Chapter 7: Five key success factors

The consumers desire luxury brands and luxury goods. Luxury brands develop business strategies to satisfy these desires. But as Domenico De Sole himself said: “You can have the best strategy in the world, but the difference between the excellent and the incompetent is: execution, execution, execution”. Luxury brands’ history is filled of magnificent strategies, of hailed CEOs, of awesome transactions that now fill the graveyards of the industry and the casebooks of business schools.

There are at least five key success factors that all relate to the implementation of the strategy, most of which are quite specific to luxury brands:

1. Being consistent in the brand image and strategy
2. Investing in retail and balancing distribution channels
3. Being innovative and developing new products
4. Managing the gross margin
5. Investing in communication and medias to develop brand awareness

Each is critical. Each can be a stumbling stone. Managing all effectively can lead to a huge success. We will review them, highlighting the difficulties in their implementation.
A. Consistency, consistency, consistency…

There are currently three basic situations in luxury brands—but history shows that all mixes of these are possible:

1. The Creator—or a substitution creator—is present: that is the case in most apparel brands. Dior with John Galliano, Thierry Mugler, Jean Paul Gaultier, Miuccia Prada are such cases.

2. The brand has a Creative Director, who may or may not be a designer himself, who overlooks all the creative aspects of the brand presence: the template here is Tom Ford at Gucci.

3. The brand has designers that are not in the spotlights and who work under the supervision of the brand’s CEO: this generally is the case in non-apparel brands like Bulgari or was the case at Louis Vuitton before Marc Jacobs was hired.

In all three instances a CEO manages the brand and is in charge of the business per se. Amongst the possible mixes you will have Hermès where Jean Louis Dumas is both CEO and de facto Creative Director but has Martin Margiela to help him with RTW; Burberry with Rose Marie Bravo as CEO and different designers for its different lines—although Roberto Manichetti who left in March 2001 was officially Creative Director but in fact only oversaw the top-end Prorsum line. As Rose Marie Bravo says: “Burberry has never been about a celebrity designer”.

In reality cases 1 (the creator-designer) and cases 2 (the creative director) are quite close. The major differences lie in the breadth of that person’s responsibilities: they are maximal in Tom Ford’s case and can be minimal in Roberto Manichetti or John Galliano’s cases (see: The Dior case lower). In the following sections creator and creative director can be used symmetrically.

A formula for success: a creator + a businessman

The paradox of a Luxury brand is that there should be both a strong emotional link between a brand and its customers AND that it should be managed as a very complex business: the gross margins should be right, the raw materials should be purchased at the right prices, the distribution channels must be chosen carefully, the stores that must be opened in the major cities of the world will require huge investments in top locations, outstanding designs and fixtures and heavy inventories. Not unlike music where a Performer must give to his audience the feeling that he plays a Sonata without any effort, the designer must give the feeling that he only worries about product design and quality… Business must of course follow, but it is not so easy to have it run it smoothly…

1 For the “London line” –the one based on the Burberry check: Deborah Lloyd on women’s wear; Michael McGrath on men’s wear; Giovanni Morelli on women’s accessories – and now –replacing Manichetti– Christopher Baily.

2 WWD, May 4, 2001
For a business to be successful, one therefore needs a creator who is in the limelight AND a manager who works at making it a business success. Who is the most important? This is where the issue is a difficult one. The manager must run the show, but he must remain behind the scene... So between creator and manager, there is a need for a very strong relationship based on mutual trust and the understanding that the two parts must be played together.

The creators create the products, develop their vision of the world (or of what a woman is... of what beauty is about...), but are creators business-wise? Can a creator develop a business by him/herself? That was clearly the case up to the 60's: Christian Dior, Coco Chanel, Charles Christofle, Charles Lewis Tiffany, Louis Vuitton at different periods in time, managed their company directly. But going global and developing a brand necessitates different competencies, different skills. The successful brands have seen a new leadership model, that of the couple creator + businessman. This model is transnational: you have it in the USA with Calvin Klein & Barry Schwartz, in France with Yves Saint Laurent & Pierre Bergé, in Italy with Miuccia Prada & Patrizio Bertelli or Tom Ford & Domenico De Sole. Clearly trust is critical between the two. As Michael Newman, former Vice Chairman of Polo Ralph Lauren said: «My working relationship with Ralph Lauren is entirely based on trust»3. This is the sort of trust that close personal links can favor: Miuccia Prada & Patrizio Bertelli are married, Yves Saint Laurent & Pierre Bergé were lovers.

*The Miuccia Prada– Patrizio Bertelli Case*

“Designers who have worked at Prada like to describe the experience as «school.» The focus of their studies is a double major in creativity and commerce, taught with authority and passion by professors Miuccia Prada and Patrizio Bertelli, respectively.”4

Designers with a marketing edge, they have recently moved on to head Lanvin couture or Feraud design, be women's design director for Yves Saint Laurent ready-to-wear, become women's ready-to-wear designer at Ferragamo or Neil Barrett, designer of Samsonite's new and popular Travelwear collection.... Yvan Mispelaere, the new head of design at Feraud, says he had «the great opportunity to work in a very merchandising, marketing way, to think about the product and how the clothes will be received by the customer and displayed in the store. The most important thing about Prada is thinking through at the beginning what will happen at the end, controlling the whole process.»

Neil Barrett adds: «everything was thought out in depth because, down to the width of the stitches, Bertelli was very keyed in with the technical aspects. What he didn't understand, he wanted to understand.»

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3 Personal communication.

4 “There’s something about Miuccia”, WWD, 10 July 2000
Lawrence Steele, who left Prada to launch his own collection in 1995 after working on the women’s collection for five years, agrees «it was great to work in the middle of two brilliant people. Miuccia is very passionate about design. She is an expressive and poetic person. Bertelli, on the other hand, is always so excited and driven. They have a great method of working, because even though they have different roles, there is a great, common harmony. Bertelli has a particular way of structuring because he’s involved with the color choices, the clothes and the accessories. The greatest experience was seeking the big picture with the eyes of two different people who are so in sync.»

To his wife’s designing skills Patrizio Bertelli adds the profile of the autocratic entrepreneur: “I trust no one”, he says. One of his critical characteristics is that he is a control-freak. Tightly controlled image, obsessive quality control, strict control of suppliers & sub-contractors, development of a network of directly owned stores.. all contrive to this obsession with control. It goes a long way: if you walk into the New York headquarters of I.P.I. USA (the Prada company), you will discover a uniform environment of white offices, black ledgers, all the way from the CEO to the clerk. “Patrizio Bertelli even oversaw the installation of the microwave oven in the kitchen, so as to have it where it is in the Milan headquarters kitchen” says a Prada employee.

The Creative Director: a critical role

Consistency is also about building a brand around a Vision.

We have a creator, we have his/her vision, we have a brand, we have luxury products sold under the name of the brand which is also the name of the creator, we have multiple channels of communications between the brand and its customers, we have the employees working for the brand…. All these must converge around the Vision, which is the essence of the brand. This is what consistency is about.

When L’Oréal bought Lanvin, they found that that “Arpège”, its n°1 best selling perfume, had a different formula in each country: each licensee had found it financially rewarding to replace certain expensive components by cheaper scents. This is pure inconsistency. This is what customers, that are now well traveled, will punish by discarding the brand.

When Gucci bought Yves Saint Laurent, the brand had 167 product licenses. Traveling from country to country, the luxury brand customer found as many YSL images as countries (s)he was visiting.

Making the brand consistent is the primary role of the Creative Director.

“Christine Laroche is the guardian of dogma,” says Philippe de Beauvoir, the Le Bon Marché CEO of his Creative Director.

“I am the keeper of the brand”, says Silvio Ursini, the Marketing Director of Bulgari.
Nothing escapes the Creative Directors. They must apply their vision to all the components of the aesthetics of the brand:

- The product presence (materials used, design of new products…)
- The spatial & retail environment (the store design, the shopping bags, the packaging, the office design and furnishings, the music in the stores, the windows)
- The services (the sales method, the after sales service)
- The visual image (stationary and all the graphic identity of the brand -including internal templates such as faxes, presentations, letters, memos, emails-., the logo, the shopping bags and the packaging)
- The communication\(^5\) (the fashion shows, advertising, special events, annual reports, website…)
- The people working for the brand (the uniforms, the attitudes, the grooming of salespersons, the training of the employees)

What do all these have in common? They are “key experiential providers”\(^6\). They are what makes the customer experience the brand, relate to the brand, feel the brand: when a customer enters the brand’s store, the ambience, the layout, the quality of the salesperson’s approach, the service provided, the products are unique opportunities for the brand and the customer to experience an emotional relationship, for the brand to build a unique experience the customer will remember. When the customer opens a magazine that depicts one of the brand’s ads, when (s)he reads about the designer in some other magazine, when (s)he is invited by the brand to a special event or sees his-her favorite music star sporting one of the brand’s products, this will enhance the emotion.

Now the CEO and the Creative Director have both their areas of expertise and their responsibilities (listed in the next exhibit). All lie within the Brand Vision and should be consistent with it. Many of these topics need concerted decisions: for instance the new products must be in line with market needs and therefore closely integrate markets (which will give input on sizes, colors and other market specificities), merchandisers (which will build the collection structure) and the Creative Director.

\(^5\) In 1997, Gucci had to fight a battle with their perfume licensee (Wella, now known as Cosmopolitan Cosmetics): the Wella marketers had devised an ad campaign for Gucci Envy that Tom Ford rejected, thinking it was not consistent with Gucci’s image. Gucci finally came up with their own campaign and had the final word: “The key issue for us was creative control” said Domenico De Sole.

Nevertheless if trust is not there boundary problems will arise soon: the Creative Director will want to manage store locations and store refurbishments, while the CEO will consider that cost of store concept is way too expensive! If a license is managed by a License Manager, (s)he may have a tendency to work directly with the licensee and not include the Creative Director in the loop: as a result time is lost in the choice of new products or in the organization of events for the launch.

Figure 1: The respective roles of CEO and Creative Director

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<tr>
<th>CEO</th>
<th>Creative Director</th>
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<td>Distribution channels</td>
<td><strong>Product presence</strong> (product lines, materials, design)</td>
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<tr>
<td>Store locations</td>
<td><strong>Spatial and retail environment</strong> (store design, windows, visual merchandising, store music, packaging, shopping bags)</td>
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<td>Choice of suppliers</td>
<td><strong>Communication</strong> (advertising, events, fashion shows, annual reports, website)</td>
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<td>Quality control</td>
<td><strong>Visual image of brand</strong> (logo, graphic image)</td>
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<td>Hire of Store managers and salespersons</td>
<td><strong>Services</strong> (after sales, selling attitude)</td>
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<td>Training of salespersons</td>
<td><strong>People</strong> (grooming, uniforms)</td>
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<td>Delivery on time of goods</td>
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<td>Gross margin management</td>
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<td>Pricing strategy</td>
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<td>General collection structure</td>
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The Vision
Exhibit: The Bally aesthetics

BALLY

The logo

The mark

The packaging

The Berlin Store

A product:

An ad
The Tom Ford Case

Tom Ford, the Gucci Creative Director and since 2001 the Yves Saint Laurent Creative Director, and the template for all Creative Directors, himself says:

“ I’m one of those people who has a vision. I always know instantly: yes, no, I like it, I hate it. My job is just that all day long., expressing my vision in some way or another. … Gucci IS Tom Ford. Of course, Gucci is not all me. It’s a part of me. But I have expressed myself…. The New York Studio 54 side of me is more Gucci… (For YSL) it was hard at first. I had to tap into a different side of my personality, a different side of my taste level. Growing up in New Mexico, a lot of what I was exposed to was Hispanic culture, which was lace and ruffles, pattern, color. And that’s very much about what Yves Saint Laurent does, to a certain extent”.

