prominent Italian luxury brand and grow its global store network while capitalizing on the brand’s identity and modernity</td>
</tr>
<tr>
<td>Fendi</td>
<td>1925</td>
<td>2001</td>
<td>N/A</td>
<td>One of the top Italian luxury brands founded by the five Fendi sisters, with core business in leather and fur</td>
<td>Acquired through a collaborative venture with Prada in 1999, bought majority stake from Prada in 2001 aiming to make Fendi the next star brand in the LVMH portfolio</td>
</tr>
<tr>
<td>Donna Karen</td>
<td>1984</td>
<td>2001</td>
<td>N/A</td>
<td>Popular American lifestyle and beauty brand epitomizing classic New York style, numerous diffusion lines, license agreements, and outlet locations</td>
<td>LVMH’s first purchase of major American label and biggest venture into the ready-to-wear apparel business, opportunity to return flailing brand to profitability</td>
</tr>
<tr>
<td>Rossimoda</td>
<td>1942</td>
<td>2003</td>
<td>N/A</td>
<td>Prestigious Italian shoemaker specializing in the manufacturing and distribution of licensed luxury women’s footwear</td>
<td>Opportunity to develop licensing agreements to produce footwear for Pucci, Givenchy, Lacroix, Kenzo, Celine, Marc Jacobs, and Donna Karen</td>
</tr>
<tr>
<td>NOWNESS</td>
<td>2009</td>
<td>2009**</td>
<td>N/A</td>
<td>Editorial website that offers creative, interactive, and technologically advanced way to experience luxury lifestyle online</td>
<td>LVMH developed online magazine centering on experiential interactions between readers and contributors, topics include art, fashion, design, architecture, etc.</td>
</tr>
<tr>
<td>Company</td>
<td>Founded</td>
<td>LVMH Acquired</td>
<td>Sold</td>
<td>Brand Positioning</td>
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<tr>
<td>Edun</td>
<td>2005</td>
<td>2009</td>
<td>N/A</td>
<td>Ethical lifestyle brand owned by U2 singer Bono and his wife Ali Hewson, founded on the commitment to encourage fair trade and sustainable employment in developing countries, particularly Africa</td>
<td>LVMH’s 49% stake marked its support for ethical fashion and fair trade in the industry, while providing financial means to grow trade in Africa and turn the business into a global brand</td>
</tr>
</tbody>
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* LVMH launched the Christian Lacroix label  
** LVMH launched NOWNESS  


*Failures within the Fashion and Leather Goods Group.* One of the more spectacular brand strategy failures within the Fashion and Leather Goods Group occurred shortly after the formation of LVMH. In 1987, Arnault aimed to build a fashion house internally and recruited Christian Lacroix from the Jean Patou fashion house. Lacroix, 37, had quietly created designs for the House of Patou for several years when Arnault announced that he would invest an estimated $8.3 million in the designer and establish the Christian Lacroix brand under the LVMH umbrella (Donovan, 1988). The initial strategy for the Lacroix brand was to enter the market with couture or custom products to garner industry attention and eventually expand product offerings to mass produced leather goods, perfume, and ready-to-wear (Adams & Elliott, 2010). Lacroix’s first collection for fall 1987 was inspired by the south of France and featured lavish ornamentation, inventive color combinations, luxurious fabrics, and the puffy silhouettes that had been his trademark style at the House of Patou (Socha & Born, 2005). The collection attracted much attention in the fashion community and many prominent American stores vied to order Lacroix’s forthcoming ready-to-wear line. The outlook for the brand seemed very promising. However,
whether self-generated or at the urging of his LVMH investors that wanted assurance that the brand’s outlandish designs would generate a profit in couture and later in ready-to-wear, Lacroix, “the most invigorating talent in years, now [found] himself in a predicament. In order to reach a wider audience, he suppressed the unique sparkle that first brought him attention. Yet it [was] just this sparkle that [sold] Lacroix” (Donovan, 1988, p. 54).

At the end of the first year of the Lacroix brand’s operations, the LVMH conglomerate posted a loss for the Lacroix brand of $4 million on sales of $1 million; losses incurred by the Lacroix brand were heightened due to the high financial cost of creating couture collections. Still, Arnault and LVMH continued to invest more capital in the Lacroix brand, but the brand’s failure to establish a strong brand positioning and brand image resulted in annual losses totaling as much as $10 million in subsequent years (Socha & Born, 2005). The Lacroix brand also failed to create a recognizable “it” bag as the Louis Vuitton brand had, and its perfume, C’est la Vie, was also a sales failure (Socha & Born, 2005). In December 1999, Arnault again demonstrated his commitment to reviving the beleaguered House of Lacroix and appointed Carcelle as the brand’s CEO. Carcelle would also remain CEO of Louis Vuitton and CEO of the Fashion and Leather Goods Group, a position he had only accepted a few months prior (Weisman, 1999b). Arnault believed Carcelle, who would be the eighth CEO of the House of Lacroix since 1987, was the ideal individual to revamp Lacroix’s brand strategy, as he had done at Louis Vuitton, and help the Lacroix brand reach profitability (Weisman, 1999b).

Even with Carcelle at the helm, the situation at Lacroix did not improve and the brand continued to post annual sales losses. Still working at his own company, Lacroix joined Pucci as creative director in 2002. Pucci, an Italian sportswear brand acquired by LVMH in 2000, was also famous for its eclectic motifs and prints. In contrast to the failures of the Lacroix brand, the
Pucci company thrived under Lacroix’s leadership and soon became one of the fastest growing luxury brands in Europe (Socha, 2005). When asked about his success at Pucci versus his struggles at his own house, Lacroix associated Pucci with momentum and forward-motion while he cast his own brand, which had been required to forego ready-to-wear lines in recent seasons due to curtailed resources coming from Arnault and LVMH, in a more negative light (Socha, 2005). Additionally, Lacroix noted that the Pucci print is very recognizable, while the Lacroix brand had yet to settle on a signature design aesthetic.

After 18 years of investment in the brand without a major financial return, Arnault negotiated the sale of Lacroix in early 2005. Lacroix was sold to Falic Group, a travel retail firm that had purchased Hard Candy and Urban Decay from LVMH in 2002. Although the Fashion and Leather Goods Group had divested a minority stake in Michael Kors in 2003, the sale of Lacroix was the Group’s first majority stake divestment since the industry-wide luxury shopping spree of the 1990s (Galloni & Agins, 2005). As losses at Lacroix peaked in the years prior to the divestment, LVMH shifted its strategic plans to focus on more profitable brands. With less funding to support the brand’s extravagant couture lines and marketing initiatives, analysts suggest the brand had a loss of around $2.6 million in its final year (i.e., 2004) with the company (Galloni & Agins, 2005). The Group’s other smaller brands such as Donna Karen, Givenchy, and Thomas Pink were also struggling under LVMH’s new business model, but Lacroix is the most dramatic example of a failed designer luxury brand within the conglomerate.

In contrast to the failure of his own Lacroix brand, the Pucci brand was continuing to thrive under the leadership of Lacroix, and sales from 2003 to 2004 had almost doubled. Although his own brand would no longer be under the LVMH umbrella, Lacroix planned to stay with the company as creative director (Socha, 2005). However, in September 2005, at the
Spring/Summer 2006 runway show in Milan, Lacroix announced that the collection would be his last with the Pucci brand because he wanted to focus on his signature business (Lacroix’s last Pucci, 2005). Lacroix’s departure was necessitated by his inability to meet the increasing responsibility of the creative role at Pucci as the brand expanded its retail, accessories, and footwear lines. The amicable split was difficult for both Lacroix and Pucci because Lacroix was credited with energizing the fashion label. Following Lacroix’s departure, the Pucci brand continued to demonstrate growth and financial success with both Matthew Williamson and Peter Dundas as Pucci’s creative directors (Lacroix’s last Pucci, 2005).

LVMH’s divestment of the Lacroix brand in 2005 and Christian Lacroix’s subsequent departure from the creative director role at LVMH-owned, Pucci, illustrate a challenge experienced within the LVMH brand portfolio as well as within the other top luxury conglomerates (i.e., Richemont and PPR). “In the age of luxury-goods conglomerates, star designers’ loyalties often are divided between their own brands and the ones they are paid to design for corporate clients” (Agins, 2004, B5). Many up and coming designers have worked for big firms while simultaneously gaining notoriety through the development of their own fashion labels, some of which were owned by the same parent company, some were not. Arnault had had a number of design talents within LVMH that did not thrive at the conglomerate. For example, Michael Kors departed from the creative director role at Celine in 2004 after LVMH sold its minority stake in the Michael Kors brand. In addition, “Alexander McQueen, who designed for LVMH’s Givenchy brand [and] Narcisco Rodriguez, who created for Loewe…all left LVMH when their contracts expired” (Agins, 2004, B5).

The negative aspect of this type of designer partnership with major conglomerates, as seen in the case of Christian Lacroix and other designers, has multiple ramifications. A
designer’s own brand can be divested from the conglomerate while the designer is still employed by another brand at the conglomerate. For a designer such as Lacroix or Kors, to continue working at the second brand or label becomes challenging, due to time, and sometimes, ego constraints. Additionally, “the more famous the designer becomes, the harder it is to pour his identity, and ego into a brand without his name on it” (Agins, 2004, p. B5). Finally, the designer takes on the challenge of maintaining the distinct brand image of each label and separate visions for each season’s collections without compromising one brand over the other. This conflict of design and management can also be seen in events in other fashion conglomerates. As with creative designer Tom Ford’s abrupt departure from Gucci, the designer let his unique aesthetic direct designs for Gucci as well as the Yves Saint Laurent brand where he was also at the helm. The meshing of the two distinct brands and the fact that media and industry publications began to refer to Gucci as “Tom Ford for Gucci,” was viewed by the PPR conglomerate as Tom Ford’s attempt to upstage the conglomerate’s flagship brand. This conflict resulted in a less than amicable ending to what had been a mutually beneficial partnership for both the designer and the conglomerate (Agins, 2004).

Successes in the Fashion and Leather Goods Group. Supervising creative personalities while simultaneously nurturing a brand’s financial and growth capabilities, has proven to be a challenge for Arnault and LVMH as well as other luxury conglomerates. Occasionally this challenge has a positive outcome. Marc Jacobs is an example of a designer whose relationship with Arnault and LVMH has overcome obstacles and changes over time, and whose work is still thriving in 2012. Considered the most influential designer within the LVMH brand portfolio, Marc Jacobs joined Louis Vuitton as creative director in 1997 after Arnault agreed to bring Jacobs’ namesake label into LVMH as well. In 1997, sales at Louis Vuitton, which primarily
came from luggage and handbags, totaled $1.2 billion. The subversive designer proved to be a potent creative force at Louis Vuitton despite initial culture clashes with the brand’s executives and established design teams. The designer’s high profile, ingenious designs, and introduction of accessories, ready-to-wear and shoes, helped the company’s sales double to $2.4 billion by 2001 and reach $3.5 billion by 2004 (Agins, 2004). However, progress at Marc Jacobs’ own label was much slower, and in 2004, as he approached the renegotiation of his contract with LVMH, Jacobs believed that LVMH’s minimal investment (e.g., $50 million) in the Marc Jacobs brand was stalling the brand’s development.

On the other hand, Arnault justified his cautious investment in the Marc Jacobs brand due to the fact that sales of the brand had only recently begun to show real financial promise. Jacobs was also dissident about his salary, which totaled less than $1 million annually. Another source of tension was Jacobs’ feelings about how major decisions at LVMH were made regarding the Marc Jacobs brand. For example, LVMH’s sale of Marc Jacobs Perfumes to Coty, Inc., after the conglomerate dissolved its American Designer Fragrances division in 2003, was made without Jacobs’ participation. Additionally, during the first seven years that the Marc Jacobs brand was a part of LVMH, the brand had four CEOs, all of whom were appointed by LVMH, with no input from Jacobs or his team (Agins, 2004). In 2003, Jacobs and his partners also discussed a licensing deal with Tommy Hilfiger for a more affordable apparel line. This move was seen as a way to send a message to Arnault that the time to capitalize on the momentum of the Marc Jacobs brand was now (Agins, 2004).

The contract negotiations between Marc Jacobs and LVMH in 2004 marked a turning point in the relationship between the designer and the conglomerate. Arnault confirmed his commitment to keeping Jacobs happy as the designer was an invaluable asset to LVMH’s cash
cow, Louis Vuitton, by agreeing to some major changes in the relationship. Unlike negotiations in 1997, Arnault recognized that to keep Jacobs and his team happy, LVMH should direct more support to the development of the Marc Jacobs brand including product development and international expansion. Arnault renounced his handling of previous CEO appointments for the brand and the divestment of Marc Jacobs Perfumes, and vowed to involve Marc Jacobs in future decisions regarding the brand. Nevertheless, Arnault stood by his decision not to enter into outside licensing agreements for Jacobs’ product offerings, standing firm in his belief of tightly held distribution for all of the brands within LVMH (Agins, 2004).

The handling and outcome of the Marc Jacobs as a designer and the Marc Jacobs brand example illustrates how LVMH has continued to hone its management of the smaller brands within its portfolio, including brands with namesake designers at the helm. LVMH’s contract negotiations with Marc Jacobs in 2004 followed the conglomerate’s strategic shift in 2002 to a focus on core brands with star potential, and investment in Marc Jacobs’ brand has been a financial success. The brand has demonstrated successful expansion of its distribution network in Europe, Asia, and the Americas with strong sales across all geographic regions. A successful second-line, Marc by Marc Jacobs, was launched and has been continually gaining momentum. Through 2011, this new brand has continued to drive sales with the excellent performance of its shoe and leather goods collections (“Translation of the French,” 2011). Marc Jacobs himself has also been a ten time winner at the Council of Fashion Designers of America (CFDA) Awards and his seasonal runway shows, for both his own brand and for Louis Vuitton, generate media interest, and excitement among fans for their edgy approach and praise from the international fashion press (“Translation of the French,” 2011).
Back-to-basics for LVMH and further restructuring. In June 2002, Carcelle was continuing his role of bolstering Fendi and the other small brands within the Fashion and Leather Goods Group amidst an industry crisis. Sales of luxury goods were hit hard by the recession and the post-September 11th consumer climate. Luxury consumers were not buying the smaller brands in favor of purchases of star brands, such as Louis Vuitton (Galloni, 2004). In 2002, Arnault implemented a back-to-basics approach for the Fashion and Leather Goods Group and encouraged Carcelle to direct all of his attention to Louis Vuitton that was generating four-fifths of LVMH’s operating profit. Arnault discerned that star brands like Louis Vuitton, whose sales rose 10% in the first half of 2002 despite the poor economy, were less cyclical than other non-star brands and would likely drive the luxury fashion industry’s rebound from the challenging economic and consumer environment (Galloni, 2004). Carcelle remained the CEO of the Fashion and Leather Goods Group, but LVMH Managing Director, Antonio Belloni, assumed the role of monitoring the other well-known but struggling brands within the Group (i.e., Givenchy, Thomas Pink, Donna Karen). The development of these brands was temporarily put on hold as a cost saving measure, but would later be addressed in 2005 as part of another structural change within the Fashion and Leather Goods Group.

In 2002, Arnault determined that the Fashion and Leather Goods Group’s management structure was not functioning efficiently due to the many layers of management, which were causing a continual overlap of managerial responsibilities among the Group’s executives. “Next, in a major cost-cutting exercise, Mr. Arnault largely dismantled the structure of the fashion group, getting rid of its regional officers and directors” (Galloni, 2004, p. A1). In addition to cutting costs, the goal of the restructuring was two-fold. First, the Group would have fewer layers allowing Arnault to be directly connected with the Group’s brands, most importantly,
Louis Vuitton. Furthermore, decentralization of the Group would provide autonomy to the management of each individual brand. In order for LVMH’s multi-brand conglomerate model to succeed, especially in times of austerity, each brand would need to rely on its visionary managers, designers, and marketers. Arnault thought that this management strategy would allow managers to conduct business operations successfully without the continual support of upper level LVMH executives. At the same time, decentralization would allow LVMH executives objectively to analyze performance figures and evaluate the brands’ strategies to better facilitate each brand’s growth and development when the timing was right (Adams & Elliott, 2010).

While Carcelle worked with creative director, Marc Jacobs, to extend the Louis Vuitton business, Arnault and Belloni examined the smaller brands in the portfolio such as Fendi (Galloni, 2004). Arnault also decided to allocate money to Celine, a French women’s brand who was achieving success with its “it” bag, the Boogie, designed by creative director, Michael Kors. Celine briefly reached profitability in 2004, supported by its leather goods and accessories lines. Its success was short lived after the departure of Michael Kors. After Kors’ 2004 departure, Celine’s brand image was inconsistent and lacked a signature aesthetic under its two subsequent creative directors (Dodes & Passariello, 2010).

The goal of the back-to-basics shift in 2002 was to focus on the brands within the Fashion and Leather Goods Group that had the most potential. Belloni, along with Arnault, conducted an ongoing strategic review of the Group’s smaller, less profitable brands to determine, if those brands showed promise of future profitability or if they should be sold. The fact that Louis Vuitton continued to exhibit spectacular sales growth and brand development, spearheading Group sales growth, allowed for a loose timeline for decisions regarding the smaller brands within the Fashion and Leather Goods Group. During this period of slack sales, the growth or
potential for growth did not have to be major or dramatic, which was a maverick approach for the conglomerate. As long as Arnault and Belloni were satisfied that incremental, positive changes were occurring at each brand, LVMH would keep those brands in the portfolio and ignore analysts’ criticism that the conglomerate was wasting time on loss plagued brands (Passariello, 2007a).

Successes with Fendi. Founded in 1925 as a luxury fur and leather retailer, Fendi had gained renewed desirability among European as well as international luxury consumers, with the introduction of its Le Baguette handbag in 1997. The Fendi bag, along with iconic handbags from other designers such as Prada and Louis Vuitton, had helped fuel the “it” bag trend of the late 1990s. In 1999, the Fendi brand had been the subject of a bidding war in which the five Fendi sisters had steadily increased their asking price as they believed that the brand’s value was increasing. Bidders included the U.S. investment firm of Texas Pacific Group, Gucci Group, Prada, and LVMH (Kamm & Ball, 1999). In order to acquire Fendi, Carcelle, the CEO of LVMH’s Fashion and Leather Goods Group, formed a strategic partnership between LVMH and Prada, the first partnership of its kind for the conglomerate. Together, LVMH and Prada outbid the Gucci Group to gain a 51% majority share of Fendi (Kamm & Ball, 1999). While the acquisition appeared to be a promising investment as Fendi exhibited many of the same star brand characteristics as Louis Vuitton, the move had another strategic importance for LVMH. The partnership with Prada had the potential to pave the way for a future partnering with Prada or for potential ownership of Prada should the family-owned private company ever be available for sale (Gabriele & Rosa, 2009). In addition, this partnership set a precedent for additional transactions. LVMH would later enter into other strategic partnerships with De Beers and Bulgari in 2001 and 2011, respectively.
The purchase of Fendi diversified LVMH Fashion and Leather Goods Group’s portfolio with another Italian brand to join Pucci. In addition, the brand was attractive to LVMH due to its popularity in the Asian market.

Together, Prada and LVMH brought respective expertise to [the] company, particularly with respect to integration of production and retail activities. Prada leveraged its knowledge and supplier network to improve efficiency and quality of production. LVMH leveraged its expertise with respect to distribution and retail sales to improve returns. The partners also hoped to grow Fendi sales and were in a position to contribute financial capital and international expertise and business contacts (Gabriele & Rosa, 2009, p. 218)

The two companies agreed on a strategy for Fendi that involved sacrificing short-term revenue for long term profitability and, together, made many alterations in the company’s business strategy. When LVMH and Prada purchased Fendi, 80% of the brand’s stores were not directly owned (Galloni, 2004). At the end of 2001, Carcelle, for LVMH, further acquired Prada’s 25.5% stake in Fendi. The exchange had several benefits as it provided Prada with the capital to further invest in the brands in which they owned a majority stake and allowed LVMH to accelerate the development of the rising star brand. The purchase of majority ownership of Fendi by LVMH in 2001 paved the way for the back-to-basics approach that was implemented in 2002. Fendi was perceived by Arnault as a brand with high star potential. By gaining majority control of Fendi instead of keeping the joint ownership format, LVMH was better positioned to aid Fendi in reaching its full sales and development potential. The management in both LVMH and Prada supported the buyout transaction and deemed the joint partnership as a success for the short period of its existence.
For LVMH, capitalizing on the viability of the Fendi brand meant gaining a stronger hold on distribution, production, and inventory levels (Galloni, 2004). By 2002, Fendi’s global network had risen from four to 83 individually owned stores. Distribution had increased to two-thirds of Fendi’s sales coming from its own stores compared with less than a quarter in October 1999 because many of the brand’s license agreements had been terminated. Industrial and operational reorganization had prepared the brand for further international development (Shuster, 2002). Under the LVMH umbrella, Fendi reached profitability in 2005 and continues to exhibit rapid progress (Annual report 2005, 2005). Sales were particularly strong in Europe and Asia. The brand’s ready-to-wear line demonstrated continued sales growth under designer Karl Lagerfeld, improvements were made in production efficiencies and inventory management, and the brand selectively extended its store network to emerging markets in the Middle East and Mexico (Annual results 2008, 2009; Annual results 2009, 2010).

In 2011, Fendi continued to demonstrate record-setting results in both revenue and profitability combined with strong growth across all world regions. Stores in China posted exceptional results as well as those in Japan, where sales figures began to recover in the second half of 2011 (“Translation of the French,” 2011). In keeping with LVMH’s commitment to patronage of the arts and Fendi’s fundamental values of craftsmanship and creativity, Fendi launched a new live design event series, “Fatto a Mano for the Future” (i.e., Made by Hand for the Future), in 2011. The initiative partnered up-and-coming designers and artists with established Fendi artisans. Together, they created sculptural objects using discarded materials from the production of Fendi goods. The events took place in Fendi store locations around the world and garnered a great deal of industry attention for the brand. The goal of the initiative was
to attune consumers to the connection between creators and materials and to create awareness of Fendi’s tradition for creativity and craftsmanship (“Translation of the French,” 2011).

*LVMH Fashion Group and its successes.* The year 2005 brought an upturn in the luxury goods industry as the U.S. and Chinese economies rebounded, global tourism surged, and with it, consumer confidence rose. Arnault believed the time was right to devote renewed management attention to flailing brands in the Group. Since its implementation, LVMH’s decentralized management structure had been successful in empowering autonomy at the company level as well as promoting direct interaction between companies and LVMH executives. With the resurgence of consumer confidence, Arnault believed that many of the Fashion brands were at similar developmental stages and would benefit from being combined within a sub-group of Fashion and Leather Goods (Passariello, 2007a). Arnault appointed Pierre-Yves Roussel, who had served as LVMH’s Executive Vice President of Strategy and Operations since 2004, as the President of the LVMH Fashion Group. This new division would include Celine, Givenchy, Kenzo, Loewe, Marc Jacobs, Pucci, and Rossimoda (Passariello, 2007a).

Roussel started his work with the LVMH Fashion Group by revamping management at the company level for all of the affected companies. He recruited some of the best executives from within LVMH, as well as a few executives from competing companies to take on the CEO roles at Celine, Marc Jacobs, Kenzo, and Loewe. With trusted management at the helm of each company, Roussel began to implement production synergies within the division. For example, Celine would now outsource its shoe production to Rossimoda, who was already manufacturing footwear for Donna Karen, Givenchy, and Pucci. Roussel also allowed a few selective license agreements to boost brand visibility. For example, the Marc Jacobs brand was able to launch its children’s line, Little Marc, using a licensing partner and Celine entered a license agreement for
watches with Taramax SA, which was already manufacturing watches for Fendi (Passariello, 2007a). Finally, Roussel implemented cost-saving measures such as the reduction of employment at Loewe’s Spanish factories. The new division within the Fashion and Leather Goods Group and Roussel’s role as President, were initially implemented as a trial measure, but were confirmed as a permanent post in December 2006 (Passariello, 2007a).

Roussel’s most effective cost-saving measure within the LVMH Fashion Group division centered on Givenchy. The French luxury brand, acquired by LVMH in 1988, was once considered one of the most desirable haute couture brands in the luxury goods industry alongside brands such as Dior Couture, Chanel, and Christian Lacroix. However, in the 21st century, as the market for Couture pieces had continued to grow smaller, design houses that once focused solely on Couture had extended their brand offerings to include leather goods, ready-to-wear apparel, and accessories. Couture was used more in runway shows and in dressing celebrities for events in order to generate consumer and media attention for each season’s forthcoming ready-to-wear collections and was no longer the sole driver of these companies’ sales. Roussel determined that Givenchy, which operated on a smaller scale than some of the other well known Couture brands, would benefit financially from foregoing major runway shows during the Fashion Weeks in favor of smaller, more intimate salon presentations (Passariello, 2007a). Arnault supported this marketing transition saying that the salon presentations were closer, in terms of exclusivity, to the roots of the Givenchy brand and the origin of its business (“Luxury Goods Retailing,” 2011). With the salon format, Givenchy experienced financial success and renewed exclusivity among its Couture clients. With capital saved from Roussel’s cost-cutting measure, Givenchy’s creative director, Ricardo Tisci, was able to further expand the women’s ready-to-wear and accessories lines for the brand. Tisci had continually revitalized the brand since his appointment in 2005.
The brand has also been well received in emerging markets, such as China (Annual Results 2007, 2008). In 2011, Givenchy’s leather lines recorded strong growth as well as men’s ready-to-wear that had undergone repositioning in previous years (“Translation of the French,” 2011).

Roussel also began to closely monitor the financial progress and development at Celine. The brand had struggled to establish a following and a firm brand identity since the departure of Michael Kors in 2004. Both Roberto Menichetti and Ivana Omazic, Celine’s subsequent creative directors had failed to convey the French brand’s sophistication and emphasis on subtle tailoring and quality materials in their collections. In 2007, Roussel targeted British fashion designer, Phoebe Philo as a potential savior for the Celine brand. Philo had succeeded Stella McCartney as creative director at Chloe in 2001 and spent five years at that French fashion house before resigning in 2006 to focus on her family (Dodes & Passariello, 2010). In her time at Chloe, Philo had created an “it” bag, the Paddington, launched many successful ready-to-wear collections, and seen sales double. After traveling to London every other week for almost a year to persuade her and agreeing to build her a design studio in London, Roussel convinced Philo to join Celine in 2008 (Dodes & Passariello, 2010).

In order to allow Philo to develop her vision for Celine, LVMH took several drastic steps to smooth the transition for the new creative director. For example, the entire inventory stock left in stores prior to Philo’s first collection was destroyed at a loss of roughly $126 million. In addition, “Céline also closed all but one store in the U.S., cut ties to less exclusive retailers, stopped producing bags in China and restored the accent to its name, all part of a move to tightly control and elevate the brand” (Dodes & Passariello, 2010, p. B1). These strategic steps are examples of growth trade-offs that LVMH was willing to incur in order to devise a strategy for Celine’s long term success and profitability.
In October 2009, Philo presented her first collection for the brand. Her minimalist reinterpretation of the Celine aesthetic resulted in influential luxury retailers such as Bergdorf Goodman and Barneys New York vying to carry its collections. Due to the high desirability of the new collection, management at Celine was able to convince the U.S. retailers of Bergdorf and Barneys to share the rights to the brand, an arrangement that exclusive retailers of their kind rarely conclude (Dodes & Passariello, 2010). The designer’s subsequent collections have continued to fuel momentum at Celine and, with a strong new foundation, the label has since begun to increase its distribution across all geographic regions, initiated renovation and expansion projects in numerous store locations, and begun to strengthen other product categories, such as leather goods (“Translation of the French,” 2011).

The example of Celine confirms Arnault’s belief in the importance of finding a creative director that is a good strategic fit with a brand and a brand’s image. By giving the designer creative control to make important decisions regarding product lines and putting a visionary management team in place that will aid the brand in growth, development, and marketing initiatives, a brand has the best possible formula for success (Givhan, 2011). In the case of Celine, trade-offs such as the closing of stores and the destroying of previous inventories, were necessary short-term steps to achieve desired results for the brand in the long term. In an interview, Arnault was noted as saying he believes Celine to be the LVMH Fashion and Leather Goods Group’s next star brand. But rather than putting a timeline on that proposition, Arnault was confident the brand will reach its full potential in a natural progression (Givhan, 2011).
Chapter V. Results

This study examined the paradoxical nature of the luxury brand: creating marketing strategies that aim to grow the company, but avoiding over diffusion of the brand, while staying true to core brand values. This complex business environment has continually presented challenges for luxury goods firms. The purpose of this qualitative research study was to develop a luxury brand management framework that will contribute to the growing body of company-based research on the management of luxury brands. The researcher determined that a case study of a leading company in the luxury goods industry would provide insight into brand management successes and failures over the life of the brand, strategy shifts that were made to address changes in the business environment (i.e., consumer, globalization, technology), and noteworthy marketing efforts that illustrated the company’s thrust toward a consumer-centric, and furthermore, an experiential marketing orientation.

Louis Vuitton was selected as the sample company for the case study due to the fact that the company was ranked number one by the two major brand valuation reports (i.e., Interbrand and Brandz Top 100). The top ranking of its brand valuation in these reports indicates that Louis Vuitton is both a financial and marketing leader in the luxury sector of the retail industry and, thus, is representative of an archetypal luxury company. Therefore, the possibility that business practices of Louis Vuitton are emulated by other luxury goods companies and that further research examining a larger sample of luxury companies would yield similar findings, is viable.

As data collection progressed, the case study evolved from a focus on Louis Vuitton, to a focus on the Louis Vuitton Môet-Hennessy conglomerate (LVMH), in which Louis Vuitton is a star brand. This evolution was a result of many factors found in the initial phase of the research, such as the formation of LVMH in 1987 and the subsequent consolidation of the luxury goods
industry. In addition, the depth provided by an exploration of brands that have been brought into and divested from the LVMH portfolio, and the fact that the conglomerate is now the predominant organizational structure within the luxury goods industry, has provided a broader view of the luxury industry and more detail and variety in market and operational strategies.

Six research questions were explicated to guide the development of the study and achieve the study’s purpose. Research Question 1 pertained to the business environment of the apparel industry. Research Questions 2 through 5 covered the case study analysis of Louis Vuitton and its parent company, LVMH. Research Questions 2 through 4 focused on specific history and business strategies of the sample company, while Research Question 5 further drew on information from the case study to provide a context of contributors to the sample company’s brand sustainability and its continual recognition as the top brand in the luxury industry.

Research Questions 1 through 5 were supplemented by a table of variables, operational definitions, and measurements. Operational definitions and measurements were obtained from the review of literature. Most of these operational definitions are from basic marketing and other business literature and are not specific to the luxury industry. Information from the tables aided the researcher in the development of the luxury brand management framework, which addressed Research Question 6 and fulfilled the study’s purpose.

The timeline chosen for the study began in the mid-1800s, coinciding with Louis Vuitton’s inception. The review of literature provided an overview of the history of the luxury goods industry beginning in the mid-1800s and the case study discussion began with the founding of Louis Vuitton, which took place during the same time period. With the earlier periods posed as background to the study’s purpose, this research is more focused towards events in recent history (circa 1990s to 2012). This recent period is of interest due to numerous changes
in corporate structure and business strategies for Louis Vuitton, beginning with the merger of Louis Vuitton with Möet-Hennessy (i.e., manufacturer and retailer of wines, spirits, and fragrances) in 1987. This merger formed LVMH Möet-Hennessy-Louis-Vuitton, which is a Société Anonyme or an SA conglomerate, and is referenced in business literature as LVMH. This merger marked the subsequent ascension of Bernard Arnault to chairman and CEO of LVMH in 1989.