“I saw that Tom, like me, was a maniac”, says Domenico DeSole, the Gucci Group CEO. Creative Directors are maniacs, they are detail focused: Tom Ford is obsessive about details. “He moved a white stool, he worried that the handrail would give shoppers splinters and he set little marks on the stereo volume so the music would provide the proper ambience” before the opening of the new YSL store in New York last December. Tom Ford knew the New York store would set the tone for all YSL stores worldwide.

Tom Ford has also an acute sense of the business: “ I intellectualize to a point, but in a fitting or when I am working on anything, I say okay, but does she look skinny in it? Is she going to feel good? If the answer is no then who cares that’s it’s about the Russian revolution blah blah and the theme is blah blah blah.. who CARES?? When the customer puts on those pants she doesn’t care what the original inspiration was. She cares about whether her butt looks good… I worry too much about whether it would sell or if people would like it.”

Tom Ford adds “I have to give a huge amount of credit to Domenico; he has made it possible for me to work. We are a great team. I completely trust Domenico with my life. Not everybody has that. And the fact of the matter is that I am a business-minded designer. I cannot divorce the commercial from the creative., because my goal is to create something beautiful that people will want more than anything in the world. When they find something they want, they buy it, and if they buy it, it makes sales, and if it makes sales… It’s a tangible side of a creative idea that works – money”.

7 Interview, I-D, July 2001
9 “Yves Saint Laurent doesn’t work like that. And he never will. The idea of him doing something just because he thinks he’d be able to sell it is crazy” recalls Clara Saint. Quoted in Alice Rawsthorne (1996).
10 “Tom Pumps Up”, W, July 2000
As Carine Roitfeld, the editor of French Vogue and a stylist for Gucci from 1995 to 2000 says, “Tom is artistic, but he has such a strong business side, and that is very rare. For most designers, it’s the cut of a jacket. With Tom, it’s the cut of the jacket and all the accouterments. He thinks about the car the woman drives, the kind of place she likes to live, how she likes to have sex. Tom considers all these things when he thinks about Gucci or YSL”.

The Creative Director is the one person that personifies the vocabulary of the brand AND who knows what will sell. This mix of a vision, creative instinct and business instinct is rare. Most designers lack the business instinct and will favor a much more top down approach: this is good for the brand because I have designed it. This is how it should be, irrelevant of business constraints: who cares if the market wants men’s rubber-soled shoes, if I consider that this brand will only have leather soled shoes? Why bother with functionalities if the design is great? Why bother with fit if the clothes are made only for anorexics? This is the aristocratic attitude – the “Moi le Roi Soleil” syndrome - that most French couturiers and some British designers exemplify. But ultimately in the 21st century luxury brands are about creation AND business, and business always tells. Customers are the ultimate deciders on what brand meets their desires, their needs, their expectations.
The Yves Saint Laurent case: from consistency to inconsistency... and back

January 30, 1958: the Press and attendants of Yves Saint Laurent first show for Dior —where he displayed the now famous “Trapeze line”— give him a standing ovation and find no words to say their emotion\(^{11}\). He is shown to a small balcony overlooking the Avenue Montaigne (Exhibit 1) and applauded by all that had not been able to enter.

Exhibit 1: The 1958 triumph

January 11, 2002: three days after announcing his retirement, Yves Saint Laurent, in an interview given to Paris Match admits his disdain for contemporary fashion: “I have nothing in common with this new world of fashion, which has been reduced to mere window dressing. Elegance and beauty have been banished. I utterly reject the fantasies of those who seek to satisfy their egos through fashion. I feel like a dove that has been stabbed.”

What had happened over those 44 years that led to this bitterness? The rise and fall of a great brand, which we shall now relate\(^{12}\) from a strict business perspective.

November 14, 1961: Yves Saint Laurent and his partner Pierre Bergé set up the Yves Saint Laurent Company, funded by Jesse Mack Robinson, an American self-made businessman from Georgia, who had made a fortune from second-hand car dealerships and motor-loan companies. He invests \$700,000 in the company over three years, in return for 80% of the equity “and the firm promise that his identity would be kept secret”. Cassandre, one of the major French graphic artists of the time designs the now world-famous logo, entwining Yves’ three initials.

\(^{11}\) “My dear, France is saved. It’s Joan of Arc” said an attendant, as reported by Alice Rawsthorn: Yves Saint Laurent, A Biography, Doubleday, 1996

\(^{12}\) Our major source here is Alice Rawthorn’s book. All quotes, unless otherwise specified, come from it.
In 1962, Pierre Bergé, knowing that the Company’s success laid not in the fashionable celebrities that bought the couture dresses but in the buyers from the Department Stores and the licenses Dior had so successfully developed, hired a Sales Director and started signing contracts: in 1963 with Seibu for Japan\textsuperscript{13}; with Charles of the Ritz –and its president Richard Salomon, a future investor in YSL- for perfumes in return for a royalty of 5\% of its sales; for women’s stockings and men’s ties. All this led to an annual turnover of around $1 million. The Seibu move was really innovative: it made YSL one of the first luxury brands to develop its sales in Japan, seeing a huge potential market in it.

\textit{July 13, 1965:} Lanvin-Charles of the Ritz buy back JM Robinson’s shares for a little less than $1 million.

1965 also sees the decision by Pierre Bergé to diversify into ready-to-wear. This was a revolutionary step, as most couturiers were opposed to selling inexpensive “copies” of their couture dresses. But Bergé had understood that this was where the future of the business laid. The radical innovation of Yves Saint Laurent was that of designing a specific RTW collection and not a cheaper version of his couture collection.

\textit{September 22, 1966:} Opening of the first Rive Gauche boutique in Paris at 21, rue de Tournon a small street on the Paris Left Bank. Manufacturing of this RTW line was contracted with C.Mendès, an important French textile and clothing manufacturer. This family business\textsuperscript{14} was managed by Didier Grumbach since 1964 – Didier Grumbach who now is (in 2002) President of the Chambre Syndicale de la Couture, that is the French Association in charge of all the couture events in France, after having been CEO of Thierry Mugler. The contract itself was in fact a joint venture (and not strictly a license): a new company –Saint Laurent Rive Gauche- was set up, 25\% of which were owned by Mendès, 25\% by Didier Grumbach and the remaining 50\% by Pierre Bergé and Yves Saint Laurent. “A 12\% royalty would be payable on sales of Rive Gauche products, 5\% of which would go to the Yves Saint Laurent

\textsuperscript{13} The licensing business was in its infancy as the following quote shows: “Each season they chose a selection of outfits from the YSL collection and ordered two samples of each to be flown to Tokyo. Once the clients had placed their orders, the Seibu team made up the garments, sending them back to rue Spontini to be checked at least three times before being handed to the customers.”

\textsuperscript{14} The family included the former French Prime Minister Pierre Mendès France.
couture house” and the rest reinvested in Saint Laurent Rive Gauche. The store and the line were an immediate huge success: “Everyone went to Rive Gauche, absolutely everyone... It was so exciting. You could buy an entire wardrobe there: everything you needed... The clothes just walked out of the shop”.

September 1968 saw the opening of the second Rive Gauche boutique in New York, on Madison Avenue, between 70th and 71st Street. The success was as big as in Paris, selling $25,000 on the first day. A boutique in London and one in Milan followed it in 1969. Urged by Richard Salomon, there were 20 Rive Gauche boutiques open by the end of 1969.

1971: Yves Saint Laurent decides to use his own image -in the nude- to advertise his new perfume for men and asks Jean Loup Sieff, one of France’s major photographers to take the picture. This reinforced his reputation as “the most iconoclastic of the couturiers and enhanced his cult status” and shows him to be a pioneer in what was known later as “designer marketing”.

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“Realizing that the future of French fashion lay with prêt-à-porter, Pierre Bergé as anxious to distance Yves Saint Laurent from the dying couture trade”. They decided to drop the couture shows and replace them by RTW shows: another revolution. The first took place on October 28, 1971. Everything was made to reinforce the RTW business: the new women’s perfume was named Rive Gauche.

1969 had seen a change in ownership for Charles of the Ritz, now part of Squibb-Beech Nut. A new deal was struck concerning Yves Saint Laurent. Yves Saint Laurent and Pierre Bergé exchanged the shares and royalty entitlements they had in the Company in return for full ownership of the fashion company and a 5% royalty on wholesale sales of perfumes. Yves Saint Laurent had a right of veto over the new fragrances to be developed -both the scents and the communication. They kept the right to license any product except perfume and cosmetics.

In 1973, they decided to go back to couture: Yves Saint Laurent now created four collections a year.
In 1974, they signed an agreement with Maurice Bidermann, to manufacture Rive Gauche men’s wear in the USA. This meant an immediate entry into the Department Stores: the men’s wear line made $50 million in sales in North America during its first year.

The 1970s were the years where Pierr Bergé grew the licensing business to huge proportions: he sold the YSL name for eyewear, scarves, belts, ties and even cigarettes. By the end of the decade, the YSL name concerned 130 different products!

Couture definitely played its role in this: it was what built the brand ethos, what gave it its cult status. The day following the “Ballets Russes” couture presentation in July 1976, the Madison Avenue store made sales of $20,000, “ten times as much as the same day the previous year”. The $500,000 of the couture show was bringing in the equivalent of millions in advertising. As Didier Grumbach says in 2002: “Creating haute couture costs a lot less than mounting an international ad campaign, but can have a lot more impact”15.

By then Pierre Bergé, who was a visionary businessman and had learnt from Richard Salomon to take a long-term view of the business, had taken the brand where no one else had really ventured, but where all designers then went: the mix between couture, ready-to-wear and licenses. By 1977 the YSL annual sales were reaching $250 million annually. Building on the iconoclastic image, YSL and Squibb launched in 1975 (20 years before Calvin Klein’s “Ck One”) a genderless perfume “Eau Libre”, that was intended to appeal to both men and women. Too far ahead of its times, it was a failure. However, the next perfume was a huge success: “Opium” started as a scandal, both by the name16 and by the ad, shot by Helmut Newton, that depicted model Jerry Hall “lying languidly on a lame sofa in the Oriental Room at Rue de Babylone (Yves’ home), with the slogan ‘Opium, pour celles qui s’adonnent à Yves Saint Laurent’; ‘Opium, for those that are addicted to Yves Saint Laurent’”. Yves Saint Laurent himself was a major actor in the shooting of the picture, in the choice of the dress and in the slogan. Isn’t it the same scandal that Tom Ford reinvents when his first gesture as YSL Creative Director is to redesign the “Opium” ad in the summer of 2000 and have shoot model Sophie Dahl in a provocative nude picture17?