The following section presents a discussion of findings in response to each research question, changes that were made to the research questions and the variable tables to better clarify the data for the luxury goods industry. In addition, a revised table for each research question based on themes that emerged or failed to be seen in the data analysis of the case study is shown. The section concludes with the presentation of the luxury brand management framework developed from Research Questions 1 through 5 to satisfy Research Question 6.

Overview of Changes in the Business Environment

Research Question 1 specified that data analysis for the business environment was to be organized chronologically according to three categories: (a) strategic management of luxury firms, (b) trends in the luxury consumer environment, and (c) changes and developments in globalization and technology impacting the industry as a whole. This question was developed based on previous studies that generalized the business environment to the entire apparel industry. Throughout the case study and data analysis process, the researcher found that the operational definitions for business environment variables (see Table 1) presented in the methods section were consistent with the findings, although they were not initially specific to the luxury industry. After several iterations of the data, the researcher found that themes specific for the luxury goods industry emerged and reorganized from the three predicted categories into the
following categories: (a) expansion and globalization of firms, (b) changes in the luxury consumer environment, and (c) changes and developments in technology (see Table 11).
Table 11. Revised Variables, Operational Definitions, and Measurement as Results of the Study of the Business Environment for Louis Vuitton and the LVMH Conglomerate (Research Question 1)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement as seen in LVMH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Management Response</td>
<td>“Choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value” (Kotler &amp; Keller, 2006, p. 6)</td>
<td>Efficiency and effectiveness of (a) design, (b) production, (c) distribution, and (d) responsiveness to changing market conditions and consumer demands</td>
<td></td>
</tr>
<tr>
<td>Environmental Determinants</td>
<td>Changes in the Luxury Consumer Environment</td>
<td>Consumers willing to “pay premium prices for an experience that is unique, special, and captivating in every way” (Andal-Acion et al., 2010, p. 6).</td>
<td>(a) Demographic change, (b) population shifts, (c) consumer trends (e.g., masstige shoppers, seesaw customers), (d) consumer attitudes, and (e) understanding consumers in emerging markets (Andal-Acion et al., 2010).</td>
</tr>
<tr>
<td></td>
<td>Expansion and Globalization of Firms</td>
<td>“Increasing internationalization of the production, distribution and marketing of goods and services” (Levy, 1995, p. 353)</td>
<td>(a) Growing luxury markets in developing countries, (b) further development of existing markets, (c) tightly controlled distribution, and (d) selective expansion of brand offerings</td>
</tr>
<tr>
<td></td>
<td>Changes and Developments in Technology</td>
<td>“Includes the use of new equipment as well as new processes” (Ko, Kincade, &amp; Brown, 2000, p. 1096)</td>
<td>(a) Company level (e.g., production, distribution, logistics), and (b) store level (e.g., self-service, social media, mobile applications, e-tailing (Burke, 2002)</td>
</tr>
</tbody>
</table>
These three revised categories represent the broad environmental variables that most affect business organizations in the apparel industry and more specifically in the luxury goods industry. In another change from the variables of the predicted business environment, the data for the three categories were not three distinct and unrelated categories but were closely intertwined for the luxury goods industry. In addition, the separate category about strategic management predicted in Research Question 1 (see Table 1), was identified as interrelated to each of the three revised categories (see Table 11). As shown in the case study (see Chapter 4), the changes in the business environment over time and the subsequent strategic management responses of Louis Vuitton and LVMH occurred concurrently. In addition, some overlap among the three variables occurred as strategic management response was often a plan to address the environment as a whole.

Consideration of the relevant theories proposed in the conceptual framework provides further support for the newly proposed interrelationship of the variable categories in Research Question 1 and the placement of strategic planning as an umbrella concept to the other three variables. The marketing management process, used extensively in Louis Vuitton and LVMH growth and development, is built on the concepts of environmental determinism. Companies must continually adapt their business strategies based on environmental cues, and strategic planning is a useful tool that helps companies to monitor the environment in order to implement necessary changes in business strategies that will allow them to continue to meet their goals. Previous research verified the importance of strategic planning in apparel (Kincade, 2002) as well as in the broader context of business and manufacturing operations (Ward & Duray, 2000). This research verifies the positioning of this variable within the context of the luxury goods industry. Throughout the case study, the researcher presented numerous examples of LVMH and
its brands being closely attuned to environmental determinants. These environmental cues either created opportunities or posed threats to the LVMH brand portfolio and warranted changes to capitalize on opportunities or reduce threats to successes in the brand portfolio. Therefore, strategic planning became an overarching theme in the assessment of change with regard to environmental determinants and a directive for implementing strategic management responses to combat or capitalize on those changes.

In their case study on Nike, Park and Kincade (2011) confirmed that the company was clearly impacted by surrounding environmental determinants. Analysis of the data for Research Question 1 confirms that LVMH and other companies in the luxury goods industry are also impacted and make strategic planning decisions based on the environmental determinants (i.e., environmental variables) surrounding them. Table 11 presents variables, operational definitions, and measurement for Research Question 1, reflecting changes made during the research process.

**Successes and Failures of Corporate Variables**

Research Question 2 aimed to determine the indicators of business strategy successes and failures for the sample luxury company for the corporate environment on the variables of (a) company history, (b) brand portfolio, and (c) financial measures (i.e., sales, profits, and losses). To limit redundancy with regard to company history and provide a succinct transition from the discussion of Louis Vuitton to the brand portfolio of LVMH, the variable of company history covered the period from Louis Vuitton’s company inception in 1854 until the company’s merger with Mōet-Hennessy in 1987. Examination of the brand portfolio variable is limited to the period from 1987 to 2011. For Table 12, the variables remained the same and were verified by the measurements and examples found in the case history. However, similar to Table 11, strategic management response was added as an umbrella concept to the three variables as it was evident
throughout the development of the case study that ongoing strategic review and strategic planning provide invaluable guidance for LVMH in the development of its business and brand management strategies.
Table 12. Revised Variables, Operational Definitions, and Measurement as Results for the Study of the Corporate Environment for Louis Vuitton and the LVMH Conglomerate

(Research Question 2)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement as seen in LVMH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Management Response</td>
<td><strong>Company History</strong></td>
<td>“Choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value” (Kotler &amp; Keller, 2006, p. 6)</td>
<td>Efficiency and effectiveness of (a) design, (b) production, (c) distribution, and (d) responsiveness to changing market conditions and consumer demands</td>
</tr>
<tr>
<td></td>
<td><strong>Brand Portfolio</strong></td>
<td>“A range of brands a company has in the market” (Heding, Knudtzen, &amp; Bjerre, 2009, p. 13)</td>
<td>(a) Important business environment changes over the life of the brand, (b) important changes in corporate structure (e.g., mergers and acquisitions, licenses), (c) past affecting current/future business decisions, and (d) use of histories/stories to facilitate brand image</td>
</tr>
<tr>
<td></td>
<td><strong>Financial Measures</strong></td>
<td>Tangible (e.g., sales, profits and losses) and intangible (e.g., brand image, brand value) measures that indicate the extent to which a company is successful (Matthiesen &amp; Phau, 2010)</td>
<td>(a) Sales, (b) profits and losses, (c) brand value, and (d) market share</td>
</tr>
</tbody>
</table>
**Company history.** Company history proved to be an instrumental variable in understanding the dynamic of the Louis Vuitton company, and subsequently, the LVMH conglomerate. The first measurement, important business environment changes over the life of the brand, was useful in tracking changes in the luxury goods industry over time. The review of literature included a detailed history of the luxury goods industry, distinguishable by three time periods. The researcher further explicated the three modern eras of fashion presented by Lipovetsky (1994) to develop the following eras for this study: Worth and the early modern designers (i.e., the first modern era of fashion), the designer as the brand (i.e., the second modern era of fashion), and the rise of the conglomerate (i.e., the third modern era of fashion). While Lipovetsky’s modern eras of fashion discussed phenomena occurring in the apparel industry as a whole, the researcher’s modern eras of fashion focused on business phenomena in the luxury goods industry.

The case study history of Louis Vuitton and the history of the first modern era of fashion both began in the mid-1800s. Similar to the history of the luxury goods industry as a whole, the history of Louis Vuitton traced the importance of advances in technology, advances in transportation, fluctuations in nations’ economies, and the impact of unforeseen events, such as war. However, the effect that Louis Vuitton would have on the luxury goods industry as a whole became evident in 1987 when Louis Vuitton merged with Möet-Hennessy to form the LVMH conglomerate. This merger sparked additional consolidations within the luxury goods industry, and thus, the third modern era of fashion. The period of acquisitions and mergers within the luxury goods industry reached new levels with the ascension of visionary, Bernard Arnault, to the role of LVMH CEO in 1989.
The second measurement of company history, important changes in corporate structure, is detailed from 1987-2011 in the case study and can be seen in Tables 6-10. During the 1990’s, LVMH entered an acquisition spree that resulted in problems for the conglomerate when the world economy slowed in 2001 and worsened after September 11th. The third measurement of company history, pertaining to past company decisions that have affected current or future business decisions, has been evident within LVMH since the conglomerate initiated their back-to-basics focus in 2002. Arnault has been criticized by financial analysts for growing the LVMH brand portfolio too quickly in the 1990’s. Edmonson, Reier, and Flynn (1997) commented that the fast growth left little time for LVMH to digest the acquisitions. Following several years of rapid growth, the year 2002 marked the beginning of a period of austerity for LVMH when the conglomerate had to make needed structural changes within the organization, prioritized the brands that would be allocated funding (i.e., Louis Vuitton, Fendi, Celine) and those that would be placed in a holding pattern (i.e., Donna Karen, Thomas Pink, Givenchy), and began to divest brands that did not gel with the company culture or no longer showed promise of future growth (i.e., Christian Lacroix, Michael Kors). The strategic shift in 2002 helped LVMH re-focus and position itself to help all of the brands in the portfolio get on a track to future profitability.

Lessons learned from the challenges felt by LVMH during the global economic downturn from 2002 to 2005 have been evident in the conglomerate’s slower approach to acquisitions during the second half of the decade.

The fourth measurement of company history, use of histories or stories to facilitate brand image, is very evident with Louis Vuitton. The brand, which originated from the work of a luggage maker, known for impeccable craftsmanship, has stayed true to its origins over the years with its advertising campaigns focusing on the spirit of travel (Pasols, 2005). The brand has
masterfully conveyed a sense of adventure in its advertising as well as in its store and online environments, creating a dream world that transports consumers to exotic locations in past time periods. Commitment to maintaining the storied history and tradition that brought initial success is of great importance to all traditional luxury companies in their strategic planning process (Nueno & Quelch, 1998). LVMH has also been a steward of its other brands’ histories and carefully leveraged those histories to its advantage. For example, in an effort to re-vamp Celine in 2008, the brand returned to its minimalist roots, indicative of French women’s fashion in the mid-1940’s when the brand was formed. Additionally, LVMH was able to cut costs for Givenchy in 2007, by moving the brand’s runway shows at the Fashion Weeks, to a salon format. Not only did the brand save money by not conducting an expensive runway show and free up funding to invest in ready-to-wear collections, but the brand also garnered renewed interest among its couture clientele, as the salon presentation format was reminiscent of Givenchy’s presentation style after its inception in 1952. History and stories are also relevant to the newer brands in the portfolio such as Thomas Pink, Donna Karen, and Marc Jacobs, all founded in 1984. For example, Thomas Pink is positioned as a traditional British shirt maker similar to those found on Jermyn Street in London as early as the 18th Century, but with a fresh, modern take on design. Although there is no replacement for actual ageing of the brand over time, the newer companies can find ways to link themselves to past time periods and create an artificial heritage for their brands through clever marketing strategies, providing them a point of leverage that allows them to better compete with the older, more established brands.

**Brand portfolio.** Examination of the brand portfolio was a seminal variable in understanding the corporate environment of LVMH. The first measurement of brand portfolio examined the connectedness each brand has to other brands in the portfolio. LVMH’s brand
portfolio is comprised of five operating groups, more than any of the other luxury conglomerates. In addition to having a group designated to each of the four segments the luxury goods industry; LVMH has an additional group, Selective Retailing, comprising luxury, beauty, and travel retailers that distribute LVMH brands. Although it was not detailed in this study, LVMH has two companies designated in the “Other Activities” division: a yacht company, Royal Van Lent, and a media group, Les Echos. In addition to having operating groups that saturate the segments of the luxury goods industry, each of LVMH’s operating groups are also diversified.

An in-depth exploration of each of LVMH’s operating groups revealed that each LVMH brand is completely autonomous of other brands in the portfolio. However, LVMH executives who manage the company’s operating groups employ similar strategies among brands in terms of distribution, expansion and globalization, and marketing initiatives. Furthermore, throughout the company’s history, LVMH has created sub-divisions within the groups, to help its executives better manage brands that are in the same stages of development. For example, in 2000, Arnault consolidated LVMH’s U.S. Watch and Jewelry operations into a new group, the LVMH Watch & Jewelry USA Group. This group would handle the sale and distribution of TAGHeuer, Chaumet, Dior, and Fred Joaillier. The change confirmed the Watches and Jewelry Group’s commitment to establish itself in the U.S.’s upscale watch market and to maintain tight control in the distribution of its brands (“LVMH, De Beers,” 2001). In 2005, in an effort to devote attention to flailing brands in the Fashion and Leather Goods Group whose development had been put on hold during the previous few years of austerity, Arnault formed a new division, the LVMH Fashion Group. The LVMH Fashion Group included Celine, Givenchy, Kenzo, Loewe, Marc Jacobs, Pucci, and Rossimoda, who were all at similar developmental stages and have benefitted from being managed by Roussel, who has implemented similar cost-saving and management
changes at the brands. Finally, in 2010, Arnault created a new structure within its Perfume and Cosmetics Group, LVMH Fragrance Brands, comprised of Givenchy, Kenzo, Pucci, and Fendi. He merged the sales force of the four brands in an attempt to give greater weight to the brands in the market, “while maintaining each one’s individual, creative, marketing and communications activities” (Weil, 2010, p. 13). Formation of the new division within the Group illustrated LVMH’s desire to capitalize on economies of scale and to extend the global reach of its sales force, while at the same time spreading best practices among the brands that would allow them to compete with industry leaders like L’Oréal (“LVMH scent unit,” 2011).

The second measurement of the brand portfolio variable examined the position each brand occupies in the market. “[D]eveloping a brand portfolio with plainly distinct and unrelated brands is clearly the simplest and ‘cleanest’ way for marketers of luxury brands to seek new sales at different price points with minimal chances of dilution” (Keller, 2009, p. 229). Arnault has avoided acquiring brands that would be in direct competition with each other. Although many brands in LVMH’s groups are similar and some overlap in target consumers does occur, each has its unique positioning that differentiates it from the other brands in its group. For example, from 1999-2000, LVMH’s Perfume and Cosmetics Group acquired Hard Candy, Urban Decay, BeneFit Cosmetics, Bliss Spa, and Fresh. This string of acquisitions fulfilled numerous strategic goals. First, all of the companies were American brands, a country that had no representation in the Group until 1999. Second, all of the newly acquired brands were geared toward young consumers, a target market that the Group had had trouble reaching. Lastly, the acquisitions diversified the Group by bringing a variety of cosmetics, spa, nail polish, and skin care product offerings to the portfolio. Prior to the acquisitions, the Perfume and Cosmetics Group was comprised of perfume brands and only one brand that specialized in cosmetics.
Similar acquisition strategy can be seen in the Fashion and Leather Goods Group. The Group largely acquired French brands until it began to diversify its portfolio to reach new markets with the acquisition of Spanish brand Loewe in 1996, American brand Marc Jacobs in 1997, and British brand Thomas Pink in 1999. The Group also made an effort to bring Italian brands into the Group (i.e., Stefanobi, Fendi, Pucci, Rossimoda) due to the fact that Italy, comparable to France, has many older, established luxury brands that are internationally known.

The third measurement of the brand portfolio variable examined the extent to which the market is saturated by the brand portfolio. By shopping the brand portfolio together, LVMH has been able to negotiate top positions and discounts when buying bulk advertising and retail space. In this way, LVMH has been able to obtain prime retail and advertising space for its brands. For example, in Tokyo’s Omotesando neighborhood, one of the world’s most coveted shopping addresses, LVMH was able to acquire boutique locations for Fendi and Celine that are right next to each other (Passariello, 2007b). By first being present in emerging markets with the Louis Vuitton brand, and developing business relationships in the countries, LVMH and its brands are more likely to be embraced by business owners than other companies who have no presence in the countries. This advantage is especially true in markets in India and the Middle East, where trust and familiarity are highly valued in business.

[For example,] Louis Vuitton has helped pave the way for the group’s other labels in India. It opened its first store in the lobby of New Delhi’s Oberoi hotel in 2002…Last year, it helped sister label Dior snag the space across the corridor. Similarly, at the historic Taj Mahal Palace hotel in Mumbai where Louis Vuitton opened a store three years ago, the French brand’s reputation benefitted Fendi [who later unveiled its first Indian store at the hotel] (Passariello, 2007b, p. B1)
The general manager of the Taj Mahal Palace hotel chose Fendi over numerous other luxury brands vying for store space in the hotel because of his positive experience bringing the Louis Vuitton boutique to the hotel. Recently, the hotel has also welcomed another LVMH brand, Dom Perignon Champagne.

**Financials.** Examination of financial measures provided a great deal of insight into the corporate environment of LVMH and concrete evidence of the financial health of the conglomerate. The measures of LVMH financials included the following: (a) sales, (b) profits and losses, (c) brand value, and (d) market share. In publically available reports, LVMH does not separate sales by individual brand. However, estimates of financials by luxury goods analysts for LVMH’s individual brands, notably the larger, star brands such as Louis Vuitton, Hennessy, and Möet & Chandon, and Parfums Christian Dior were present on websites such as Datamonitor, Mintel, and Hoover’s. This supplemental information, along with annual results and annual reports from 2002 to 2011, found on LVMH’s corporate website, helped the researcher gain a general knowledge of the financial health of the conglomerate over that nine year period. Annual results and annual reports on the LVMH website identify sales by operating group, region (i.e., Europe excluding France, France, Japan, Asia excluding Japan, United States, other markets), change in sales by region, and organic growth of sales by business group. The Mergent online database also provided historical data on LVMH financials beginning with the conglomerate’s inception in 1987.

A detailed discussion of the financial health of the conglomerate and each LVMH operating group can be found in the case study (see Chapter 4). As Arnault was building the LVMH conglomerate in the early 1990’s, he often targeted brands that were undervalued but showed promise, while lacking the resources to expand globally (Galloni, 2004). Arnault
believed that he could more accurately value brands than the market could. This belief caused him to overpay for many brands (e.g., Fendi, DKNY) that he believed had a strong brand value, without considering potential synergies and strategic fit with the company. For example, Arnault acquired Hard Candy and Urban Decay for the Perfume and Cosmetics Group in 1999. Although these brands fulfilled the strategic goal of diversifying the Group’s portfolio and reaching new target markets, the management of the two brands did not fit well with LVMH’s culture. For this reason, the management of these brands could not take full advantage of company resources, and were eventually sold in 2002 (Gabriele & Rosa, 2009). The sale of the two brands coincided with the beginning of the back-to-basics approach for the conglomerate. An example of lessons learned within LVMH, is the fact that Arnault and his executive team began to select only brands believed to be a close fit with LVMH’s company culture, brands that further diversified the operating group that they were entering, and brands that would appeal to new target markets. Companies with strong brand value were no longer attractive if they did not exhibit strategic fit with LVMH, now an important requirement of purchase decisions.

A general theme found throughout the case study is that world economic conditions alone fail to account for fluctuations in global sales and foreign market participation levels. For example, the period from 1990-1995 which saw the most significant increase to date of fashion retailers entering a foreign market for the first time, took place during a period of considerable economic recession (Moore & Burt, 2007). Furthermore, some brands in the portfolio appeared to be more reactive during times of economic recession, and other brands less reactive, For example, from 2008 to 2009, LVMH’s Perfumes and Cosmetics Group, Wines and Spirits, and Watches and Jewelry reported negative sales growth, while Fashion and Leather Goods and Selective Retailing reported sales growth of 5% and 4%, respectively. During 2009, LVMH
reported a sales growth of -1%, with fourth quarter sales demonstrating a tepid recovery (Annual results 2009, 2010). In contrast, star brand Louis Vuitton as well as Selective Retailing brands, Sephora and DFS demonstrated growth throughout the 2008 to 2010 recession. In 2010, LVMH’s sales recovered with vigor across all operating groups, demonstrating the luxury industry’s strongest recovery. Luxury goods analysts cited the fact that LVMH maintained its focus on the quality, durability, and heritage of its brands, avoiding the temptation to lower these factors as well as price to garner sales. This approach is viewed as a key factor that resulted in the conglomerate spearheading the recovery among firms in the luxury goods industry (“Luxury Goods Retailing,” 2011).

In 2010, Mintel estimated the value of the luxury goods industry to be around $230 billion, with LVMH controlling a little over 12%, the largest market share in the industry (“Luxury Goods Retailing,” 2011). Part of LVMH’s back-to-basics strategy involves owning a variety of brands in multiple countries, and continually expanding into emerging markets (Passariello, 2007b). This strategy has helped, to some extent; to offset the risk of fashion and economic cycles. More importantly, Arnault believes in striving for equilibrium of sales by having a retail presence in Europe, the Americas, and Asia (i.e., the three-legged stool) in order never to rely too heavily on any one region (Adams & Elliott, 2010). In 2011, key market share themes in the industry included Europe losing its leadership to the Asia-Pacific region, the Americas continuing to surpass sales predictions with the help of emerging markets in South America, and the Middle East growing increasingly important (“Luxury Goods Retailing,” 2011). LVMH demonstrated growth in all regions in 2011 and remained poised to continue its market share leadership in 2012.
Successes and Failures of Brand Management Variables

Research Question 3 aimed to determine the indicators of brand management successes and failures for the sample luxury company on the following variables: (a) brand management strategies, (b) brand identity, and (c) marketing vision. For Table 13, the three original variables remained the same, and were verified by the measurements and examples found in the case history. Similar to Tables 11-12, strategic management response was added as an umbrella concept to the three variables as it was evident throughout the development of the case study that ongoing strategic review and strategic planning provide invaluable guidance for LVMH in the development of its business and brand management strategies.
Table 13. Revised Variables, Operational Definitions, and Measurement as Results for the Study of Brand Management for Louis Vuitton and the LVMH Conglomerate
(Research Question 3)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement as seen in LVMH</th>
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<tbody>
<tr>
<td>Strategic Management Response</td>
<td>“Choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value” (Kotler &amp; Keller, 2006, p. 6)</td>
<td>Efficiency and effectiveness of (a) design, (b) production, (c) distribution, and (d) responsiveness to changing market conditions and consumer demands</td>
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<tr>
<td>Interpretation of branding variables as a measurement of brand management successes or failures</td>
<td>Brand Management Strategies</td>
<td>Unique to each brand; a strategic, visionary, and proactive approach to enhancing internal and external opportunities of the brand (Heidig et al., 2009)</td>
<td>(a) Competitive and financial strength, (b) strong brand performance, (c) consistency in communication of brand concept, and (d) social and cultural responsiveness (Heidig et al., 2009)</td>
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<td></td>
<td>Brand Identity</td>
<td>“The identifiable attributes and identifiable elements that make up the brand and how these are perceived and interpreted by people that come into contact with the brand” (Okonkwo, 2007, p. 110)</td>
<td>(a)Brand image, (b) brand personality, and c) brand protection (Keller, 1993, 1998; Okonkwo, 2007)</td>
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<tr>
<td></td>
<td>Marketing Vision</td>
<td>“Top management’s aspirations for the company” (Hatch &amp; Schultz, 2001, p. 130)</td>
<td>(a) Vision supports brand identity and brand positioning, (b) integration of vision at all company levels, and (c) vision evolves with consumer change</td>
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**Brand management strategies.** The variable, brand management strategies, was measured by: (a) competitive and financial strength of brands, (b) brand performance, (c) consistency in communications and coherent brand personality, and (d) social and cultural
responsiveness. The first measurement of brand management strategy examined the competitive and financial strength of brands in the LVMH portfolio. The goal of any brand in any industry is to be competitive and financially successful in the consumer market, and the case study (Chapter 4) details how the brands in each of LVMH’s operating groups are achieving those goals. A distinction of LVMH’s brand management strategy is that it does delineate a particular time frame for its brands to become competitive and financially successful. Arnault and his creative group of executives think long term and have often sacrificed short-term profitability for long-term growth while restructuring and reorganizing flailing brands (e.g., Celine, Marc Jacobs; Adams & Elliott, 2010). Arnault and LVMH have survived recessionary periods, corporate fights, and unforeseen events, by never compromising the quality or exclusivity of their brands to generate a profit in trying times. Tightly held distribution has also allowed LVMH to maximize profits for its brands (Denis, 2012). Arnault has also become attuned to when it is time to invest in smaller brands and when it is time to devote all of LVMH’s attention to maintaining and growing the conglomerate’s star brands. Those star brands (i.e., Louis Vuitton, Möet & Chandon, Hennessy, Parfums Christian Dior) are such strong drivers of sales for the conglomerate that they provide LVMH with the flexibility to develop promising but underperforming brands in the time frames that they deem appropriate, while also remaining open to the possibility of selling brands that do not begin to show promise (Galloni, 2004).

The second measurement of brand management strategy, strong brand performance, is also one that Arnault and LVMH strive for over time. Arnault’s goal for all the brands in the portfolio, is to develop star brands, brands that are timeless, modern, fast-growing, and profitable, all at once (Wetlaufer, 2001). Creating star brands is challenging as star brands’ characteristics exhibit the paradoxical nature of successful luxury brands: fast growth is often at
odds with profitability and modernity is often at odds with timelessness. Many brands, especially the newer brands in the group (i.e., Thomas Pink, DKNY, Marc Jacobs) have had to age within the portfolio. Although timelessness can be enhanced with the right marketing strategy, it can rarely be created from scratch. Arnault has acknowledged that growing star brands can take 15 years or longer, but as long as each brand’s performance indicates that one day the brand could achieve star status, he is content with the evolutionary nature of the process (Wetlaufer, 2001).

While providing his brands with generous time windows to demonstrate success, Arnault and the LVMH executives do closely monitor brands in the portfolio to ensure that they are implementing LVMH’s formula for success. This formula includes ensuring uncompromising quality, maintaining a tight hold on distribution, and selectively expanding store locations. At the same time, the brands’ creative directors are allowed the sovereignty to practice unbridled creativity and innovation in the brands’ product development.

The third measurement of brand management strategy, consistency in communications and coherent brand personality, was modified to be consistency in communication of brand concept. “The brand concept is reflected through the name of the brand, its country of origin, its history and story, its visual image, its logo, its colors, its shapes, its languages and its total offerings” (Okonkwo, 2007, p. 107). The brand concept is the very basis of the brand and must be a solid building block for development of the brand identity. Research suggests (e.g., Ind, 1997; Chernatony & Harris, 2000; Simões & Dibb, 2001) that the most successful companies integrate the brand concept at the corporate level, and in doing so, reveal their company mission through the brand concept. By embedding the brand concept throughout the entire organization, companies reach a point where their brand or brands come to represent the core beliefs and values of the company as a whole. LVMH boasts a portfolio of brands with clearly defined brand
concepts (e.g., Bulgari, Pucci, Fendi, TAGHeuer), and has also chosen to divest brands in the past that have struggled to fully develop their brand concept and convey it successfully to consumer target markets (e.g., Lacroix, Hard Candy, Urban Decay, Ebel).

However, if LVMH has successfully demonstrated the core values at the root of the conglomerate through one brand, it is Louis Vuitton. In 2007, Antoine Arnault, LVMH’s head of communications, launched Louis Vuitton’s “Core-Values” campaign as part of an initiative geared toward the significant increase in spending on advertising. The goal of the campaign is to trumpet “the brand’s travel heritage and classic monogram leather goods as a balance to its fashion-driven marketing” (Socha, 2008, p. 13). For example, one of the most highly publicized “Core Values” campaigns took place in 2011 and featured Angelina Jolie, posing with her own, weathered Louis Vuitton Alto bag, in an untouched lakeside landscape in Cambodia’s Siem Reap province (Socha, 2011a). Another “Core Values” campaign that took place in 2010 featured Ali Hewson and U2 vocalist, Bono, photographed in Africa, a part of the world for which they are long-time campaigners in the fight against extreme poverty. The campaign was LVMH’s strategic attempt to market Louis Vuitton while also garnering attention for another brand that it had recently acquired.

[I]n 2005 [Hewson and Bono] founded the ethical clothing label Edun to encourage trade with Africa and to highlight the possibilities for the fashion community to do business there. In 2009, LVMH, in line with its long-standing commitment to sustainable development, acquired a 49% stake in Edun in order to promote more widely the brand’s positive vision of responsible trade (Enrique, 2010, para.3)

Louis Vuitton’s “Core Values” advertising campaigns have been very successful in conveying the Louis Vuitton brand concept to consumers and reiterating the fact that despite the brand
having significantly expanded its product offerings, it still remains true to its core values of travel, self-discovery, and adventure. Furthermore, the campaigns also conveyed LVMH’s commitment to corporate social responsibility, sustainability, and philanthropy, by allowing celebrities to highlight the important causes they champion and encouraging them to donate a portion of their fees from the campaign to those causes.

The fourth measurement of brand management, social and cultural responsiveness, is becoming an increasingly important component of brand management strategy. “In 2007, 64% of luxury customers stated, that they preferred socially responsibly brands” (Philanthropy, 2012, para. 1). By examining LVMH’s corporate website, one can clearly see that the conglomerate is practicing social and cultural responsiveness through numerous corporate social responsibility (CSR) initiatives. Arnault has deemed the conglomerate a patron of the arts and social solidarity and championed LVMH’s message that it is its duty to share its economic success by investing in endeavors that support three areas: (a) culture, arts, and heritage, (b) the education of young people, and (c) humanitarian and public health initiatives (“LVMH, Patron of the arts,” 2012).

In addition to corporate initiatives, Arnault, who is considered to be an ambassador of French heritage and French culture, has also invested in philanthropic initiatives of his own. In 2006, he commissioned his dream project, a bold new modern art museum in the center of Paris, which would be designed by world renowned architect, Frank Gehry (Adams & Elliott, 2010). The museum, which is being hailed by Paris’s city authorities as France’s next national monument, will be known as the Louis Vuitton Foundation for Creation. Arnault’s overarching goal of the museum project is to demonstrate how the present evolves from the past, a theme that is also common to his goal for brands in the LVMH portfolio (Adams & Elliott, 2010).
Arnault and LVMH also maintain a strong commitment to environmental protection and, in 2001, drew up a charter detailing environmental protection criteria and organizational goals to be implemented in design, production, and distribution across all LVMH brands (LVMH and the environment, 2012). The charter differentiates environmental protection from philanthropy, by stating that, “for companies, it is a factor of progress and competitiveness while for society it represents a tangible proof of freedom and a new way of thinking” (LVMH and the environment, 2012, para. 3). In addition to following the environmental charter, many LVMH brands (e.g., Fresh, Edun, Fendi) have implemented their own environmental initiatives.