16 Yves Saint Laurent and squibb were accused of “glamorizing drug addiction”.
17 “A controversial billboard advert showing a naked female model in a suggestive pose has been banned by the Advertising Standards Authority ruling. The Yves Saint Laurent Opium perfume advert featuring Sophie Dahl attracted 730 complaints, making it one of the most complained about in the ASA’s history. On Monday evening the watchdog ordered all the posters to be withdrawn because they are “degrading” to women and offensive. Christopher Graham, ASA director general, said the poster was sexually suggestive and likely to cause “serious or widespread offence” thereby breaking the British Codes of Advertising and Sales Promotion. The ruling may also
force Yves Saint Laurent, part of the Italian luxury goods maker Gucci Group NV, to have its posters pre-vetted for up to two years if the Committee of Advertising Practice requests it.” BBC News, December 18, 2000
The resemblance is striking: Tom Ford obviously walks Yves Saint Laurent’s path here.

The US launch of Opium was a party on a junk that cost $300,000, a small part of the cost of the global launch, of a perfume that made annual sales of $100 million with $2.5 million in royalties for Yves Saint Laurent.

The end of the 70s saw Yves Saint Laurent himself retreating for RTW: the lines were now designed by others, taking the themes he had defined and adapting them for the Rive Gauche line. That had a catastrophic consequence: the discrepancies between the lines became soon evident. The Fall 1978 RTW collection was dismissed by Hebe Dorsey from the Herald Tribune as “terribly safe and classic”. She added in the fall of 1979 “Yves Saint Laurent is on a fashion sabbatical”. Although this same season’s couture was one of his greatest triumphs, the RTW collection was said to be a disaster “with not a single new look”, “bourgeois and rather boring”.

1980: there are 140 Rive Gauche boutiques worldwide (but all of them save six were owned by licensees and franchisees) and the annual royalties Yves Saint Laurent and Pierre Bergé draw from their 190 licenses\(^\text{18}\) is approximately $18 million. They are very rich but the brand is getting to be increasingly inconsistent. Alice Rawsthorn relates a significant anecdote that is the perfect example of how a brand can be progressively killed by over stretching. Yves Saint Laurent was visiting China in 1985: “over on the other side of the store was an American tourist, one of those overweight Texans in a plaid shirt, polyester trousers and a belt with a big buckle. The buckle might have had a cow on it, but it didn’t, it said YSL. The Texan was smiling at Saint Laurent from the other side of the store, swaying to and fro, pointing at the buckle.”

In 1985 Yves Saint Laurent had an annual turnover of $40 million and netted $8.4 million in profits – but the brand name generated $1.2 billion in sales: this is where one sees the difference in scale between the licensee business model and the fully controlled business model.

Pierre Bergé and Yves Saint Laurent made a step toward this alternative model when they bought back the perfume & cosmetics business from Squibb in 1986, for $630 million, financed through a $465 million loan from Crédit Suisse First Boston. This was done with the help of Italian businessman Carlo de Benedetti, who acquired a 25% stake in the company in November 1986. The new company, that now included couture, perfume and cosmetics, made $432 million in annual sales. Pierre Bergé’s objective was to gain as much control as possible over the brand, though he never seems to have wanted to drop the other profitable license contracts and bring back into the company those products.

\(^{18}\) 1983 saw the signature of the license with Cartier for watches, pens, leather goods and lighters.
In order to finance its future development, and given the new model LVMH had set when it was established in 1987, they decided to float the company in July 1989\(^9\), Cartier taking a 6% stake in it and Cerus, a Carlo de Benedetti company 14.9%. Eventually Pierre Bergé and Yves Saint Laurent bought back in their name this stake when De Benedetti decided to sell it.

The 1990 results were great: $540 million in sales, which netted $45.4 million profits. But the Gulf War was disastrous for the whole luxury industry. Two years later the situation deteriorated rapidly: some boutiques were closed, the perfume sales were declining and the brand suffered both from its multiple license system that flooded the market with inconsistent products and from the example of other luxury companies that were considered as much more consistent than YSL. Moreover, YSL did not benefit completely from the Rive Gauche distribution, as it did not own those stores: the largest part of the profits went to the franchisees and licensees that operated them. Pierre Bergé had started closing down certain licenses and imposed tighter control on the design of licensed products. But that was not enough, and to achieve this the company needed much more important investments than it could realize. The YSL shares had gone down from 1098 Francs in 1989 after flotation to 476 Francs in December 1992. In 1993 Pierre Bergé and Yves Saint Laurent sold their shares of YSL to Sanofi, a major French pharmaceutical company. The deal left both men in charge of the fashion house till 2001, Yves Saint Laurent keeping right of veto over all beauty products to be developed as in the Squibb contract. However they had to relinquish their rights to royalties on the sales of perfumes and cosmetics\(^10\). Pierre Bergé was now a salaried manager and both him and Yves Saint Laurent were but minority shareholders in a company they had owned.

The final act was played in 1999, when Gucci bought YSL from Sanofi (with the money of PPR). The last deal Pierre Bergé closed for Yves Saint Laurent was to split couture from ready-to-wear, Yves and himself keeping the couture house as a separate legal entity, Gucci managing all the other YSL operations. The financial deal is, according to French daily Le Monde\(^21\), astonishing and most profitable: first of all they will receive $70 million for the use of Yves Saint Laurent’s name and for giving up all executive positions in the YSL company; they will be paid –through their common consulting company – 0.4% of the annual sales of YSL Parfums till 2006\(^22\); the couture company will receive $40 million in intellectual property rights (halved if both men retire before December 31 2002 – which is now the case).

The Gucci Group’s first decisions are in line with the Gucci business model.

\(^9\) “Yves Saint Laurent had become the first French fashion company ever quoted on the stock market”.

\(^10\) For which they received $65 million in shares of YSL, plus shares in Sanofi, plus annual salaries of $2 million.

\(^21\) November 19, 1999

\(^22\) With a maximum of $4 million per year. This part of the agreement can be renewed for a maximum of 10 years.
«Gucci was more complicated with the family situation, and it was a process that went on for a long time», says Domenico De Sole. «The situation at YSL was more dramatic because of the timing. Most of the licenses have already been terminated, and the others will have expired by the end of next year. In the end, we want to see YSL running on the same business model as Gucci.»

Tom Ford the Creative Director of Gucci, was appointed Creative Director of Yves Saint Laurent and he outlined what his strategy would be:

- Give a consistent vision to the brand: “My first job is to unify the entire company, give it a strong point of view, from advertising to store concept, visual display, clothing, shoes, bags, it all has to relate”

- Open Company owned stores: “We have about 25 stores now, and will have between 50 and 60 in two to three years.” The franchisees are progressively bought back: in November 2000 YSL took over the rights to the Japanese market from its Japanese franchisee –including the 5 stores. From 15 at the end of 2000, the number has grown to 40 at the end of 2001.

- Cutting down licenses: “When we took possession of the company in December, we had 167 licenses. By January of 2001, we will have 64…. Our goal over the next two to three years is to get that number down to a tiny handful of licenses, like we have at Gucci. We have licensed eyewear, we have the fragrance license, and that’s it. We have a complete control over the product.” YSL acquired its ready-to-wear licensee C. Mendes SA in February 2000 –who owned nine stores-, and has since bought back licenses from Cartier for watches and Schwartz & Benjamin for footwear. Sergio Rossi, part of the Gucci Group, will now manufacture Yves Saint Laurent shoes. In February 2001, YSL discontinued the “Variation” line, the ready-to-wear sportswear line Pierre Bergé had launched and which was competing with Rive Gauche at much lower price points.

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23 WWD, August 1 2000

24 YSL signed an eyewear license with Safilo (Gucci’s licensee) in January 2002.

B. Investing in Retail and Balancing Distribution Channels

“We compete for everything. We compete for stores, for talents, for brands” Domenico De Sole

A very detailed analysis of the luxury industry was published in 1999 by Goldman Sachs: “Branded Consumer Goods: A Global Review”. One of their major findings concerns the evolution the After Tax Operating Margin, which has been steadily decreasing over the 1986-2000 period. This is due to four major causes, both linked to the strategy the luxury brands are implementing:

1. The control of distribution, through the buy out of former distributors and the openings of new or refurbished stores in prime locations. Total capital employed by listed luxury companies over the period 1986-2000 has been multiplied by 7.5, when sales were multiplied by 8.5.

2. The brand extensions into new product areas.

3. The money spent on the communication strategy to develop and maintain brand awareness

4. The shift in product mix from high margin products to lower lifestyle products to attract new customers

Figure 2: The financial consequences of the brands’ development
Controlling distribution, as we have seen, is critical for Luxury Brands. This means fighting for window space to develop highly visible stores in fashionable areas. Brands must tackle a tricky problem: simultaneously open new stores to develop awareness AND make sure that these operations are profitable. As we shall see, this is no simple problem: it has led luxury brands to develop a flagship plus satellite store network we shall analyze.

But directly operated retail is but one of the many distribution channels these brands use. There is only ONE Luxury Brand that relies 100% on its own stores: Louis Vuitton. ALL other brands develop multiple distribution channels. We shall look into it, with a strong focus on Travel Retail.

**Retail locations: fighting for window space**

A recent study by French marketing company Euromap\(^\text{26}\) shows that 80% of those that had recently bought a luxury product (67% of interviewees) had pre-decided where they would go shopping for it. Both the part of the city and the store they were initially targeting were also where they finally bought the product. For the customers of luxury brands the city is segmented in zones where you will systematically shop for the items you are looking for. Each major city in the world has its luxury retail areas.

The traditional luxury shopping areas are the “luxury ghettos”, where all luxury brands aggregate themselves, one next to the other. Avenue Montaigne, Rue du Faubourg Saint Honoré and Place Vendôme (for jewelers) in Paris, Bond Street in London, Madison Avenue and 57th Street in New York, Via Montenapoleone and Via Spiga in Milan. You will find a similar model in a shopping mall like Lee Gardens in Hong Kong.

The last four or five years have seen an alternative model appear. Customers that will favor luxury consumption as part of their normal daily consumption will want to be able to reach multiple levels of distribution in a single vicinity. They will want to buy Versace or Hermès but also see a movie, buy a newspaper, eat, buy at Gap or H&M. We have all seen the chauffeured limousine waiting for a very well dressed lady who carries a Zara shopping bag. You will also have the hedonic consumer, that will be a basketball fan, and who will shop at the NBA store on 5th Avenue and at nearby Prada. These new luxury distribution areas you also will find in most large cities: Avenue des Champs Elysées in Paris, 5th Avenue and Soho in New York, Pacific Place in Hong Kong, Ginza in Tokyo.