**Brand identity.** A strong brand concept lays the foundation for the development of brand identity, or “the attributes and identifiable elements that make up the brand and how these are perceived and interpreted by the people that come into contact with the brand” (Okonkwo, 2007, p. 110). Brand identity is created and shaped through the brand strategy, which is linked closely to a company’s business strategy. Ideally, the two are developed simultaneously with the goal of supporting and balancing one another. Thus, brand identity becomes embedded in all of a company’s business functions. The variable, brand identity, was measured by: (a) brand image, (b) brand personality, and (c) brand protection, an additional variable that emerged throughout the development of the case study (see Chapter 4). The three measurements were examined concurrently due to the fact that they are highly interrelated.

Brand identity encompasses both the brand image (i.e., the first measurement) and the brand personality (i.e., the second measurement). Brand image is “the way the brand is seen by the people it is exposed to” and brand personality “is the core personality traits and characteristics that have been consciously chosen for the brand” (Okonkwo, 2007, p. 110). In other words, brand personality is how the brand is created to be, or its “true self,” and brand
image is the interpretation of a brand in the mind of the consumer based on the way the brand projects itself. This mutual understanding of brand meaning is important in successful communication between the brand and the public market. Management of the brand identity (i.e., brand image, brand personality) is vital to a company’s success. However, a paradox within LVMH, since the conglomerate’s inception, has been how to successfully integrate new brands into the portfolio, transfer knowledge and added value to those brands, and initiate needed reorganization or restructuring, while following a brand protection strategy (i.e., the third measurement) in which acquired companies remain mostly autonomous to preserve brand identity.

Arnault first demonstrated his ability to revitalize brand identity through corporate restructuring, with the Dior Couture brand. Dior Couture was once considered France’s most prestigious fashion label, but was significantly diluted by extensive licensing and widespread distribution in the 1970s. After Arnault took his seat as Chairman of the Board in 1984, he made many employment and management changes at Dior. Arnault believed that his chosen group of executives could successfully carry out his broad mission for the brand, bringing

Dior's business model into the modern luxury age, transforming it from a licensing-driven company to one centered on control of production and distribution. That not only meant rebuilding the organization, and launching into the lucrative accessories category, but reenergizing the house and making it relevant to a new generation (Socha, 2007, p. 22)

The new management team, who understood Arnault’s vision for the brand, significantly reduced license agreements, curtailed retail franchise agreements in favor of wholly owned retail networks, and controlled production of goods (Christian Dior SA, 2012). Dior Couture’s exclusivity slowly began to be restored.
Dior Couture’s subsequent CEO was also hand selected by Arnault as someone that would continue to develop the brand into a modern luxury player through aggressive global expansion, selective product extensions, and constant collaboration with the brand’s creative director. Constant collaboration between the brand’s creative and business functions ensured that Dior Couture’s brand personality was carefully conveyed through product lines, marketing campaigns, and in retail spaces, to create a clear brand image in the minds of luxury consumers.

Even more impressive than the revitalization of Dior Couture’s brand identity, was Arnault’s strategy for the Louis Vuitton brand, whose profits and sales were on the decline in the 1990s. Although the brand maintained an indisputable reputation for craftsmanship, the must-have bags of the 1980s were now considered “the bag your mother bought” (Guyon, 2004, p. 34). An oversaturation of the market had led to ubiquity, and most of the brand’s success was primarily due to appearance. Arnault, who “recognized the need to exploit the company’s potential immediately to assure its performance and thereby its longevity,” (Pasols, 2005, p. 301) appointed Yves Carcelle CEO of Vuitton Arnault believed that Carcelle would reverse the decline in sales and revenue for the brand. Arnault was confident that Carcelle shared his vision for Louis Vuitton, and instilled his full trust in him to manage the brand.

Carcelle carried out Arnault’s vision of infusing modernity into the heritage brand by introducing new leather lines featuring vibrant colors, innovative design styles, and new materials. Carcelle also improved Louis Vuitton’s brand image, restoring exclusivity by creating artificial scarcity through limited production and release of products. However, the pivotal change in the overhaul of Louis Vuitton’s brand identity was Carcelle’s appointment of Marc Jacobs as creative director in 1997. Since 1997, Jacobs has perfectly channeled the Louis Vuitton brand image in his designs.
The restructuring and revitalization of the Dior Couture and Louis Vuitton brands’ identity confirmed two common themes: (a) creative and innovative design talent with a clear understanding of the brand’s personality and responsiveness to the unpredictable nature of fashion is the most important driver of brand strength, and (b) the creative director must be aided by a visionary manager who can provide expertise in business capabilities and work with the creative director to ensure that the synergized brand identity is accurately projected through the marketing vision. An additional theme can be identified, trust, in which Arnault and, in the case of Louis Vuitton, LVMH, were confident that teams at each brand understood the goals that had been set for its growth and development and were capable of seeing those goals to fruition. Arnault’s brand strategy and vision for restoring Dior Couture and Louis Vuitton’s brand identity, and the companies to their former stature, proved to be very different than the one he initially implemented in growing the LVMH portfolio.

Before Arnault made any acquisitions to the LVMH portfolio, he tried unsuccessfully to build a brand internally by underwriting Christian Lacroix’s brand. The failure of the Christian Lacroix brand within the LVMH portfolio is detailed in the case study (see Chapter 4). Pressure to generate a profit in a small time window, led Lacroix to subdue his designs in order to reach a larger audience (Donovan, 1988). The brand’s identity was a casualty of that decision, and it became unrecognizable to consumers in the market. In addition to the Christian Lacroix brand’s namesake failing to establish a recognizable brand personality and signature design aesthetic, successful collaboration of the brand’s creative design team and management team never occurred. This failure within the brand portfolio begs the question of why Arnault did not take a more proactive role in selecting a visionary manager for the brand at its inception. However, a lesson learned from the Lacroix brand failure, was that brands must be allowed to grow and
develop at their own pace. Arnault and LVMH learned that they must allow brand’s creative directors the freedom to create without limits, trusting that commercial interpretation of the designer’s vision will come eventually, and with it, positive financial results (Gabriele & Rosa, 2009).

For the most part, Arnault’s goal of brand protection worked well among acquired brands. Because no interaction occurred among acquired companies, and only minimal interaction happened between acquired companies and LVMH, protection of the brand identity of individual brands was easily achieved. The acquired brands’ creative directors continued to create and drive brand strength. However, as many of the newly acquired brands were small in size, many of the brands’ managers (e.g., Hard Candy, Urban Decay, Ebel) did not have the business capabilities to aid their brands in producing, manufacturing, and distributing on a global scale, or experience with market entry. Although identities were protected, many of the brands failed to meet the expansion and development goals that LVMH had set for them. Even though LVMH had a great deal of expertise in these areas, the conglomerate had not developed any organizational integration initiatives geared toward delivering value and did not engage in knowledge transfer with its acquired companies.

LVMH did not begin to implement changes in its integration initiatives until it began the back-to-basics approach in 2002. LVMH’s strategic shift would aim to transfer knowledge, provide added value, and capitalize on scale economies among brands in its portfolio. As the brand portfolio grew, LVMH slowly learned “that the communication between brands presented the opportunity to improve all brands’ performances,” and thus, brand equity across its portfolio (Gabriele & Rosa, 2009).
**Marketing vision.** The variable, marketing vision, is an important variable in the examination of brand management successes and failures (Hatch & Schultz, 2001). In the explication of measurements for the marketing vision variable (see Table 3), the researcher utilized Hatch and Schultz’s (2001) measures of a successful marketing vision: (a) vision inspires all its sub-cultures, (b) vision is effectively communicated to stakeholders, and (c) company image is aligned with stakeholder’s image of the company.

Throughout the development of the case study (see Chapter 4), the researcher determined that a clear marketing vision must be cohesive with and in support of a company’s brand identity and brand positioning. Additionally, the researcher found that, for the purpose of this research, the measurements explicated by Hatch and Schultz (2001) could be simplified and discussed concurrently. Finally, the researcher determined that because the case study aimed to identify brand management successes and failures over time, accounting for changes in the consumer environment, a measurement should be included to determine the extent to which the sample company has adapted its marketing vision to changing consumer needs. Therefore, the measurements of marketing vision were revised (see Table 13) as follows: (a) vision supports brand identity and brand positioning, (b) integration of vision at all company levels, and (c) vision evolves with consumer change. This modification aimed to more succinctly address key goals pertaining to LVMH’s broad marketing vision and the vision of individual brands in the LVMH portfolio.

After the brand identity is established, a company must meticulously position the brand both internally and externally. Brand positioning builds on the brand identity, helping marketers to create “the optimal location in the minds of existing and potential consumers so that they think of the brand in the ‘right way’” (Keller, 1999, p. 44). The fact that luxury brands are symbolic in
nature and enjoy high brand awareness that extends well beyond their target consumers creates unique opportunities for companies in the development of their marketing vision. For example, most consumers would immediately recognize an advertisement featuring a brown canvas handbag with an LV monogram, as Louis Vuitton. Recognizable design aesthetics, such as the jungle-themed aesthetic of Kenzo, are also useful in advertising, as they convey the brand personality to the consumer.

The fact that luxury marketers can leverage the high awareness of their brands to market in a more abstract and avant-garde nature allows marketers, like Louis Vuitton’s Antoine Arnault, to craft advertisements and ad campaigns that do much more than pose a picture of the season’s latest handbag. Instead of ads showing product, the more abstract advertisements, such as those in Louis Vuitton’s “Core Values” campaign, exude the brand’s essence and reflect the symbolic nature of the brand. By appealing to consumers’ senses and transporting them to another world, however briefly, luxury brands like Louis Vuitton are able to create much stronger, deeper associations in the minds of existing and potential consumers, than the associations that would be created by brands in less aspirational product categories.

The second measurement involves integrating the marketing vision at all levels of the company. Marketing is but one of the action plans developed by a company to help realize strategic goals. “Preparing the market plan in concert with the strategic planning process is often called strategic marketing” (Kincade & Gibson, 2010, p. 65) and is beneficial in addressing company strategic goals at the departmental level. Strategic marketing through strategic planning is an example of the importance of cohesion of goals and strategies at all levels and throughout all functions of the company. In an interview for the Harvard Business Review, Arnault stated that “the last thing you should do is assign advertising to [a brand’s] marketing department. If
you do that, you lose the proximity between the designers and the message to the marketplace. [LVMH] keeps the advertising right inside the design team” (Wetlaufer, 2001, p. 122). In addition, LVMH’s tightly held distribution not only helps to facilitate control of margins and quality, but also allows it to ensure that those marketing decisions are adhered to (Denis, 2012).

Furthermore, in the Fashion and Leather Goods Group, the designers themselves are a huge source of marketing leverage for their brands. Although runway shows are expensive and feature styles that have little commercial relevance, they are an invaluable marketing tool, spiking demand for the brand and facilitating the sale of accessories, handbags, ready-to-wear, make-up, and perfume (Greenfeld & Pascual, 2000).

Additionally, events at the Fashion Weeks, such as runway shows and private viewings allow creative directors to show their collections to celebrity clientele. Celebrities, who often become champions of designer brands, increase a brand’s visibility when they dress in and tout the brand at public appearances. For example, Rooney Mara, a best actress nominee, for her role in The Girl with the Dragon Tattoo, wore a Givenchy gown (i.e., one of LVMH brands) to the Academy Awards. Although, Mara did not win the award, she created free publicity for Tisci and Givenchy (Socha, 2012a).

The third measurement, vision evolves with consumer change, can be explained for LVMH by its brands’ ability to be reactive to changing marketing orientations over time. In the 2000s, marketing orientations became consumer-centric and were continually adapted to address changes in the consumer environment. Some researchers refer to this new orientation as the branding, information, and communications age (Schmitt, 1999). The proliferation of imagery and the desire by consumers for constant entertainment have resulted in the introduction of a new marketing orientation under the consumer-centric umbrella, experiential marketing. Because
Luxury goods can be experiential in nature, luxury marketers are in a unique position to apply experiential principles to their marketing strategies with maximum results in the form of increased brand loyalty (Atwal & Williams, 2009).

Louis Vuitton was the first brand in the LVMH portfolio to acknowledge the need to incorporate experiential principles in its marketing strategy and in 2003, while many other luxury brands in the industry were cutting advertising budgets in the midst of a recession; the brand boosted its global advertising budget 20% (Matlack et al., 2004). Louis Vuitton also began to increase floor size in its existing stores, and where space permitted, expanded the stores into maisons, or megastores, that exceeded 1,000 square meters.

The goal was to give customers the illusion of traveling seamlessly through and inviting, multifaceted universe. To that end, the architects of each project were deeply committed to rethinking several essential components of the stores’ architecture: the façade, the interior spaces, and the systematic exploitation of the brand (Pasols, 2005, p. 145).

The experiential marketing theme can be seen across each operating groups of the LVMH portfolio, and is being implemented by both, old and “new” brands. In addition to expanding and remodeling existing retail spaces, many brands now offer personalization services in their boutiques (e.g., Thomas Pink, Benefit), enhanced customer service offerings utilizing digital features (e.g., Sephora), and special exhibits geared toward consumer interaction and education (e.g., Fendi, Dior). Improved interactivity and experiential features on company websites was also a theme in 2011 (“Translation of the French,” 2011).

**Successes and Failures of Growth Trade-Off Variables**

Research Question 4 examined the sample luxury company’s management of growth trade-offs in marketing decisions as a measurement of brand management successes or failure.
Growth trade-offs were measured on the variables of: (a) growth trade-offs, (b) brand equity, and (c) brand architecture (see Table 14). Similar to Tables 11-13, strategic management response was added as an umbrella concept to the three variables as it was evident throughout the development of the case study that ongoing strategic review and strategic planning provide invaluable guidance for LVMH in the development of its business and brand management strategies.
Table 14. Revised Variables, Operational Definitions, and Measurement as Results for the Study of Growth Trade-Offs for Louis Vuitton and the LVMH Conglomerate (Research Question 4)

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<td>Growth trade-offs</td>
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<td>Brand Equity</td>
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<td>Brand Architecture</td>
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<td>Efficiency and effectiveness of (a) design, (b) production, (c) distribution, and (d) responsiveness to changing market conditions and consumer demands</td>
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<tr>
<td>“How to attract new customers without alienating existing customers in order to grow” (Keller, 2009, p. 300)</td>
<td>(a) Classic vs. contemporary images, (b) exclusivity vs. accessibility, (c) retention vs. acquisition, and (d) short-term profitability vs. long-term gain</td>
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<td>“Marketing effects uniquely attributable to the brand-for example, when certain outcomes result from the marketing of a product or service because of its brand name that would not occur if the same product or service did not have that name” (Keller, 1993, p. 1)</td>
<td>(a) Corporate brand equity, and (b) digital brand equity,</td>
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<tr>
<td>Brand portfolios (in the case of conglomerates) or the brands a company owns and the organization and relationship of these brands to each other within the brand portfolio. Includes vertical extensions, sub-branding, and licensing (Keller, 2009)</td>
<td>(a) Diversity, (b) brand extensions, (c) sub-branding</td>
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**Growth trade-offs.** The variable, growth trade-offs, is an important variable, especially for luxury companies, in the examination of brand management successes or failures (Keller, 2009). In the explication of measurements for the growth trade-off variable (see Table 4), the researcher utilized Keller’s (2009) most well-known trade-offs in the management of luxury brands: (a) classic vs. contemporary images, (b) exclusivity vs. accessibility, and (c) retention vs. acquisition (e.g., customers). Throughout the development of the case study (see Chapter 4), the researcher identified the presence of these three types of growth trade-offs within LVMH. However, trade-offs were never addressed by LVMH as either/or decisions as indicated by Keller. Rather, trade-off decisions were approached with the goal of incorporating both components of the trade-off into LVMH’s brand management strategy in order to facilitate a balance among the items in the trade-off. On the other hand, one additional trade-off measure (i.e., short-term profitability vs. long-term gain) emerged and was added to Table 14.