\(^{26}\) EUROMAP: Comment se decide et se realise un achat dans le luxe, January 2002. 600 affluent women in France, Germany and Italy were interviewed.
LUXURY GHETTOS: THE LONDON BOND STREET CASE

The following map shows what a luxury ghetto is: a continuous line of luxury brand stores, with, here and there, auctioneers, department stores, jewelers. The list of brands present speaks for itself.

- Hermès
- Church’s
- Lalique
- Celine
- Nicole Farhi
- Max Mara
- Fine Arts Society
- Polo Ralph Lauren
- Mallett Antiques
- Zili
- Philipps Silverware
- YSL
- Wempe
- Thierry Mugler
- Louis Vuitton
- Donna karan
- Burberry
- Charles Jourdan
- Longchamp
- Alain Figaret
- Sotheby’s
- Zegna
- Mulberry
- Armani
THE HONG KONG PACIFIC PLACE CASE

When visiting the Hong Kong luxury ghetto that is Kew Gardens, you feel you are visiting a shrine: it is mostly empty. On the other hand visiting Pacific Place, a three level shopping mall, you have a feeling of life and vitality. Elevators take you from one level to another in full view of the whole mall and, the genius of Pacific Place is here, each level is in a sense segregated²⁷.

The top floor (L3) is dedicated to luxury brands: Versace (two stores), Gucci, Hermès, Joyce, Prada, Chloé, Dior, Escada, Loewe, Dunhill, Cerrutti, Lanvin, Ferragamo, Testoni, Bally, Church’s, Louis Vuitton, Tod’s, Bulgari, Cartier, Georg Jensen, Montblanc and Tiffany are next to two restaurants and ten antique and home furnishings stores.

The second floor (L2) is slightly less exclusive. Here you have Agnès b., Aquascutum, Dolce & gabbana, Daniel hechter, Guess, Nautica, Timberland, Anteprima, Fendi, Jessica, Max & Co, Miu Miu, Momento, Vivienne Tam, Hugo Boss, Furla, Kenneth Cole, Lancel, Nine West, Bang & Olufsen, some local jewelers, Crabtree & Evelyn, la Prairie along with other restaurants, book stores, record stores.

The ground floor (L1) is mass market oriented -including second lines of luxury brands. Armani Exchange, CK jeans, Esprit, U2, Benetton, Kookaï, Mango, Rudolph, plus a cinema, more restaurants, children’s toys, more jewelers, beauty salons and more book stores.

²⁷ See map of Pacific Place at: www.pacificplace.com.hk
Each customer can find all levels of prices, all sorts of brands, entertainment, books, and music, all in the same location. Luxury brands still have the feeling of keeping to themselves, but are accessible to anyone moving to the third floor without being in a closed area.
LOCATION, LOCATION, BREAK–EVEN: THE FLAGSHIP AND SATELLITES MODEL

Of course location is critical. Of course size and quality of the store are critical too. Recently each brand has been focusing on having a dual store system, the “flagship and satellites” model:

- **Big flagship stores in prime locations:** they are supposed to display the whole range of merchandise available, on surfaces that are over 800 sq. meters or approximately 8,000 sq. feet. One of the most spectacular is the 1000 sq. meters Louis Vuitton flagship that opened in February 1998 on the Paris Champs Elysées, and whose turnover was $95 million in 2000. Recently these flagships have seen a further move towards integration of all available lines of the brand, which may have been displayed in different stores. Armani is a perfect case here. They are opening a new 29 000 sq. feet store in Hong Kong, within which all Armani lines will be grouped: Giorgio Armani, Emporio Armani, Armani Jeans, Armani cosmetics, an Armani Caffe’ and a flower store. This is the second such “lifestyle” store, following the 8 000 sq. meters Milan one on Via Manzoni that opened in October 2000: Emporio Armani, Armani Jeans, Armani Casa, a gallery Armani Arte, an Armani Caffe’, a book store, a restaurant and a flower store are thus displayed together.

- **Satellites,** that is medium sized stores (100 to 400-500 sq. meters) in prime secondary locations in important cities. A small part of the available lines and merchandise are displayed, usually the best sellers. It can happen that these stores be specialized: a women’s store, a men’s store, a shoe store...

The move to bigger flagship stores started in 1995-1996 and the trend has been to grow the size of all stores –even medium-sized ones- when possible: Hermès has grown its New York store from 5000 to 20200 sq. feet in 2000, its Bal Harbour store from 720 to 4400 sq. feet in 2002 and its Beverly Hill’s store from 1300 to 17000 sq. feet in 1997; when Gucci revamped its London Sloane Street store in 1997, it went from 5000 to 15000 sq. feet; even Louis Vuitton –whose stores are not above the 10 000 sq. feet mark- has refurbished its Bal Harbour store and has grown it from 1800 to 5400 sq. feet.
### Exhibit 5: The Armani Stores

<table>
<thead>
<tr>
<th>Europe</th>
<th>USA</th>
<th>Japan + Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Flagship store</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milan Via Sant’Andrea (760 sq. meters)</td>
<td>Beverly Hills (13,000 sq ft Franchisee)</td>
<td>Tokyo</td>
</tr>
<tr>
<td>Paris</td>
<td>Chicago (8,000 sq ft)</td>
<td>Hong Kong (29,000 sq ft grouping all Armani lines – Fall 2002)</td>
</tr>
<tr>
<td>London (Club 21)</td>
<td>Los Angeles</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New York</td>
<td></td>
</tr>
<tr>
<td></td>
<td>San Francisco</td>
<td></td>
</tr>
<tr>
<td><strong>Normal store</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy:</td>
<td>Bal Harbour</td>
<td>Kobe</td>
</tr>
<tr>
<td></td>
<td>Bologna</td>
<td>Nederland</td>
</tr>
<tr>
<td></td>
<td>Florence</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Naples</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Padova &amp; Portofino (Franchisee)</td>
<td>Palm Beach</td>
</tr>
<tr>
<td></td>
<td>Rome</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Torino</td>
<td></td>
</tr>
<tr>
<td>Belgium:</td>
<td>Brussels</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dusseldorf</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hamburg</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Munich</td>
<td></td>
</tr>
<tr>
<td>Germany:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>Madrid &amp; Barcelona (franchisee)</td>
<td>Kobe</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Osaka</td>
</tr>
<tr>
<td>Switzerland:</td>
<td>Geneva (franchisee)</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>Saint Moritz</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Zurich (Franchisee)</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>UK:</td>
<td>London Sloane Street (Club 21)</td>
<td>Hong Kong</td>
</tr>
</tbody>
</table>
The cost of such prime locations for flagships is huge, because demand is high and available space is scarce. Recent figures can be quoted here that show that these luxury brands must have important sales to break even:

A standard case will be a 15 000 sq feet flagship store in New York, on Madison and a smaller 5 000 sq. feet store in Soho. Renovation costs are listed as being currently $1 000 per sq. foot on Madison and $500 per sq. foot in Soho for top luxury brands. Personnel costs are considered at cost of $25 000 per FTE. Amortization of renovation costs is calculated over three years. Given a gross margin of 75% on

A standard case will be a 15 000 sq feet flagship store in New York, on Madison and a smaller 5 000 sq. feet store in Soho. Renovation costs are listed as being currently $1 000 per sq. foot on Madison and $500 per sq. foot in Soho for top luxury brands. Personnel costs are considered at cost of $25 000 per FTE. Amortization of renovation costs is calculated over three years. Given a gross margin of 75% on

Figure 3: Rents in some major luxury locations

<table>
<thead>
<tr>
<th>Source: WWD, January 1998</th>
<th>Per Square Foot</th>
<th>Per Square meter</th>
</tr>
</thead>
<tbody>
<tr>
<td>All rents in US $</td>
<td>1998</td>
<td>1998</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>Max</td>
</tr>
<tr>
<td>NEW YORK Madison avenue</td>
<td>350</td>
<td>500</td>
</tr>
<tr>
<td>NEW YORK SoHo</td>
<td>85</td>
<td>180</td>
</tr>
<tr>
<td>PARIS Saint Germain des Prés</td>
<td>335</td>
<td>381</td>
</tr>
<tr>
<td>PARIS Champs Elysées</td>
<td>427</td>
<td>-</td>
</tr>
<tr>
<td>PARIS Avenue Montaigne</td>
<td>213</td>
<td>336</td>
</tr>
<tr>
<td>PARIS Rue du Faubourg Saint Honoré</td>
<td>381</td>
<td>-</td>
</tr>
<tr>
<td>PARIS Quartier latin</td>
<td>380</td>
<td>-</td>
</tr>
<tr>
<td>MILAN Golden Triangle Petites boutiques (65m2)</td>
<td>111</td>
<td>277</td>
</tr>
<tr>
<td>MILAN Golden Triangle Large stores</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>LONDON Bond Street</td>
<td>501</td>
<td>-</td>
</tr>
<tr>
<td>LONDON Sloane street</td>
<td>668</td>
<td>-</td>
</tr>
<tr>
<td>LONDON Oxford Street</td>
<td>450</td>
<td>601</td>
</tr>
<tr>
<td>LONDON Oxford Circus</td>
<td>835</td>
<td>-</td>
</tr>
<tr>
<td>BERLIN Kurfurstendam Large stores</td>
<td>864</td>
<td>-</td>
</tr>
<tr>
<td>BERLIN Kurfurstendam Small stores</td>
<td>1 235</td>
<td>-</td>
</tr>
<tr>
<td>BERLIN Tauentzienstrasse</td>
<td>2 300</td>
<td>-</td>
</tr>
<tr>
<td>BERLIN Fasanenstrasse</td>
<td>617</td>
<td>925</td>
</tr>
<tr>
<td>HONG KONG Tsim Sha Tsui</td>
<td>750</td>
<td>-</td>
</tr>
<tr>
<td>HONG KONG Causeway Bay</td>
<td>1 500</td>
<td>-</td>
</tr>
<tr>
<td>HONG KONG Pacific Place - Landmark</td>
<td>600</td>
<td>750</td>
</tr>
<tr>
<td>HONG KONG Department stores</td>
<td>375</td>
<td>550</td>
</tr>
<tr>
<td>TOKYO Ginza</td>
<td>245</td>
<td>-</td>
</tr>
<tr>
<td>TOKYO Example Ginza 500 sq feet (46 sq. meters)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOKYO Shibuya</td>
<td>519</td>
<td>-</td>
</tr>
</tbody>
</table>


29 WWD, December 13, 2001. Recent operations in New York give renovation costs as: Chanel on Madison $1000; Escada on 5th Avenue $690; Burberry on 57th Street $ 560; Ferragamo in Soho $500. The new Prada store in Soho by Rem Koolhas is given at $1000.
the products sold in the stores (standard luxury brands USA figures30), these two stores would have to sell $9 000 per sq. meter (Soho) and $17 000 per sq. meter (Madison) to break even.

<table>
<thead>
<tr>
<th></th>
<th>MADISON</th>
<th>SOHO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surface</td>
<td>15 000</td>
<td>5 000</td>
</tr>
<tr>
<td>Renovation costs</td>
<td>15 000 000</td>
<td>2 500 000</td>
</tr>
<tr>
<td>Rent per sq foot</td>
<td>800</td>
<td>400</td>
</tr>
<tr>
<td>Personnel FTE</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>Rent</td>
<td>12 000 000</td>
<td>2 000 000</td>
</tr>
<tr>
<td>Personnel</td>
<td>500 000</td>
<td>300 000</td>
</tr>
<tr>
<td>Others</td>
<td>5 000 000</td>
<td>800 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17 500 000</strong></td>
<td><strong>3 100 000</strong></td>
</tr>
</tbody>
</table>

Gross margin 75%

Annual sales to breakeven  
Sales per sq. foot  
Sales per sq. meter

These figures show that opening a store since 1997-1998 is a tough proposition: breakeven can be very difficult to achieve in certain locations, unless you are a very well known brand. Neiman Marcus gives their annual sales per sq. meter to be $4800 and a standard department store’s to be $2000. Galeries Lafayette in Paris has sales of $11,000 per sq. meter. The only way to achieve the figures above is to draw traffic and make sure the conversion rates are good31.

As store designer Kenne Shepherd says: “The luxury fashion store has become as important an identity statement for the fashion designer as the collection itself. It is an extension of a unified worldwide fashion image, in a world where image is the lifeblood of the industry”32.

Those flagships are image-builders. Profits come from all the satellite stores, those that either are in cheaper areas or have been in prime locations with the brand for a long time –when rents were much lower. For instance a 459 sq. meter store in New Bond Street whose lease ends in 2011 comes for a rent

Figure 4: Breakeven figures for New York Locations (2001)

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30 It would be 60–65% in Europe and 80% in Japan.

31 If, on top of these direct costs, the brand has overheads of $1 million (cost of HQ, conception, marketing and communication) it needs an additional $1.8 million in sales at full price to break even. Total sales in a small 150 sq. meters store would then need to be around $3 million. On the other hand licensing production and distribution, given a 6% licensing royalty, needs total sales (at retail level) of $17 million to cover the overheads!

of $800 per sq. meter. A 245 sq. meter store in Old Bond Street whose lease runs to 2015 has rent of $1600 per sq. meter. Bond Street today is rated at $6400 per sq. meter! Break even in those stores will be much lower: given a 65% gross margin (European standard figures), no renovation costs and other direct costs equivalent to the personnel costs, this store reaches break even at $5000 per sq. meter sales – against $15 000 per sq. meter if it was to be rented and renovated today.

Luxury brands are facing a very cyclical real estate market. When the demand is high (as in the period 1999-2001), real estate is priced at the level of the highest performers – those that are ready to offer top prices for scarce prime locations- and include aggressive sales expectations over the coming 3 to 5 years. Renegotiating leases at that period of the business cycle will be tough, and stores that were very profitable before may not be profitable anymore.

When there is a slowdown of the market (1991-1992 after the Gulf War; 1997-1998 in Asia) the real estate market falls and brands will renegotiate their leases. This is what happened in Asia in 1997-1998: instead of closing down operations, the major luxury brands renegotiated their contracts and opened new stores with rock-bottom leases. These stores now are very profitable.

Last but not least, there is a Group factor: each Luxury Group will have a strong negotiation power when opening stores for more than one of their brands.

<table>
<thead>
<tr>
<th></th>
<th>BOND STREET</th>
<th>BOND STREET</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NEW LEASE</td>
<td>OLD LEASE</td>
</tr>
<tr>
<td>Surface (sq.meters)</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Renovation costs (per sq. meter)</td>
<td>5 000</td>
<td></td>
</tr>
<tr>
<td>Total renovation cost</td>
<td>2 000 000</td>
<td></td>
</tr>
<tr>
<td>Rent per sq meter</td>
<td>6 400</td>
<td>1 600</td>
</tr>
<tr>
<td>Personnel FTE</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Rent</td>
<td>2 560 000</td>
<td>640 000</td>
</tr>
<tr>
<td>Personnel</td>
<td>500 000</td>
<td>500 000</td>
</tr>
<tr>
<td>Others</td>
<td>700 000</td>
<td>100 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3 760 000</td>
<td>1 240 000</td>
</tr>
</tbody>
</table>

**Gross margin 65%**

Annual sales to breakeven | 5 784 615 | 1 907 692 |
Sales per sq. meter       | 14 462 | 4 769 |

*Figure 5: Breakeven figures in London*
TURNING AROUND A BRAND: THE STORE URGENCY

When Domenico De Sole became COO of Gucci in May 1994, one of his very first moves was to redesign the stores: “In December 94, within six weeks, all stores worldwide had been ‘milanized’ that is redesigned on the model of the Milan store.. small changes, not expensive but which made major impact”\textsuperscript{33}.

When Gucci bought Yves Saint Laurent in November 1999, the very first thing they did was develop both the store network and redesign the standard store format. The model of the new YSL store, designed by Tom Ford and architect William Sofield, was opened in December 2000 at the Bellagio in Las Vegas, the second being the New York Madison Avenue flagship store in September 2001. The number of stores, which was 15 when the brand was bought, grew to 30 a year later and to 40 two years later.

When Gucci bought Bottega Venetta in February 2001, the brand owned 19 stores. The first new-look flagship store was opened in December 2001 on Madison Avenue. Six more stores - in Paris, Milan, London, San José, Costa Mesa, Chicago (a move to a more prestigious place in the Hyatt) - to which will be added eight stores in Japan are planned in 2002. The existing stores will all be refurbished within one year. This means that within two years of its take-over, Bottega Venetta will have renewed all its stores and doubled their number!

Stores are where the brand meets the customer: this is where the vision and the style of the brand are expressed. This is where a luxury brands has to invest in CAPEX if they want to increase their visibility. Brands that do not have the money to ensure that this is the case, brands that do not understand that it is in the stores that it all happens and just keep the old concepts up and running, will face tough problems\textsuperscript{34}.

\textsuperscript{33} Les Echos Conference, March 14 2000

\textsuperscript{34} This is the case for Bally, the Swiss brand that Texas Pacific Group bought in October 1999. Having decided to turn it into a luxury brand they have not had this sense of urgency: after closing down most of the second rate stores, they were left with 179 stores in July 2001, out of which TWO had the new concept (in Berlin and Singapore) and 15 only had been refurbished along softer and much less luxurious lines!
STORE FORMATS: CLOSED OR OPEN?

The traditional luxury brand store is a closed store, which is to be entered through a glass door. There are however different formats possible (which we will illustrate with the different Cartier stores), ranging from closed to very closed format, all based on the window concept:

- A closed window, with no view on the inside of the store, and a door that opens only on request: this is the traditional Jewelry format that Cartier displays in most of its stores (Exhibit 8)

- An open window, displaying products, with a removable back, which only gives a partial view of the inside of the store. This is the new “slate” Cartier format displayed in the Faubourg Saint Honoré in Paris (Exhibit 7)

- An open see through window, that allows the customer to envision the whole store when standing outside: this is the case for the Cartier stores on Madison Avenue and 5th Avenue in New York (Exhibit 6)
Each of these formats will generate a different relationship between the customer and the brand, which will very much depend on the familiarity of the customer with the brand.

<table>
<thead>
<tr>
<th></th>
<th>Familiar customers</th>
<th>Non familiar customers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Format 1 “Fort Knox”</strong></td>
<td>They will feel at ease and sheltered from the rest of the world in a very exclusive environment</td>
<td>They will feel totally unwelcome and will not even push the door open</td>
</tr>
<tr>
<td><strong>Format 2</strong></td>
<td></td>
<td>They will still be rather intimidated: this format is close to Format 3</td>
</tr>
<tr>
<td><strong>Format 3 « Open window »</strong></td>
<td></td>
<td>The will feel rather comfortable and can anticipate what will happen inside.</td>
</tr>
</tbody>
</table>

Democratization of luxury means also that potential customers, not familiar with the brand, must be able to access it without feeling rejected or intimidated. The “Open Window” format is therefore much more suited to these new customers. There exists a fourth store concept, the “Open store”, which is the ultimate in welcoming unfamiliar customers: there is no door and no window to hinder the entrance. There are two examples of such stores:

- Almost all the Travel Retail stores in the Airports have this format: people can come in without having to push a door open. All studies made show that this facilitates the access of luxury brands for non-traditional customers. Even jewelers like Cartier and Bulgari adopt these open stores in their airport locations (Exhibits 9 & 10).
• Sephora, the perfume & cosmetics distributor has adopted this format. Their Paris Champs Elysées flagship is a perfect example of this and needs to be compared to the traditional Guerlain parfumerie that is 50 meters down the Avenue. Both occupy approximately the same width but entering the Guerlain store can be trying: first comes a very heavy door behind which is a guard, two traditional windows are on either side which allows the customer to see that it is a small store in which there are up to four salespersons (Exhibit 11). It is very intimidating.

Sephora, on the other hand, is an open portal on the Avenue (Exhibit 12), with a soft slope that draws you into the store (Exhibit 13). The guard is very discreetly placed and there seems to be a constant flow of visitors from the street into the store and out: there is no barrier to entry. As a result you will see inside customers who would never enter the Guerlain store next door (Exhibit 14). Hopefully they will buy their Guerlain perfumes & cosmetics at Sephora!
Exhibit 12: the entrance of Sephora

Exhibit 13: Customers at Sephora

Exhibit 14: The slope draws you inside…
GROWING A RETAIL NETWORK: THE SEPHORA CASE

In the summer of 1997 the whole luxury industry was shocked still by two news: LVMH had bought DFS (Duty Free Shoppers) the world’s n°1 Duty Free chain and Sephora, Europe’s n°2 perfume & cosmetics chain. Many stupid things were said at the time, most of them along the line: “LVMH will favor their own brands in those stores; the other luxury brands will be cut out of these distribution channels”. Many observers noted that LVMH was entering a new business –distribution- it had only been familiar with through their brands’ company owned stores. Others hailed this move (I was one of them at the time) as offering the possibility of capturing the retailer’s margin and making important additional profits.

March 2002: given the poor results of its Selective Distribution Division, observers are laying bets on when LVMH will divest itself of DFS and Sephora, concentrating on its core business, luxury brands. Sephora had closed its operations in Japan, Germany and Turkey late 2001. Bernard Arnault, in an interview, said: “Our objective is to make these companies profitable”35 -which analysts immediately translated as “to sell them for a better price”.

Sephora is the story of a brilliant concept that lost its soul as it was grown much too fast in less than three years. It is a story of overconfidence.

When LVMH bought Sephora in July 1997, it was a French chain of 57 stores with a radical concept, highly visible in its flagship store on the Champs Elysées. This concept obeys seven basic rules:

- Rule 1: The customer is free to move and choose in the one-level store. Salespersons are there “on demand”. This is a break from traditional French perfumeries with its ever-present sales staff and is copied on modern distribution.