This first measurement of trade-offs, classic vs. contemporary image, is a common issue for luxury companies. Older brands are challenged with how to best make themselves relevant to new generations, while the younger brands have to compete against the prestige and heritage of the older brands. While this area must be addressed by luxury goods companies, no evidence was found in the case study to suggest that an older brand (e.g., Louis Vuitton, Givenchy, Fendi) cannot cultivate contemporariness, or that a younger brand (e.g., Thomas Pink) cannot, through clever marketing strategies, create an artificial heritage that will supplement its marketing strategies until the brand matures and cultivates a true heritage of its own over time. Both old and young brands must utilize contemporariness to maintain profitability and growth in current and future consumer markets, but evidence in the case study (see Chapter 4) indicated that the younger brands do not necessarily need a long history to be successful. For example, young
luxury goods brands (e.g., Marc Jacobs, Benefit) have achieved just as much success through embracing a purely modern aesthetic and brand identity as they could have through the creation of an artificial heritage (Adams & Elliott, 2010). Regardless of a younger brand’s strategy, the key for success as indicated by LVMH is not to rush development of heritage or financial profitability, but to reach these goals in a timely progression.

One of Arnault’s and LVMH’s strategies for invigorating older brands in the portfolio is through the appointment of creative, sometimes eccentric, design talents that bring a modern edge to the brands and attract younger clientele, while also preserving the brands’ heritage and craftsmanship. For example, Marc Jacobs, Louis Vuitton’s creative director since 1997, has developed many innovative handbag collections (e.g., Graffiti Collection, Multicolor Collection) that have appealed to younger consumers. At the same time, Jacobs, has introduced traditional product lines featuring minor alterations from the original styles, such as new colors or materials (Matlack et al., 2004). Examples of older brands that are embracing, both the contemporary and the classic, are evident across the LVMH portfolio, confirming their ability to strategically navigate changing consumer markets and maintain a strong presence in the luxury goods industry over time.

The second measurement, exclusivity vs. accessibility, is also a growth trade-off used by LVMH. The company “has managed the balance well, but it is taking no chances, offering customers increasingly expensive and bespoke services in an effort to retain a high-end mystique around brands in danger of becoming ubiquitous” (Denis, 2012, para. 1). In order to master the paradox of growing without diluting their brand image, LVMH’s distribution is tightly controlled throughout each operating group, which allows for the control of margins and ensures that marketing decisions are adhered to (Denis, 2012). License agreements are also approached with
extreme caution as many companies within LVMH (i.e., Donna Karen, Dior) suffered from flailing brand images due to over-licensing at the time of their acquisition (Galloni, 2004).

In the growth trade-offs of recent years, brands have favored increasing depth (i.e., exclusivity) over breadth (i.e., accessibility). That is, many LVMH brands (e.g., Fendi, Guerlain, Dior, Sephora) are renovating existing store spaces to increase floor space, improve architectural design, improve service offerings, and appeal to consumers’ senses instead of opening more stores. In keeping with experiential marketing orientation, brands in the LVMH portfolio are striving to create holistic but exclusive experiences for their consumers to drive brand value and thus, loyalty. To further maintain exclusivity, some brands in the portfolio (e.g., Dior) have opted to use the Internet as an interactive platform rather than a transactional one. Dior, for example, allows consumers to browse collections and identify the nearest boutique to carry their product of interest, but does not sell goods on their website. This Internet strategy is a way that brands can increase visibility while maintaining exclusivity, and driving consumer demand.

The third measurement, retention vs. acquisition, is another trade-off in which LVMH is maintaining a careful balance. LVMH has over 60 prestigious brands, trading within five operating groups (“Luxury goods retailing,” 2011). Therefore, LVMH brands will likely be in concurrent and asynchronous phases of retention and acquisition across multiple market segments and require constant monitoring and balancing.

The AO Framework and associated grid (see Chapter 2) details how brands within a company, operating in separate quadrants, must be handled without sacrificing loyal consumers in the brand’s main quadrant (Berthon et al., 2009). “Each quadrant could, in and of itself, represent a different market segment for the same luxury brand” [and] “that the same luxury good can mean different things at different times to the same or different people is one of the
nuanced paradoxes of luxury brands” (Berthon et al., 2009, p. 56). Although LVMH’s brands do not employ this exact typology, trade-off decisions such as which brands to keep, buy, or divest, must be made, and the impact of those decisions on loyal consumers as well as potential and new consumers, must be assessed.

The fourth measurement, short-term profitability vs. long-term gain, was the only trade-off measure in which LVMH made a clear choice of one strategy over the other rather than maintaining a balance between the two options. With respect to the brands in the portfolio, LVMH has often sacrificed short-term profitability for the long term gain. For example, Louis Vuitton entered emerging markets in the Middle East and South East Asia in 2011. Although the market resulted in slow sales initially, money continued to be made available from LVMH for individual brand operations in this market in the short term to gain long term market share and ultimate profitability.

In another example of this measure, the failure of the Christian Lacroix brand is useful in demonstrating that pressure to meet short-term financial goals does not facilitate creativity of designers, but can have the opposite effect. Because creative talent is so highly valued within LVMH, the conglomerate lives by the philosophy that “if you look over a creative person’s shoulder, he will stop doing great work” (Wetlaufer, 2001, p. 118). Some of LVMH’s brands, namely those in the Fashion and Leather Goods Group, took many years to achieve profitability after their acquisition into the portfolio. This long-term gain was, in part, due to the fact that many of the brands underwent restructuring, changes in management and creative directors, and even extreme back-to-basics shifts. For example, when Phoebe Philo joined Celine in 2008, she destroyed the brand’s preexisting inventory, closed numerous store locations and incurred
numerous other restructuring costs for LVMH in order rebuild the brand from scratch with the goal of sustainable growth and long-term profitability (Dodes & Passariello, 2010).

Although Arnault’s laissez-faire attitude regarding the realization of long-term profitable growth of LVMH brands has often criticized by luxury analysts, (i.e., 2001-2004), the strategy has been successful. In recent years LVMH’s multi-brand strategy has begun to show promise as many of the smaller brands have reached profitability and sustained growth. In 2011, many of the brands in the Fashion and Leather Goods Group (e.g., Celine, Kenzo, Fendi, Loewe) demonstrated record performances (“Translation of the French, 2011).

**Brand equity.** The variable, brand equity, was cited by Keller (2009) as one of two “critical” areas that luxury marketers must consider to manage successfully the growth of their luxury brands over time and to evaluate growth trade-offs. In the explication of measurements for the brand equity variable (see Table 4), the researcher utilized the following: (a) corporate brand equity, (b) consumer-based brand equity, (c) digital brand equity, and (d) Young and Rubicam’s Brand Asset Valuator.

Throughout the development of the case study (see Chapter 4), the researcher determined that the measurements presented for the brand equity variable (see Table 4) merited revision. This research is a corporate-based study, aiming to provide insight into how a luxury brand is managed over time, employing strategic planning to account for issues in the business environment (i.e., consumer, globalization, technology). Although the consumer is often discussed, it is in the context of the broader business environment of the luxury goods industry rather than at a micro level. To that end, the second measurement, consumer-based brand equity (see Table 4) was removed. Similarly, the fourth measurement, Young and Rubicam’s Brand Asset Valuator (see Table 4), was removed due to the fact that it is a consumer-based metric.
Therefore, the measurements of brand equity were revised (see Table 14) to be: (a) corporate brand equity and (b) digital brand equity.

The first measurement, corporate brand equity (CBE), emerged during the broad overview of branding that was conducted in the review of literature (see Chapter 2) and represents one of two main approaches to brand equity research (i.e., corporate brand equity, consumer-based brand equity). Corporate brand equity proved to be the most important measurement in the examination of the brand equity variable for LVMH. Brand equity, or brand value, is the end result of strong brand building and provides substantial competitive advantage for a company. From the corporate perspective, brand equity refers to the value of the brand as determined by stakeholders’ (i.e., employees, shareholders, suppliers, general public) associations toward the brand (Shamma & Hassan, 2011).

In its loosest form, CBE refers to creating added value. At its inception, LVMH created little added value for its acquired brands. Arnault and LVMH opted for autonomy among acquired brands in order to ease the acquisition process and preserve brand identity and creativity. However, as the conglomerate continued to make acquisitions, Arnault determined that in order to grow, scale economies would need to be leveraged in the portfolio. To accomplish these economies, Arnault, in the late 1990s, broke the LVMH brands into operating groups based on product category. In 2002, LVMH began to focus on growth of its star brands and further implemented integration strategies among the smaller brands aiming to cut costs and position them for future growth. Although design and marketing continued to remain autonomous, synergies across groups were realized in advertising space, real estate, and sourcing, to name a few. Additionally, the conglomerate began to share “knowledge, management expertise, and best practices, across brands as a way to create competitive
advantage…and in 1999, LVMH House was founded as a dedicated corporate development function [for senior level executives across the brand portfolio]” (Gabriele & Rosa, 2009, p. 21). Integration initiatives and knowledge transfer are two ways that LVMH is adding value to its brands, thus strengthening CBE. In addition to improving CBE by working with brands in the portfolio to facilitate profitable growth, development, and global expansion, LVMH also hones the CBE of the conglomerate as a whole through its corporate social responsibility initiatives.

The second measurement, digital brand equity, is an area of growing importance in brand equity research with the goal of ensuring that brand strategies are transferred successfully to the Internet when companies employ digital marketing and e-tailing into their business strategies. LVMH capitalized on first mover advantage on the Internet in 2000, with the launch of its website, eluxury. The U.S. based e-commerce site helped LVMH develop an online presence for brands in its portfolio at a time when other luxury goods brands in the industry were uncertain about the role, if any, that the Internet would play in their marketing strategies. eluxury ceased operations in 2009 due to the fact that brands in the LVMH portfolio had developed their own online presence, and because copy-cat sites were emerging with the intent to sell counterfeit merchandise.

Many of the brands in the LVMH portfolio (e.g., Dior, Louis Vuitton, Sephora) are embracing experiential marketing in the digital space through the use of interactive websites, social media, and mobile applications. The LVMH conglomerate has also launched NOWNESS, an editorial website that offers a creative, interactive, and technologically advanced way to experience the luxury lifestyle online.

Brand architecture. The variable, brand architecture, was cited by Keller (2009) as one of the second “critical” areas that luxury marketers must consider to manage successfully the
growth of their luxury brands over time and evaluate growth trade-offs. Brand architecture refers to the brand portfolios or the brands a company owns and the organization or relationship of these brands to each other within the brand portfolio. In the explication of measurements for the brand architecture variable (see Table 4), the researcher utilized the following: (a) growth in sales, (b) equity across multiple market segments, and (c) equity across multiple price points.

Throughout the development of the case study (see Chapter 4), the researcher determined that, the three measurements selected for the examination of the brand architecture variable, derived from Keller’s (2009) research, were relevant and valid measurements. However, Keller’s (2009) discussion of brand architecture presented three more descriptive themes relating to brand architecture. From the case study, the researcher determined that those themes would serve as more accurate measurements of brand architecture within LMVH than the measurements explicated in Table 4. Therefore, the measurements of brand architecture were revised to be: (a) diversity, (b) brand extensions, and (c) sub-branding (see Table 14).

Additionally, the researcher acknowledges that the brand architecture variable (see Table 14) and the brand portfolio variable (see Table 12) have the potential for overlap of information. As a point of clarification, examination of the brand portfolio variable (see Table 12) provides information on the range of brands that LVMH has in the luxury goods market, while examination of the brand architecture variable (see Table 14) will provide information on best practices for the creation of a brand portfolio (i.e., brand architecture).

The first measurement, diversity, was seen in the case study (see Chapter 4) as LVMH carefully employed brand architecture in the development of its brand portfolios. For example, during the acquisition spree of the 1990s, Arnault was particularly interested in diversifying the Perfume and Cosmetics Group with American start-up companies that would appeal to younger
target markets (e.g., Hard Candy, Urban Decay, Benefit, Bliss Spa, Fresh). These brands provided a complement to existing brands in the Group (i.e., Guerlain, Parfums Christian Dior, Parfums Givenchy) by increasing the Group’s sales volume and catering to a younger demographic, in a market that the Group had not yet saturated. Similarly, Arnault has slowly diversified the Fashion and Leather Goods Group, which comprised only French brands until the acquisition of Loewe (i.e., Spanish brand) in 1996. Currently, the Group is represented by brands from the United States, England, Italy, Spain, and France. Carefully calculated acquisitions by LVMH have resulted in a widely diverse portfolio, across five operating groups, and saturation of the divisions of the luxury goods industry.

Keller (2009) also discussed brand architecture with respect to brand extensions, the second measurement. “As a general rule, luxury brands must be very selective and strategic in any licensing or brand extensions, especially in terms of any downward stretches” (Keller, 2009, p. 298). The case study (see Chapter 4) cited many examples of brands that suffered from over-licensing (e.g., Dior, Donna Karen) prior to being acquired by LVMH. The negative effects of over-licensing on brand image can take years and significant amounts of money to repair. Therefore, Arnault and LVMH are very selective in entering license agreements. For the Perfume and Cosmetics Group, strategic licensing agreements are in place and have aided the Group in driving sales and reaching new markets. However, licensing in the Fashion and Leather Goods Group is much more selective and approached with extreme caution.

The third measurement, sub-branding, was also discussed by Keller (2009) as a method for expanding brand architecture. The researcher did see a theme within LVMH’s Fashion and Leather Good Group with regard to sub-branding in which none of the heritage brands have developed sub-brands. Although other heritage brands within the luxury goods industry (e.g.,
Chloe, Gucci) have had success in sub-branding, LVMH’s Fashion and Leather Goods brands are foregoing brand extensions in favor of product line extensions (e.g., ready-to-wear, accessories, fragrances). However, the younger brands within the Fashion and Leather Goods Group (e.g., Donna Karen, Marc Jacobs) have successfully launched sub-brands without compromising brand image.

**Indicators of Successes or Failures in Strategic Planning**

Research Question 5 aimed to determine the indicators of successes and failures in the development and implementation of strategic plans for the sample luxury company on the following variables: (a) brand sustainability and (b) effective response (see Table 15). For Table 15, the two original variables remained the same, and were verified by the measurements and examples found in the case history. Similar to Tables 11-14, strategic management response was added as an umbrella concept to the three variables as it was evident throughout the development of the case study that ongoing strategic review and strategic planning provide invaluable guidance for LVMH in the development of its business and brand management strategies. Furthermore, strategic management response is intrinsic to the process of strategic planning, and therefore, highly relevant to the examination of strategic planning as a variable.
Table 15. Revised Variables, Operational Definitions, and Measurement as Results for the Study of Strategic Plans for Louis Vuitton and the LVMH Conglomerate

(Research Question 5)

<table>
<thead>
<tr>
<th>Interpretation Process</th>
<th>Variables</th>
<th>Operational Definitions</th>
<th>Measurement</th>
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<tbody>
<tr>
<td>Strategic Management</td>
<td></td>
<td>“Choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value” (Kotler &amp; Keller, 2006, p. 6)</td>
<td>Efficiency and effectiveness of (a) design, (b) production, (c) distribution, and (d) responsiveness to changing market conditions and consumer demands</td>
</tr>
<tr>
<td>Interpretation of the development and implementation of strategic plans as indicators of brand management success</td>
<td>Brand Sustainability</td>
<td>“The ability for brands to last and recoup investments” (Wreden, 2005, p. 219)</td>
<td>(a) Long-term return on investment, and (b) continued relationships with customers, supply-chains, and stakeholders</td>
</tr>
<tr>
<td>Effective Response</td>
<td></td>
<td>The constant monitoring of business action plans for their effectiveness in reaching company goals and the implementation of changes addressing potential challenges and changes in the environment (Kincade &amp; Park, 2011)</td>
<td>(a) Organization-environment fit, (b) environmental change, and (c) organizational adaptability,</td>
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**Brand sustainability.** The variable, brand sustainability, was measured by: (a) long-term return on investment, (b) continued relationships with customers, supply-chains, and stakeholders. The first measurement of brand sustainability, long-term return on investment, is a goal by which LVMH monitors the brands in its portfolio, but one that might not have been actualized without the back-to-basics shift of 2002. During its early years, LVMH was buying growth (i.e., sales) through its acquisitions, but profits (i.e., net profits) were slipping
(Edmonson, Reier, & Flynn, 1997). This could be attributable to the fact that, in the acquisition
spree of the 1990s, LVMH was overpaying for brands in an effort to outbid competitors and
increasing its debt-to-equity ratio to exorbitant levels. Further, many of the brands were in worse
financial shape (e.g., Donna Karen) than LVMH had anticipated. LVMH followed a strategy of
brand protection in order to preserve creativity and brand identity. Although this strategy may
have contributed to brand sustainability as a long term investment, the brands were not able to
utilize LVMH’s business capabilities in order to grow and suffered short term losses (Gabriele &
Rosa, 2009).