35 Le Monde, March 9 2002
• **Rule 2**: The store is organized in three areas, fragrances, cosmetics and skin-care. Within the fragrances area, brands are organized by alphabetical order; by colors in the make-up area and by function in the skin-care area. A given brand is therefore present in three different locations, which breaks one of the basic rules of brand selling in perfumes & cosmetics: present the complete brand offer. When discussing the topic with Estée Lauder executives in 1999, they were adamant: “This is contrary to our brand strategy”, but when asked their sales, they had to admit that the Champs Elysées store was by far their best sales point in Paris.

• **Rule 3**: “Sephora is a sect” used to say former CEO Daniel Richard. A church of modern perfumes & cosmetics consumption would be a better description: "A bit religious, a bit Egyptian, as if they were offering rites in a cathedral" he added. Of course the black uniform and the black glove on the left hand are important here, but the architecture of the flagship stores is what is critical. It is the “Cathedral Concept”. Both the Paris Champs Elysées (2 500 sq meters) and the Barcelona (20 000 sq ft) stores are typical here: they are organized on a plan that is similar to that of a (modern) church. A very long nave, round columns on either side, a slope that draws you inside the store, the cash registers centered as an altar may be. Light is used as a modern substitute for stained glass.
• **Rule 4**: Develop an entertainment concept, all features relating to the business. The Top Ten Fragrance Wall (to experience the bestsellers), the Fragrance Organ (to test and compare fragrances), the Cultural Gallery (featuring exhibits on beauty, magazines, books), the Lipstick Rainbow (365 shades displayed), the Fragrances Prices Wall (displaying worldwide prices of chosen fragrances compared to the local Sephora price): all are there to make shopping an experience. The use of colors, music, scents; the space available for customers to roam around without bumping into each other, are all there to have people buy more.

• **Rule 5**: Mix flagship stores and satellite stores. Next to the Champs Elysées store, the standard Sephora in France is approximately 400 to 500 square meters (# 5 000 sq. ft.) and has kept only the merchandising of the “Cathedral Concept”. The new US stores are 4,000 to 5,000 sq. ft (Disneyland, Pittsburgh, Sacramento, Pasadena...).

• **Rule 6**: Have the widest possible offer on the market, mixing luxury brands, some mass brands and the Sephora brand. Standard company figures say that their stores hold 250 different brands and 12000 products.36

• **Rule 7**: Introduce modern distribution methods in a world of tradition. Most brands were accustomed to deal with independent retailers or department stores. Sephora changed that. When the Paris flagship opened, the boards above the fragrances were the alphabetical order, read A…For Aramis, B…For Boucheron, etc. A few months later, where some boards retained brand names others read: A.. For Alchemy; B.. For Beauty. The difference was that now Sephora asked the brands to pay to have their names displayed. As a further step they introduced in 2001 Category Management that Wal-Mart and Carrefour have been using for years. The Luxury Brands have a tough time adapting to this.

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36 In The New York 5th Avenue store the Color Floor holds 40 brands, the Fragrance Floor 300 women’s and 200 men’s fragrances, the Well Being Floor, 100 collections.
Store expansion was phenomenal: the number of stores was multiplied by 8 over three years (1998: 57-2000: 461).

Growing the business at this speed has led Sephora to make some errors. Four are critical:

- **Error n°1:** Think that this retail concept is adapted to all customers worldwide. “There is no doubt that Sephora, with the emphasis it places on consumer freedom, is able to attract different clients all around the world”, says the 1999 LVMH Annual Report. This “customer freedom” concept was radically new, both to Japan and to the USA. In the USA, it was a relief not to be pestered by the salespersons, not to be offered “gift-with-purchases”, and to find such a wide offer. The new concept corresponded to a customer need. Nevertheless little attention was focused on the fact that self-serve would lead the customers to wreck the displays at some point, and that it could both mar the brand image and give a non-hygienic look to the store.

In Japan, numerous errors were made. The self-serve concept itself did not fit with the Japanese attitude to buying cosmetics and fragrance: it was too close to the standard supermarkets that sell...

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17 “This was in marked contrast to the Sephora in Times Square, which was absolute chaos. One reason for the profusion of people was that a fair number were dropping in to get their faces done using the testers and leaving without purchasing anything. Of course this meant the displays and testers were a mess, with some of the items for sale already opened and used.” http://www.thenetnet.com/lookatme/beauty2b.html (oct 2000)

18 In June 2000, Sephora had plans of opening altogether 50 stores in Japan “having identified a strong demand of Japanese customers for the Sephora concept” Howard Mietimer, CEO Sephora Americas–Asia–Pacific, in Le Japon à la Page, June 2000
mass products and gave none of the advice Japanese women are accustomed to. Moreover its Ginza flagship store was organized contrary to the Japanese market: fragrances –that represent a very small market in Japan- were on the ground floor, cosmetics on the first floor and skin-care –a very important Japanese market- were relegated on the second floor.

- **Error n°2**: Consider Sephora as a Luxury Brand, and therefore move into the same prime locations. Sephora retails luxury brands among others: one of its focuses is innovative or niche cosmetics brands for instance. Moreover fragrances & cosmetics are, as we have seen, an entry point to luxury brands for customers that are not familiar with luxury. This would normally mean that most stores should be where luxury brand stores are NOT.

Japan stores were opened in Ginza and Shibuya, the traditional Luxury Brands areas where rents are phenomenal. Some US stores were opened in similar locations: 5th Avenue (21,000 sq.ft.), Soho (9,000 sq.ft.), Flatiron (8,400 sq. ft.), San Francisco Union Square (16,500 sq.ft.), Chicago Michigan Avenue, Miami Beach, Las Vegas (one 10,000 sq.ft. & one 6,000 sq. ft.), etc. This means very high rents for very big stores and little chances to see profitability, given that Sephora is a retailer and that it shares the margin with the brands.

Bernard Arnault himself acknowledged: “*In the US we have modified our approach: the stores that have opened since December 2000, are smaller, have smaller rents and are already profitable. Growth in those stores is above 20%*”.

- **Error n°3**: Forget the “Cathedral Concept” for its flagship stores. The 5th Avenue store, when it opened in 1999, came as a shock: it had nothing to do with the original concept. First there was a door to open; behind it was a person that helped you open it: the open access had been discarded. Then you were forced to move along a given path, along conveyor beltways that led you through three levels. There was no roaming around, no easy access throughout a unique level to products in different areas: the cathedral had been replaced by a maze. The magic was gone and the store

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39 Most major fragrance and cosmetics brands had preferred not to be sold at Sephora, because they thought the open sell concept would be in contradiction with their luxury positioning.

40 “Q: What profit margins are you expecting in retailing?

A: We have set a target for our travel retail of 10% by 2002. Globally, we expect Sephora to be 7% to 10%. We're looking for an operating profit in the third year [after each Sephora store opens].” Myron Ullmann, Business Week Online, December 11 2000. This is far from the Luxury Brands margins. The New York stores are said to have sales of $1000/sq.ft. and smaller stores of $500 per sq.ft.

41 Le Monde, March 9 2002. The 1999 LVMH Annual Report was already stating: “Sephora will improve its profitability, its fast growth generating more and more economies of scale and its accumulated international experience should make new openings more and more successful”. Profitability is now scheduled for 2003.
was empty.

As a result another store was opened in 2001, in Times Square, which mirrors the Paris flagship store in all details (even the architect, Gérard Barrau is the same).

The problem here is a classic one: how can we transfer a concept into a different format, i.e. a single level Cathedral into a multi-level store? Sephora still has not found the answer.

- **Error n°4**: Selling cosmetics needs some assistance. Basically Sephora is a Fragrance retail concept and they have made a huge success of it. Their approach to cosmetics and skin-care is not as successful. They have not created a really innovative retail concept there and customers notice it: “Thus my initial exposure to Sephora was through my local mall, and while the store was interesting to visit, I did not consider it anything too special. The usually teenaged staff could not provide much help regarding the profusion of products on sale. For actual purchases, I continued to traipse over to Nordstrom and my favorite Prescriptives sales associate, who was always knowledgeable and helpful regarding various cosmetics lines. But what’s a girl to do when she is in an unfamiliar city with no favorite sales associates in sight? Check out Sephora, of course”, says an American customer on her website\(^2\). The problem lies also with the cosmetics brands that have not worked hand in hand with Sephora to deliver this innovative concept that would have the customer buy, buy, buy.

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Balancing Distribution Channels to achieve visibility

In all product categories multibrand retailers exist that once were the natural outlet for luxury brands. At their beginnings these mostly had a handful of flagship stores in major cities and relied on two channels to distribute their products: independent retailers and department stores. This is the wholesale trade that is critical for brand development. Two cases are instructive, Gucci and Bulgari. The differences seen here depend mostly on the different core businesses of these brands: there are numerous luxury watch retailers –one of Bulgari’s core businesses- that the company can tap to distribute their products. No equivalent distribution exists in other product lines (save eyewear and fragrances).

- Bulgari’s strategy has been to grow primarily its wholesale business, which now represents 43% of its sales (vs. 54% for its stores –both company operated and franchisees): the number of watch retailers was multiplied by 10 between 1993 and 2000 when the company operated stores were only multiplied by 4. Interestingly the sales per Bulgari company operated store are decreasing: they have gone down from $3,900 in 1993 to $2,700 in 2000. Of course opening stores will drive your sales but there is a limit to store growth: store profitability.

- Gucci’s strategy is different: they had a very sound base of 64 stores in 1990 – to which had to be added the “the historical distribution network”, that is the department stores, duty-free locations and franchisees. It was only in 1997 and 1998 that the network of company operated stores was grown significantly to 83 and then 126 stores, both by buying back franchisees and by opening new stores. Since then openings and buying back franchisees has brought the number of company operated Gucci stores to 143 and franchisee stores to 43 (down from 77 in 1997). This strategy needs very important investments, which all need that store profitability is kept high. Return on Invested Capital (ROIC) is a good measure of this. It has been steadily been decreasing: 34.6% in 1997; 28.9% in 1998; 28.3% in 1999.

Achieving visibility needs the brand to be distributed in many channels, the choice of which will very much depend on the product lines. Only company operated stores, franchisee stores and shop-in-shops (company operated) guarantee that all product lines are displayed. All other channels (top end multibrand stores, independent retailers, department stores or travel retail) will carry only some lines, giving the brand awareness but not displaying its full image. The following figure synthesizes this.

43 Since 1993 Bulgari stores have grown from 33 to 126 and wholesalers from 57 to 600.
44 Gucci figures on sales by distribution channel group franchisees with wholesale, contrary to Bulgari figures.
TRAVEL RETAIL: 18% OF LUXURY BRANDS’ DISTRIBUTION

In 2001 a single distribution channel accounted for $18 million of sales worldwide: it is Travel Retail, that is all stores formerly called “Duty Free”. They are located in airports, planes, ferries, etc… and luxury products make up more than 60% of their sales. Perfumes & cosmetics represent $4.2 billion and fashion, leather goods and accessories another $6.8 billion. This means that this distribution channel accounts for a little less than 20% of the total sales of luxury brands. Brands cannot overlook this. There are further reasons, all pertaining to the type of customers and to the shopping attitudes in Travel Retail, for focusing on this business:

- Travel retail customers are affluent: 52% of travelers going through European airports are managers, professionals, entrepreneurs and they represent 72% of buyers in Travel Retail.
- They are frequent travelers: 12.6% do more than 12 trips a year and 12.3% between five and twelve. This means that the same customer will come back to the same store if it has appeal.
- Their buying criteria are above all quality and the image of the brand.
- Those that buy are not those that travel: there is a cultural bias to buying in Travel Retail (Figure 7). Asian, South American and Russian travelers are the most important customers in Travel Retail.
## Those that travel most Those that buy most

1. Germany 1. Japan
2. USA 2. Australia
3. UK 3. Brazil
4. Holland 4. China
5. France 5. Russia
6. Italy 6. USA
7. Japan 7. France

**Figure 7: Travelers and Buyers in European Travel Retail**

- There has been a very strong move towards luxury goods in Travel Retail over the last four years: the traditional alcohol and tobacco business which represented 59% of European Travel retail sales in 1998 now only represent 31.4%. Luxury goods symmetrically have grown from 41% to 60.6%. This is confirmed by another statistic: the average buy goes up 14% per year. In 2001, the average basket in Europe was €250 for Japanese travelers and €100 for Americans and French. The privileged categories are accessories (the privileged buy of Japanese travelers), jewelry and quality gastronomical food (this is a brand new category that is developing very fast). Some figures also show that traditional thinking here is wrong: in the Paris airports a jewelry piece of €20 000 is sold every week and one costing €10 000 every day. Customers will buy expensive products in open environments.

- Travel Retail can be considered as a very specific market almost sealed away from the traditional distribution channels: there is very little substitution with downtown channels. 85% of the buyers in Travel Retail would not have bought elsewhere.

- This means that the travelers that buy luxury products often use Travel Retail as a first entry into luxury: the stores are open and welcoming, not intimidating, they have time to browse, looking for presents. This is a privileged period for them which they use to discover new brands: being close to a very well known brand is here an asset, because it will legitimate the lesser known brand as a luxury player.
Most major airports are now developing areas where luxury brands will find themselves together: the model now is the one found at Paris Charles de Gaulle – exclusive luxury stores, either managed directly by the brands or by travel retail operators respecting a prestige environment - and not that of London Heathrow – a gigantic shopping mall, mixing stores and brands haphazardly -. Sales per square meter in Paris are 15% above sales in Heathrow. However the reconfiguration of Heathrow Terminal 3 is being done along those lines: “lifestyle zones” are being devised that group together shops that carry complementary products. For instance Chanel, Gucci, Hermès, Ferragamo, Mappin & Webb and Gassan Diamonds will be clustered together.

Financially Travel Retail can be a very profitable business for the brands operating their own stores. Negotiations with the Airport authorities are for 5-year tenders and include a guaranteed annual minimum level of sales and a commission (that will vary between 5 and 40%) on sales. Strong brands will manage to obtain the best commission rates, which in all cases will be inferior to rents paid downtown. Travel Retail can be a very profitable business.
The balance in distribution channels is therefore a balance between different pros and cons, each of which will be privileged in a different period of the brand’s lifecycle:

<table>
<thead>
<tr>
<th>Distribution Channel</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company operated stores</td>
<td>Brand image building</td>
<td>Capital employed</td>
</tr>
<tr>
<td></td>
<td>Full product range displayed</td>
<td>Store profitability in flagship stores</td>
</tr>
<tr>
<td>Franchisees</td>
<td>Brand awareness building</td>
<td>Loss of control of image</td>
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<tr>
<td></td>
<td>Full product range displayed</td>
<td></td>
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<tr>
<td>Shop-in-shops</td>
<td>Brand image building</td>
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<tr>
<td></td>
<td>Brand awareness building</td>
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<tr>
<td></td>
<td>Full product range displayed</td>
<td></td>
</tr>
<tr>
<td>Top end multibrand stores</td>
<td>Brand image building</td>
<td>Limited range display</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No image control</td>
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<tr>
<td>Independent retailers</td>
<td>Brand awareness display</td>
<td>Category display</td>
</tr>
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<td></td>
<td>Turnover growth</td>
<td>Loss of control of image unless strict</td>
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<td></td>
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<td>selection</td>
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<tr>
<td>Department stores corners</td>
<td>Brand awareness building</td>
<td>Category display</td>
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<td></td>
<td>Turnover growth</td>
<td>No image control in certain Department</td>
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<td></td>
<td></td>
<td>Stores</td>
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<tr>
<td>Travel retail</td>
<td>Strong flow of customers</td>
<td>Image control in multibrand stores and in</td>
</tr>
<tr>
<td></td>
<td>Turnover growth</td>
<td>“shopping mall” airports</td>
</tr>
<tr>
<td></td>
<td>New customer base</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 17: Pros & Cons of different distribution channels
C. Managing creation: the development of new products

When Unilever or Procter & Gamble decide to launch a new product, the method is well known: it is test, test, test and retest. The concept itself is tested, then the product, then the packaging. Nothing is decided if not rated very positively by the consumers: the name of the product, the design of the label, the shape of the pot. Product managers daily speak of brands but the brands they are dealing with have nothing in common with the luxury brands – save the name. New product design in luxury brands is of a different nature: it is mostly a top-down process whose origin is in a designer’s head. Whatever the brand, be it with a famous Designer, a Creative Director coordinating designers, in-house designers or free-lancers, designers are concerned.

There are therefore two characteristics that luxury brands and none other have:

1. Creation of new products is a top-down process
2. The critical importance of designers needs specific managerial skills.

The creation of new products: a top-down process embedded in the Vision

There are different designer profiles (we shall now include here the Creative Director inasmuch as the ideal Creative Director is a designer himself and not simply an editor as some may think), two of them being standard:

1. **The “Aristocratic designer”:** this very French profile – found in most of the couturiers – is that of a person that is convinced the (s)he has something to bring to the world, irrelevant of the world itself. (S)he considers her-himself as a Creator and as such has not much to do with trivial aspects like functionality, trends, customers, price. We are in a totally top-down process, the designer being only driven by his-her creative vision and aesthetics. Some may even pride themselves in being ignorant of technical matters. This is a world where designers may come to consider themselves as artists: French artists are known for not wishing to let people know where they have been trained – as if their talent were just divine grace.

2. **The “street-wise designer”:** this is a very Anglo-Saxon profile of a person that is very much aware of what the customers wish, of street-styles, of business constraints and objectives. Of course each designer will cater to the needs of a different “street” but both their creative vision and business will drive them. They will often have certain technical know-how. The

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45 The word “street-wise” was used by a HR Director at Polo Ralph Lauren in a private communication with the author to describe Ralph Lauren himself.
parallel with Anglo-Saxon artists is here also pertinent: they are very open with their training days and will acknowledge its importance. Business aspects, like merchandising, are an important part of their training process in New York’s leading design schools

Nevertheless, whatever the designer’s profile, creating a new product in a luxury brand is a process that is embedded in the brand’s vision. A fascinating case has been given to the author by Jean Louis Dumas, the Hermès Chairman – and de facto Creative Director. I was interviewing him when he requested to leave me to attend a Watch Committee. Coming back he said: “I have to tell them what is Hermès. They presented a watch to me; you know one of those watches that have a steel case that opens when you press a button. The prototype they showed me, when you pressed the button, the case went waohh! Just fast. I told them: that is NOT Hermès. It should go wouuuh! Slowly…” and he was there opening his hands slowly… showing what the movement of the case should be.

Another case is the creation of the Gucci Envy perfume bottle. The Rochas marketers – the Gucci licensees held a presentation to Tom Ford of the proposals they had for the bottle. They showed him rounded prototypes, arguing that it was a feminine scent and that that was a feminine shape. Tom Ford just shoved the prototypes aside and told them to go for a vertical, tower like, design. “It is a masculine shape! A phallic one! How can we sell that to women? It will not work.” was the marketers’ answer. Tom Ford disregarded these arguments. They went for this very innovative and “scandalous” design. Envy is a major success, and its bottle has been often imitated. He broke the perfume codes but kept very much in line with the Gucci provocative and sexy vision.

Designers are the brand: they “macerate” in its vision, in its values. They will chose other designers whose spirit relate to the brand, as they will come up with designs that should be in line with it. There is no such thing as testing here. Customers will be taken into consideration only through the sources of inspiration of the designers and their business sense.

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47 Part of the Wella Group, they are now known as Cosmopolitan Cosmetics.

48 This means that you never will have in a luxury brand what regularly happens in a mass–market brand: a new marketing team coming in and deciding to revamp completely the brand –often for purely territorial reasons (show that we know better than our predecessors).
Designers are experts: sources of inspiration and complexity

Designers have to be considered as experts in their field: this means that they are part of a very closed group of persons that share practices, references, mental representations and behaviors. They are experts in the sense that they have extensive knowledge about their field (garments, shoes, leather goods, watches, jewellery...): they see enormous amounts of products, they travel extensively visiting fairs, exhibitions, competitors' stores, they read magazines and from this they gather encyclopedic references on products. They will share a common context of remembered designs, of materials used, of shapes, of techniques and of manufacturing that build up into an expertise. The difference between an expert chess player and an amateur like myself is that, given a board with an ongoing game, I will (maybe) identify the preceding and the following move while the expert will give you the details of that game since the first move, refer them to previous famous games played by such and such master and will point out the outcome of the game. Designers are such experts. Their designs are based on long-term memory, on recent experiences, on their current visual field and their current concerns. Their one vital skill is to spot trends and to mentally translate them into products. Their imagination is strictly visual: they see their designs more than they can talk or write about them (sketching is there only to communicate with others).

What Eckert and Stacey say of knitwear design applies to all categories: “Complexity arises from the interactions between the inherent limitations of knitted structures, material properties, manufacturing constraints, market pressures and aesthetic considerations. Knitwear is created by multidisciplinary teams, and problems arise from failures of communication between team members. The product is highly dependant on the context created by other designs and cultural and technological developments”.

One of the essential aspects of a designer’s professional life is the complexity of their time management constraints. The following table shows that designers have to manage simultaneously between one and three collections, and therefore stretch themselves enormously. The Collection that is analyzed here (Autumn-Winter 02 which runs from June 01 to January 02) is broken down in four sub collections:

1. Early (or pre) collection, which has to be in the stores in May 2002: it is the “appetizer” for the fall collection.

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49 Most information here is taken from the extensive set of inspiring papers written by Claudia Eckert and Martin Stacey (see references in Bibliography). Most are available on Martin Stacey’s website:
http://www.mk.dmu.ac.uk/~mstacey/Documents/papers.htm

2. Main collection, to be in the stores between June and August 2002
3. Cruise collection for Christmas, to be delivered in October 2002
4. A special Runway collection –linked to the fashion show that takes place in January 2002, which is to be in the stores by early September.