In contrast to the strategies of buying new brands in the 1990s, in 2002, Arnault
implemented a back-to-basics shift at LVMH to foster internal growth and concentrated on the
development of star brands (e.g., Louis Vuitton, Möet & Chandon, Hennessy, Parfums Christian
Dior) for long term growth. This strategy involved constant creativity and sustained innovation,
focused investments, and disposal of non-strategic assets (Annual results 2002, 2003). Annual
results for 2002 indicated that the strategy was paying off as seen in the improved profitability
across groups, increased cash flow, and reduction of debt.

LVMH’s slow and calculated approach to long-term profitability has begun to pay off in
recent years with strong performance and growth across the brand portfolio. LVMH has also
seen growth despite challenging economic climates, a testament to the strength of its brands. For
example, from 2008 to 2010, LVMH increased its operating cash flow by 33%, lending greater
stability to the company’s operations and allowing for further growth and investment (“LVMH,”
2010). The year 2011 was marked by a 20% sales growth in the luxury goods industry, the
largest growth rate in 15 years. “The ‘new normal’ and dire economic growth prospects in the
West did not affect high-end discretionary consumption in debt-laden developed economies, as
many commentators had predicted” (Socha, 2012b, p. 2). Growth in the industry for 2012 and 2013 was also predicted.

The second measurement of brand sustainability examined LVMH’s relationships with customers, supply-chains, and stakeholders (i.e., employees, shareholders, suppliers, general public). Analysis of LVMH throughout the case study (see Chapter 4) indicated that LVMH has cultivated successful business relationships in all corporate functions over time. Although the initial formation of the LVMH conglomerate in 1987 escalated to acrimony between the involved parties, and certain takeover attempts have been hard fought (e.g., Hermes) or even thwarted (e.g., Gucci), LVMH has promoted positive relationships with its acquired brands. In the early years of the conglomerate (i.e., prior to 2002), acquired brands were allowed to remain autonomous, which eased stress of the acquisition and preserved brands’ identity. In recent years, however, LVMH has begun to implement integration initiatives to aid flailing brands and realize scale economies within the conglomerate. This strategy has allowed the conglomerate to increase “credibility with its brands, because it let its designers continue to design while providing a structure and support system of back office efficiencies that many independent luxury designers lack” (Gabriele & Rosa, 2009, p. 220). In addition to having cultivated positive relationships with the executives and design teams at each brand in its portfolio, LVMH has utilized LVMH House, a corporate development function, to foster working relationships among brands’ executives. LVMH House brings senior executives from LVMH’s brands together at meetings, allowing them to meet each other, share best practices from their brands, and establish networks and partnerships that will actualize the inherent synergies that lie within the group (Objectives, 2012).
Another example of LVMH business relationships that are benefitting the brand portfolio as a whole are those that have been formed in emerging markets through the brands placed first in these new markets (e.g., Louis Vuitton and Dom Perignon). LVMH has been able to cultivate strong working relationships and foundations of business in emerging markets that have been useful in paving the way for its other brands (Passariello, 2007). As the luxury industry leader, LVMH has also affirmed its self-proclaimed duty to give back, through numerous corporate social responsibility initiatives (CSR). This includes the funding of humanitarian and social causes, medical research, youth programs, environmental conservation, and patronage of programs geared toward art and heritage. LVMH has carefully extended itself into a wide array of CSR ventures that represent broad public interests. In this way, the conglomerate is not only able to widely distribute its economic success, but also create a presence and visibility among the general public, resulting in strengthened brand image at the conglomerate level, and a potential transfer of that favorable brand image to brands in its portfolio.

LVMH and its brands have also created strong relationships with their consumers through continued creativity and innovation, service to customers, and uncompromised quality (Annual results 2010, 2011). Although, designers and the zeitgeist are sole drivers of innovation within the group rather than consumer demand, LVMH and its brands are responsive to the needs of their consumers. This factor is evidenced throughout the LVMH brand portfolio as it has responded to the experiential marketing orientation that has emerged in recent years, and directed its marketing efforts toward creating invaluable experiences for its consumers. Marketing dollars have been allocated to store renovations and expansions, personalization programs, and creating experiences for consumers in the digital space, to name a few. By continuing to be responsive to
changes in the consumer environment, LVMH has maintained a loyal consumer base and more easily attract new clientele in both existing and emerging markets.

**Effective response.** The variable, effective response refers to the constant monitoring of business action plans for their effectiveness in reaching company goals, and the subsequent implementation of changes addressing potential challenges and changes in the environment (Park & Kincade, 2011). In the explication of measurements for the effective response variable (see Table 5), the researcher determined that the variable should be evidenced in (a) historical data, financials, and brand portfolio, (b) adaptation of the marketing vision, (c) strong brand equity, and (d) brand sustainability.

Throughout the development of the case study, the researcher determined that the measures of effective response provided a significant amount of overlap with information presented for the variables in Tables 1-4 and therefore, required revision. The researcher determined that effective response for Louis Vuitton and the LVMH conglomerate could be measured successfully in congruence with Kotler’s (1984) theory of company effectiveness in a changing environment (see Chapter 1). Kotler’s theory, developed as an antecedent to strategic planning, proposed three concepts. Based on case study information, the researcher selected these concepts: (a) organization-environment fit, (b) environmental change, and (c) organizational adaptability, as the revised measures that would satisfy the examination of effective response (see Table 15). Organizational adaptability, which refers to the actual changes a company makes in response to environmental threats, is discussed concurrently with the first two measurements as issues and resolutions from the case study are presented.

The first measurement, organization-environment fit, refers to the degree of fit between the company’s offerings and the environment, or its target consumers (Kotler, 1984). Exploration
of LVMH and its brands throughout the case study (see Chapter 4) indicated that brands in the LVMH portfolio, each of which has a distinctive brand positioning, know their target consumers, and are demonstrating success in providing them with products that they do not necessarily need, but that they desire (e.g., Louis Vuitton, TAGHeuer, Bulgari). An intrinsic value for LVMH and its brands, especially in the Fashion and Leather Goods Group, is unparalleled creativity and innovation. Rather than let the consumer be the sole driver of product design decisions, the talented creative directors employ their own interpretation of the zeitgeist to develop each season’s collections. Through this approach, consumers continue to be excited by the brands over time and are willing to pay premium prices (Wetlaufer, 2001).

This strategy might not seem to be in line with a consumer-centric marketing strategy, but ironically, the strategy continues to achieve results for LVMH’s brands due to the fact that in an environment characterized by oversaturation of brands, product options, and advertising, the consumer is often unsure what he/she wants. In that regard, initiatives such as product testing will not necessarily indicate what will happen when a product actually enters the market. For example, in 1999, Parfums Dior performed focus group tests on the new J’adore fragrance before releasing it to the market, with mediocre responses from participants. However, when the perfume was released, it experienced extremely favorable results and eventually drove the Parfums Christian Dior brand to star status (Wetlaufer, 2001). This is an example of a paradox of why consumers are so captivated by luxury brands. Sometimes the brands know their consumers better than the consumers know themselves, and by helping the consumer make sense of an oversaturated marketplace, they facilitate repeat customers and eventually, brand loyalty.

However, as with any business, LVMH’s brands sometimes have missteps in developing organization-environment fit. These gaffes are remedied by the fact that new products are
produced in limited quantities. For example, in 2011, Louis Vuitton introduced a few select leather goods in crocodile skin. Had the exotic new leather not resonated with consumers, Louis Vuitton would have been able to easily discontinue its use in subsequent seasons. However, the few products offerings that were introduced were such a huge success, that LVMH bought a stake in Heng Long, a Singapore-based crocodile tannery, in order to satisfy the demand for goods produced in high-quality crocodile skin that will be utilized by Louis Vuitton and other LVMH brands that feature leather goods lines (e.g., Celine, Fendi; “LVMH buys stake”).

The second measurement, environmental change, refers to the company’s ability to plan for and remain responsive to changes in the environment that affect its fit with target consumers (Kotler, 1984). Sometimes these environmental changes are evolutionary in nature and sometimes changes occur rapidly and without warning. LVMH and its companies have successfully navigated numerous changes in the business and consumer environments. The most frequently discussed event in this research that affected all of the brands in the LVMH portfolio, and spurred a strategic management shift, was the terrorist attacks in the United States on September 11, 2001. The repercussions of this event for LVMH included, but were not limited to global decrease in tourism, reduced consumer confidence, further decline of the global economic situation, and market uncertainty. LVMH’s response was a back-to-basics focus on star brands, such as Louis Vuitton, because the more well-established brands in the luxury industry were the only brands that were maintaining steady sales figures in late 2001 and early 2002.

The fact that LVMH’s brands operate on a global scale makes them even more susceptible to unexpected cultural, social, political or economic events. How the brands respond to such events, especially in new or emerging markets, has the potential to impact how the brands are perceived in those countries among consumers. For example, LVMH has provided
financial support to employees of its brands in Japan that were affected by the tsunami and earthquake in 2011. In addition, a benefit of operating on a global scale is being able to offset economic risks in one market with advances in a second market. However the challenge of how to appeal to consumers in flailing markets and continue to drive sales, despite uncertain economic environments, cannot be ignored even when other markets are profitable.

In addition to addressing threats resulting from changing environments, LVMH has also distinguished and leveraged marketing opportunities that have arisen as a result of those changes. For example, improving the store experience through renovation, personalization services, and the implementation of experiential or interactive initiatives, has helped brands across the LVMH portfolio maintain exclusivity by focusing on depth of customer experiences and interactions with the brands. Experiential marketing through store locations has helped brands increase visibility and drive sales, while maintaining exclusivity. This successful organization-environment fit is very important for brands such as Louis Vuitton that risk diluting brand image if they are too present in consumer markets. An additional example of a threat, turned opportunity is that of the Internet. LVMH was the first company in the luxury goods industry to embrace and commit to a strong presence in the digital space. The conglomerate launched eluxury.com in 2000, at a time when other luxury brands were in agreement that the Internet would never be a platform in which luxury companies could succeed. eluxury.com ceased operations in 2009, but many of LVMH’s brands, especially Louis Vuitton, are now considered leaders of luxury on the Internet with their successful experiential websites and presence in social media.

These three measures of effective response aided the researcher in determining how LVMH has adapted its business strategy based on environmental cues. In addition, these
measures are highly correlated with the theory of environmental determinism (see Chapter 1), a central part of the conceptual framework for this study. The measures of effective response are also highly correlated with the second theory presented in the conceptual framework, fashion adoption theory. The theory, states that companies in the luxury goods industry are affected, not only by business and consumer environments, but more specifically, by many of the factors unique to fashion. Hamilton (1997) proposed a macro to micro continuum to explain this process (see Chapter 1). The micro level of the continuum is consumer-focused. The macro level focuses on the fashion system (e.g., manufacturers, designers, fashion marketers, companies) and the broader stage at which the zeitgeist is determined as a result of combined environmental cues. This theory acknowledges that fashion companies must adapt their business strategies based on environmental cues (e.g., consumer, globalization, technology), but also must take cues from the zeitgeist, or spirit of the times.

The importance of this additional environmental phenomenon, unique to the fashion industry, is heightened in the luxury goods industry, the source of inspiration, sought by brands’ designers, for creativity and innovation is geared more towards the interpretation of the zeitgeist than in response to consumer demands, resulting in the overarching mood of the specific era being infused into the brands’ collections. The success of LVMH and the brands in its portfolio is attributable, in part, to its proven ability to respond effectively to cues from the environment and the zeitgeist, and adapt its business strategy accordingly.
Luxury Brand Management Framework

The goal of this research, and the purpose of Research Question 6, was to develop a luxury brand management framework to serve as a guide for companies with luxury brands, both old and “new”, in shaping their brand strategies while accounting for environmental cues and considering issues of profitability or success. The examination of Research Questions 1 through 5, and the subsequent development of corresponding tables (see Tables 1-5), aided the researcher in developing important themes in the management of a luxury brand and were organized, in a macro-subjective to macro-objective downward progression. These tables were refined after completing the case study and resulted in Tables 11-15. The macro-to-micro continuum, used across the five tables, demonstrated the effect of environmental factors, evidenced throughout all levels of a company, and how a company’s responsiveness to those factors shapes its business strategy decisions. Thus, this study begins with the broad theory of environmental determinism and adapts it with specifics for the luxury goods industry.

Two theories (i.e., environmental determinism and fashion adoption theory) were introduced in the conceptual framework (see Chapter 1). Environmental determinism relates to an organization’s ability to adapt based on environmental cues to survive and compete in a saturated market. For this research, environmental determinism is interrelated and focused with fashion adoption theory, which identifies the zeitgeist, or spirit of the times, as an additional driver of change within the luxury goods industry. On the left hand side of Figure 2, environmental determinants and the zeitgeist, as the first major component, are represented in the brand management framework as broad environmental cues that must be addressed by the company.
An overarching theme identified throughout the case study (see Chapter 4) and the examination of results (see Chapter 5, Tables 11-15), was the strategic management response through ongoing strategic review and strategic planning. Strategic management response, the second major component of the framework, is necessary to adapt to changes in the broader luxury environment (see Table 11), in the management of a brand or brand portfolio (see Table 12), in the development of brand management strategies (see Table 13), in the evaluation of growth trade-offs (see Table 14), and in effectively planning for change (see Table 15). This component is placed on the right side of the framework.

The center or core of the framework contains boxes representing the four brand management variables used in the study to examine business success and failure. Each of these business variables contain two or three measurements, with specific examples given, as determined by the LVMH case study. These variables were detailed in Tables 11-15 with examples provided from the case study.

In addition to the three major components, the luxury brand management framework (see Figure 2) is presented in a way that the researcher believes best illustrates the interconnectedness of branding variables as well as the impact of environmental determinants at all levels of the company. This idea can be seen by the presence of two-directional arrows throughout the framework. The left side of the figure with the three main groupings of environmental variables (i.e., consumer, technology, globalization) is also indicative of the zeitgeist, as the environmental variables would most certainly shape the spirit or mood of a particular era. Arrows from the environmental determinants and the zeitgeist stretch to the four brand management variables, demonstrating that the environment and the zeitgeist impact a company at all levels. In the center of the framework, these brand management variables are presented from the macro-to MICRO
level. However, the presence of two-directional arrows also demonstrates that these variables are interconnected and decisions regarding certain variables can often be felt throughout an entire company. On the right side, the framework is enclosed by strategic management response. In the same way that changes in the environment and the zeitgeist can affect the company at all levels, so too can the company’s ability to employ its defense mechanism, strategic management response, at all company levels, to aid it in adapting to those changes. Thus, the luxury brand management framework demonstrates that successful management of a luxury brand must take place in all company functions, not just marketing, and that constant monitoring of the environment and the zeitgeist can shape the strategic management responses that will lead to longevity and sustainability for the brand in a saturated luxury goods marketplace.

The luxury brand management framework, presented in Figure 2, is intended to serve as a guide for luxury practitioners as well as a directive for further study in academic research. The researcher constructed the framework in a manner that would ensure its relevancy to luxury brand management, both now and in the future. For this reason, specific issues pertinent to the current business environment, current themes, and current trends in the luxury goods industry (see Tables 11-15) are not discussed. Instead, those issues are enfolded into the general themes presented in the framework. For example, experiential marketing orientation is currently a core theme in the luxury goods industry and was evidenced to be shaping the marketing strategies of brands in the LVMH portfolio. However, due to the fact this orientation could change or evolve over time, it is not referenced specifically within the framework. Instead however, the development of experiential marketing initiatives would fall into the broader context of the marketing vision variable within the framework, and be measured by a company according to the general measurements presented below the variable (e.g., vision evolves with consumer change).
In this way, the luxury brand management framework provides general guidelines for the management of luxury brands that will still be applicable as changes occur in the business environment over time.
Figure 2. Luxury Brand Management Framework

- **Expansion & Globalization**
  - Growth in developing countries
  - Further development in existing countries
  - Tightly controlled distribution
  - Selective expansion of brand offerings

- **Changes/Developments in Technology**
  - Company level (e.g., production, distribution, logistics)
  - Store level (e.g., self-service, e-tailing, social media, mobile apps)

- **Luxury Consumer Environment**
  - Demographic change
  - Population shifts
  - Consumer trends
  - Consumer attitudes
  - Consumers in emerging markets

- **Corporate Indicators**
  - Company History
    - Business environment changes over life of brand
    - Changes in corporate structure
    - Past affecting current/future business decisions
    - Use histories/stories to facilitate brand image
  - Financials
    - Sales
    - Profits and losses
    - Brand value
    - Market share
  - Brand Portfolio
    - Connectedness of brands in portfolio
    - Position of brands occupy in market
    - Extent to which market is saturated by portfolio

- **Brand Management Strategy**
  - Competitive and financial strength
  - Strong brand performance
  - Consistency in communication of brand concept
  - Social and cultural responsiveness

- **Brand Identity**
  - Brand image
  - Brand personality
  - Brand protection

- **Marketing Vision**
  - Vision supports brand identity and brand positioning
  - Integration of vision at all company levels
  - Vision evolves with consumer change

- **Balanced Trade-offs**
  - Classic AND contemporary
  - Exclusivity AND accessibility
  - Retention AND acquisition

- **Brand Equity**
  - Corporate brand equity
  - Digital brand equity

- **Brand Architecture**
  - Diversity
  - Brand extensions
  - Sub-branding

- **Strategic Planning Indicators**
  - Brand Sustainability
    - Long-term ROI
    - Continued relationship with customer, supply chain, and stakeholders
  - Effective Response
    - Organization/environment fit
    - Environmental responsiveness
    - Organizational adaptability

- **Trade-Off Indicators**
  - Balanced Trade-offs
  - Classic AND contemporary
  - Exclusivity AND accessibility
  - Retention AND acquisition
Chapter VI. Summary, Conclusions, Implications, and Recommendations

Many events in recent history (circa 1990s to 2012) have changed the landscape of the luxury goods industry and have had direct implications for how a luxury brand must be managed and marketed to consumers. In the second decade of the 21st century, the business environment of the luxury goods industry is characterized by high growth in emerging markets (e.g., BRIC), “new” luxury and old luxury brands competing for market share, and increased brand awareness and information dissemination through digital communication. In addition, the consolidation of the luxury goods industry in the 1990s has resulted in the conglomerate being the dominant ownership structure within the industry. The conglomerate structure creates added challenges for brand management in that an entire brand portfolio must be managed, rather than just a single brand.

Summary

This qualitative study aimed to contribute to the growing body of research in the field of luxury brand management by constructing a framework of luxury brand management that can be utilized by luxury companies and conglomerates in the development of their business strategies. The purpose of this research was to examine: (a) how the chosen luxury firm is addressing the changing business environment of the luxury goods industry and the changing consumer environment targeted by that industry, (b) how the firm is managing growth trade-offs, and (c) how the firm is adapting its marketing orientations to become consumer-centric and, more specifically, experiential. Six research questions guided the development of the study, and data collection and analysis took place in two parts. For Research Questions 1 through 5, operational definitions and measurements were explicated (see Tables 1-5) to guide data analysis. Research Question 1 called for an in-depth exploration of the evolution of the business environment of the
luxury goods industry from the mid-1800s to the first decade of the 2000s (see Chapter 2). This exploration chronicled significant environmental changes in the industry (i.e., changing social climates, technological advances in manufacturing, emergence of “new” luxury and fast fashion) and how luxury brands responded and adapted to those changes.

To address Research Questions 2 through 5, the researcher selected a sample company, Louis Vuitton. The company was selected due to the fact that it ranks number one in two brand value rankings (i.e., *The Global Luxury Brand Value Scoreboard, Brandz Top 100 Most Valuable Global Brands*), and is believed to be representative of an archetypal luxury goods company. In addition, the fact that Louis Vuitton is now part of the LVMH conglomerate, allowed for analysis and cross-brand comparison in the LVMH brand portfolio. A historical review of Louis Vuitton was conducted beginning with the company’s inception in 1854 and continuing through the formation of the LVMH conglomerate in 1987. After 1987, the historical review expanded to focus on LVMH and the brands that it acquired to build its portfolio.

Exploration of Louis Vuitton and LVMH’s brand management successes and failures helped the researcher to cite information relevant to the variables (see Tables 2-5) in the selected business categories (i.e., business environment, corporate environment, marketing strategy).

Two theories were used as a framework for this study: environmental determinism (e.g., Ward & Duray, 2000; Kincade, 2002; Park & Kincade, 2011) and fashion adoption theory (e.g., King 1963; Blumer 1969; Hamilton, 1997; Cholachatpinyo et al., 2002; Damhorst et al., 2005). Environmental determinism states that the business and consumer environments impact the decisions that companies make in developing their strategic plans and planning their marketing strategy. The theory of environmental determinism was supplemented by a key aspect of fashion
adoption theory, the zeitgeist, which states that fashion is shaped by the spirit of the time period in which it occurs.

Throughout the writing and analysis of the case study, environmental determinism and the zeitgeist were evidenced to be important factors that shaped the business strategies of LVMH and its brands. Strategic planning and strategic management response were identified as ongoing strategies that helped LVMH and its brands to effectively address and respond to environmental changes. Both environmental determinism and the zeitgeist and the use of strategic management response were thus incorporated into the luxury brand management framework (see Figure 2) as overarching themes.

Details of the brand management variables that provide the core foundation for the luxury brand management framework (see Figure 2) were described for Tables 11-15 (see Chapter 5). The measurements for the variables were adjusted for the luxury goods industry according to the findings of the case study.

Conclusions

Development of the luxury brand management framework began with the explication of brand management variables and their associated measurements in Tables 1-5 (see Chapter 3). Throughout the development of the case study (see Chapter 4), the researcher honed the variables based on the successes, failures, and lessons learned by LVMH and its brands from the inception of the conglomerate to the first decade of the 2000s (see Chapter 5; Tables 11-15) and developed the luxury brand management framework (see Figure 2). This framework is intended to serve as a general guide for the management of a luxury brand, and is derived from LVMH’s brand management successes that were resultant of similar strategies. In conclusion for this study, this research merits a brief discussion of the general themes of LVMH’s brand
management strategy to provide an example of how the broad framework can be useful in
directing strategic planning and specific decisions that are made over the life of a luxury brand.

Throughout the life of the conglomerate, Arnault and LVMH’s executives have carefully
crafted a management strategy for brands in the portfolio that seeks to leverage the
conglomerate’s business capabilities to foster growth and development, while maintaining a
certain level of autonomy in order to preserve individual brands’ identities. This balance of
integration and sovereignty has taken Arnault and LVMH many years to hone. After LVMH’s
formation, Arnault spent a decade building the largest conglomerate in the luxury industry. In the
beginning, he favored complete autonomy for brands in the portfolio as this strategy eased the
stress of acquisition for acquired brands’ management and helped to retain the creative talents
that were perceived to be the sole drivers of value creation for each brand. This strategy proved
to be effective in fostering positive relationships between LVMH and the brands in its portfolio,
but did not allow LVMH to transfer value to its brands or realize economies across the portfolio.
Through the failure of the Christian Lacroix brand, Arnault learned that brands must implement
long-term strategies in which profitability and growth are achieved in a natural progression.
However, many of LVMH’s smaller brands were in a stalemate without direction from their
parent company.

In response to the global economic climate following September 11, 2001, LVMH
implemented a strategy shift, began to focus on the development of star brands within the
portfolio (e.g., Louis Vuitton), and strategically invested in smaller brands with star potential
(e.g., Fendi, Celine). With time, Arnault and LVMH began to further integrate brands within the
portfolio. Through this integration, synergies were realized in real estate, advertising space,
manufacturing, and distribution, to name a few. LVMH also provided its brands with the
financial capabilities needed to expand their product offerings and prepare for global expansion. At this stage, LVMH helped many brands enter emerging markets by leveraging the first mover advantage (i.e., pre-established foundations and business relationships in the markets) created by the star brands of Louis Vuitton, Hennessy, and Möet & Chandon. Several of the operating groups were also divided into sub-categories (e.g., LVMH Watch & Jewelry USA Group, LVMH Fashion Group, LVMH Fragrance Brands) in which brands in similar stages of development were overseen jointly by LVMH executives with the goal of sharing best practices and actualizing synergies.

LVMH has also successfully addressed a key paradox in the luxury industry in how to manage both older and newer luxury brands (i.e., brands roughly 25 years old or older and brands younger than 25 years old). Although many distinctions exist between older and newer brands, LVMH identified the common goal of making all of its brands relevant to new generations. To do this, LVMH has placed a heavy emphasis on experiential marketing, a derivative of consumer-centric marketing orientation, which utilizes social media, company websites, customer service, customization, and store experiences as a means of strengthening brand loyalty. Experiential marketing is more relevant to luxury marketing than the consumer-centric marketing orientation, due to the fact that too much focus on the consumer (i.e., allowing consumers to drive demand) could compromise exclusivity or fail to keep consumers excited and surprised. LVMH has addressed this paradox by creating equilibrium of interaction with consumers (i.e., experiential marketing) while allowing brands’ designers to create based on their own personal design aesthetics and cues from the zeitgeist. If this balance is executed successfully, designers generate consumer interest for brands’ collections in the form of increased demand for the innovative and exclusive, and subsequently drive sales for the brand.
Innovative and exclusive product offerings coupled with the right amount of input from the consumer in the form of experiential marketing initiatives (e.g., personalization, improved customer service, mobile applications) has been a successful strategy for both LVMH’s older (e.g., Louis Vuitton, Dior, Fendi) and younger (e.g., Marc Jacobs, Thomas Pink) brands. Older luxury brands must preserve their heritage while directing their brand image into the modern luxury landscape, and “new” brands must not rush to become iconic, but drive brand value for the long-term. But as this study of LVMH has demonstrated, the most important factor in ensuring sustainability of luxury brands is adapting and changing over time to create a strategic fit between the organization, consumer and business environments, and the zeitgeist.

In 2011, LVMH experienced strong growth across all of its operating groups, and maintained a tight hold on its position as industry leader in the luxury goods industry. Over time, the conglomerate has developed a winning formula for brand management that has helped both the old and “new” luxury brands in the portfolio achieve success. This formula is rooted in a value strategy and long term vision that: (a) prioritizes internal growth, sustained by innovation, quality, and control of distribution, (b) guarantees brands’ autonomy in accordance with their own identity, and (c) encourages the sharing of skills, experiences, and implementation strategies across brands, through (d) LVMH’s established teams of excellence (e.g., LVMH House; Annual results 2011, 2012). LVMH has also strengthened its ability to leverage its key assets such as (a) quality and durability, (b) heritage, (c) creativity, and (d) the know-how of its brands (Annual results 2010, 2011). Utilizing these drivers of brand value has allowed LVMH to continue to expand the breadth and depth of its portfolio, with the continued goal of helping its luxury brands reach star brand status.
Implications

The strength of LVMH and its brands was evidenced during the most recent economic downturn (i.e., 2008-2010). Although the luxury goods industry is less cyclical than many consumer product industries, luxury goods categories such as watches and jewelry, perfume and cosmetics, and wine and spirits are often negatively impacted by a weakened economy. This category-specific trend also proved to be true within LVMH. However, spearheaded by its star brands, LVMH and its brands demonstrated strong resiliency to the deteriorated global marketplace and posted strong sales growth across all operating units in 2010, leading the luxury goods industry’s recovery. In a specific example, choices of brand management indicators selected by LVMH could be a guide to other conglomerates as they develop management responses to changes in the environment.

In 2011, all results figures indicated that overall financial health was strong for LVMH, which experienced sales growth that was in or close to the double-digits across all of its operating groups (Annual results 2011, 2012). Furthermore, the fact that the conglomerate has again begun to slowly acquire new brands (i.e., Edun, Hublot, Bulgari, Nude Skincare, Sack’s, Old Henriksen) since 2008 suggests that LVMH believes it has successfully digested brands in its portfolio and positioned them for continued growth and development under their visionary creative and management teams. The actions of LVMH could be a road map for other companies trying to achieve this success. For example, the balance of trade-offs practiced by LVMH could be a guide to other conglomerates as they make choices on brand architecture.

LVMH’s market share dominance in the luxury goods industry, the fact that three of the conglomerate’s brands (i.e., Louis Vuitton, Möet & Chandon, Hennessy) continually appear in Business Week’s Top 100 brands list, and the fact that Louis Vuitton continually ranks number
one in brand value rankings pertinent to the luxury industry (i.e., *The Global Luxury Brand Value Scoreboard, Brandz Top 100 Most Valuable Global Brands*), are all indicators that LVMH and its brands are successfully navigating and adapting to changes in the luxury business and consumer environments (“LVMH,” 2010). In addition to examining the small segments of the framework, the integration of concepts and broad spectrum view posed in the framework can give guidance to companies. Because the luxury brand management framework (see Figure 2) is based on the brand management strategies employed within LVMH, one could draw the implication that by working within the framework to develop business strategies, other companies in the luxury goods industry could also achieve success in the management of their luxury brand or luxury brand portfolio.

Companies may use the luxury brand management framework to make decisions on how to react to environmental cues and the zeitgeist. Strategic planning and strategic management response proved to be useful tools for LVMH and its brands in adapting to those changes. Because brands across the LVMH portfolio varying in size, category, and age, all demonstrated business successes through the use of strategies similar to those presented in the luxury brand management framework, it is highly possible that companies throughout the luxury goods industry could successfully adapt to and evolve with the changing business environment by applying the tenets of the luxury brand management framework to the development of their brand management strategies.
Recommendations for Future Research

This study examined one luxury goods company. Although LVMH is a large conglomerate with many designers and brands, a study of other companies may generate contributions to the framework or may validate the framework with additional examples. A broad survey of the luxury goods industry’s core companies could contribute additional variables and measurements taken into consideration in the development of brand management strategies.

Additional theories can also be used to investigate the luxury goods industry. For example, Berens, van Riel, and Van Bruggen’s (2005) investigated the effect of corporate brand dominance (CBD) or the “visibility of a company’s corporate brand compared with the visibility of a subsidiary brand” (p. 36) based on the variables of: (a) corporate ability and (b) corporate social responsibility. Although data from the case study (see Chapter 4) supported the fact that, from a business perspective, LVMH does provide added value to its brands, future research could determine if a consumer, who is loyal to a certain brand (e.g., Louis Vuitton) would be more inclined to purchase from other brands in the LVMH portfolio (e.g., Celine, Fendi) than from brands with which the consumer had not formed any previous associations. A research study of this kind would add increased credibility to the multi-brand business strategy that is prevalent in the luxury goods industry, and could identify ways in which a conglomerate could develop business strategies geared toward the creation of favorable cross-brand associations (e.g., cross-brand corporate social responsibility initiatives), while still preserving individual brands’ identities.
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