But included in the same period we have to consider an additional collection:

5. The Spring-Summer 02 Runway Collection that reaches the Stores in February 2002

Seen from the stores’ perspective, the situation is quite simple:

Seen from the designers’ and the merchants’ perspectives, it is in fact quite complex. There are:

- Four major teams concerned: designers (including developers), merchants (collection planners and buyers), manufacturers, commercials (retailers and wholesalers)
- Eight major tasks to achieve: information gathering, design, collection planning, prototyping, sampling, production, pricing and buying
- Five collections concerned simultaneously (and we do not consider here the different product categories)
The following exhibit shows the complexity of the system\(^{51}\) (into which we include a Spring Summer collection):

- Information gathering happens all season long and should concern all
- Design AW starts in June and ends in November; Design SS from December to May
- Collection planning never stops
- Prototyping AW goes from July to November; Prototyping SS from January to May
- Sampling AW from September to April; sampling SS from March to October
- Production AW from September to June; production SS from March to December
- Pricing AW is done in December & January; pricing SS in June-July
- Buying AW from November to March; buying SS from May to September

This means that managing collections for a Luxury Brand is akin to systems analysis in complex environments: any hitch can wreck the whole process. It is therefore very important that the different teams working together know and respect each other.

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51 See complete document annexed, giving the full details of the Master Calendar.
Information transmission: designers vs. merchandisers vs. manufacturers

The communication problem between designers and non-designers can be wider than the table that separates them in meetings: they will have different concerns, expertise, mental representations, they will not share the same context (save that of the brand and its previous products) and more often than not their cultural backgrounds and experiences will be non-compatible.

A typical case will be the “Collection Structure Plan” meeting between designers and merchandisers that defines the structure of the future collection and within which designers are supposed to work. Designers will refer to the “spirit of the brand”, to trends, to the whole set of knowledge they have accumulated on the products themselves. They will have difficulty in wording their designs: this is where sketching may come in as a communication mean. More often than not the final customer will be way out of their mental representation: functionalities and structure of the product are second to aesthetics. In some cases, manufacturing may even be out of the picture: the feasibility of a given design can be a “non question”.

Merchants will have reviewed the sales figures of the previous season, will have analyzed major consumer trends - from marketing analysts, from store feedbacks (if any) - and will come up with a collection structure that may say that the collection balance for the coming season should be organized along three axes:

- The end-use
- The fashion content
- The price structure

and suggest the structure as seen in Figure 11\(^2\). This immediately raises problems with the designers because “End-use” means functionalities and customer awareness, “fashion trends” suggests that someone else has something to say on the relative importance of the fashion trends and “Price structure” imposes unacceptable constraints on creation.

\(^2\) A very similar process happens with Department Store buyers: they will want to translate the runway collection into something their customers will want to buy. Concentrating on the customer, they will have designers modify a fabric, have a belt attached, close slits. They will tell them was doesn’t sell. “I want to know what people do not want”, says Michael Kors. Then they will buy for each store given regional preferences. “For the designers, the buyer is the earliest and most important reality check”, says Arthur Lubow: “The Shadow Designer”, New York Times Magazine, November 14 1999.
Merchants will moreover wish more consistency across the product lines, more functionalities (for instance more rubber soles in shoes), they will require consistency in fit and quality, and they will ask for some key products that will drive the business.

If nothing has been done to bridge the cultural and psychological gaps we identify here, the meetings will be pure madness, each group accusing the other of not caring for the brand / business. This must be overcome, because a third group will then have their say in the process: the developers and the manufacturers. The question of the technical feasibility and of the pricing of the final product is critical: the suggested material or complexity of the design may bring the product at an unacceptable price point; the prototype may show that the design is not manufacturable.

These conflicts are detrimental to the business and to the team cohesiveness. There are only two ways of coping with them:

1. By having a strong, influential Designer – Creative Director with authority: (s)he will then be the final decider and overrule objections. This needs that this person has recognized business skills; otherwise the merchants will feel frustrated more often than not.

2. By hiring persons based not only on their technical skills but ALSO on their managerial and team competencies: this means having designers that know about manufacturing and care about business, and merchants that relate to design – who are interested in getting similar access to the expert knowledge designers have, who care to spend time with them and share questions and solutions.
The Dior case: creation, business and organization can be optimized if the persons are right

The Dior case we went through from a business perspective needs to be reopened and viewed from an organizational perspective. The consistency it lacked – each divisional head seemed to have few constraints in the early 90’s – had to be rebuilt internally, and not only by cleaning up the licensing system.

Sydney Toledano, who became president of Dior in March 1998, is the man that has achieved this. One of his first moves has been to reorganize the Company with a unique objective: make sure that John Galliano’s creativity has an optimal impact on sales. To that effect, he has devised a very strong organization that relies on a very unique strategy and four critical persons.

- Dior’s strategy is totally non-standard and can be characterized as “eclectic”: there are in fact three Creative Directors at Dior. John Galliano is Creative Director for women, Heidi Slimane for men and Victoire de Castellane for jewellery. Both Galliano and Slimane have now (2002) within their responsibilities perfumes & cosmetics, which was not the case in 1999. Another dimension to this eclectic strategy concerns the store aesthetic: each Dior Homme store will be different.

- The Creative Director is the person that has the vision and that must make sure that all elements are consistent with it. Creative Directors appeared in luxury brands in the 90’s, but the position existed already, especially in magazines and department stores: Simon Doonan at Barney’s is a good example of these. In 1996 John Galliano was transferred from Givenchy to

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53 Before him the situation was what one Dior executive once described to me as a “ménage à trois”: whenever Galliano was unhappy with Beaufumé (the CEO) he called Bernard Arnault, the LVMH Chairman and owner.

54 Reporting the opening of Dior Homme’s new flagship store in Milan, WWD (February 28, 2002) says: “The startlingly modern boutique bowed last week at 14 Via Montenapoleone, next to the Dior women’s unit. It is Slimane’s first flagship for Dior Homme and is a surgically precise statement of Dior Homme’s brand values and the designer’s rigorous but seductive aesthetic. Slimane conceptualized the architectural concept with technical assistance from Architecture & Associes, the firm with which he worked on his stark, gallerylike Paris atelier. Slimane oversaw all the details, from the selection of French light artist Pierre Huyghe for the fitting rooms to the playlist of electronic music from the German label Mille Plateaux/Force Tracks and such French artists as Readymade.”
Dior, in charge of women’s wear design and image. He is “more of a poet than a grocer,” says Valérie Hermann, both head of Dior women’s RTW division (since December 1998) and of the Galliano Company. We yet have another case of the duality designer-businessperson here: “I am more of a grocer than a poet”, she adds. The fit that is evident between both of them, both at Dior and at John Galliano, is behind the present success of the brand. She herself speaks of “harmony.” John Galliano’s profile nevertheless allows him to understand the constraints of business. What she has achieved, with strong support both from Sydney Toledano and his predecessor François Beaufumé, is a magic blend between business and creation - that very blend that many brands are hoping to achieve. They have applied some basic business sense, apparel development and merchandising techniques:

- Sizes are now standardized, based on the average French size 38 models and not on the “super-slim sample sizes of runway models”.
- Selling results are fed back into the system to optimize new model derivations: “we need more models in this material, bigger bags, less colors.. The Logo collection for instance was a marketing idea. It works because the prices are right, but also because John has put all his creative twist in it”, says Valérie Hermann.
- Broadening the offer and price points.
- Improving on-time deliveries and increasing the number of pieces in the first shipments for pre-collection and main collection.
- The development team has the knack to focus on John Galliano’s many creative ideas and transform them into salable items.
- One of Valérie Hermann’s job is to scrutinize every Franc Galliano wants to spend: “be careful this model is too difficult to make, we will be way above acceptable prices”.

- In 1999 Dior President Sydney Toledano hired Thomas Lenthal, formerly Creative Director of French fashion magazine “Numero”, as Director of Visual Communication at Dior to second John Galliano. “Lenthal is Galliano’s in-house ambassador. His role is to make sure that Galliano’s creative statement is transmitted to Dior’s product and advertising departments to

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55 ELLE France, February 25, 2002

56 WWD, December 3, 1998

57 In some Department stores these have had the sell-through at full price move up from 45% to 75%!

58 ELLE France, February 25, 2002
insure that a clear and identifiable image is presented." This has had major consequences on the Dior consistency (see Exhibit 18). Products, Dior couture ads, Dior beauty ads, Dior accessories ads, which till then had seemed to go different ways, because each business division picked different items in the collection –the cosmetics ads shown below referred to the “Masai” Spring 1997 couture show-, have now become consistent within a given sector.

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59 WWD, December 3, 1999
Exhibit 18: Dior Ads from 1999 to 2002

**1999 - 2000 Ads**

**2002 Ads**

Figure 11: The Dior Organization

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>President</td>
<td>Sydney Toledano</td>
<td>Defines strategy &amp; organization</td>
</tr>
<tr>
<td>Creative Director Women</td>
<td>John Galliano</td>
<td>“Be creative and have maximum media impact”</td>
</tr>
<tr>
<td>Head of Women RTW Division</td>
<td>Valérie Hermann</td>
<td>“Make John’s creations saleable”</td>
</tr>
<tr>
<td>Director of Visual Communication</td>
<td>Thomas Lenthal</td>
<td>“Transfer John’s creations in a unified consistent communication”</td>
</tr>
</tbody>
</table>
D. Optimizing the gross margin

In the luxury goods industry, the complexity of the product mix that will optimize revenues is huge. The financial criterion we will use to measure profitability will be the “gross margin”. Gross margin is Gross Profit on Sales, Gross Profit being itself Sales minus Cost of Goods Sold (COGS). A luxury brand, manufacturing in-house or subcontracting, can define the COGS for each of its models and for the derivations of these models. The complexity steps in when one wants to measure sales. There are in fact 5 major factors that will impact the sales number (for a given number of customers):

1. **The sales channel structure**: each sales channel (Company store, Franchisee, Department Store, Duty Free Operator) will have a specific wholesale price and a given gross margin (negotiated in the case of Wholesale).

2. **The proportion of long-life products vs. seasonal products**: long-life products are never marked down, being carried over from season to season. By definition seasonal products will only last one (maybe two seasons) and will be marked down before being sent to factory outlets. Every brand will want to build up its line of long-life best sellers. For instance at Louis Vuitton, almost all accessories are long-life.

3. **The proportion of items sold at full price**: this is a direct consequence of the previous point. As there can be various stages in the marking down of a product, this will impact the final gross margin on this line. One of the measures here is sell through that is the proportion of the production of a given product that is sold. In shoes brands strive for a 45% to 55% sell through at full price; it will be 75% to 85% in accessories and 50% to 60% in RTW.

4. **The size fit (in RTW and shoes)**: in these categories, the primary issue is sizing and fit. Lower sell-through is achieved here (vs. in leather accessories, watches, jewelry) because the breadth of inventory required to cover sizes is much greater.

5. **The pricing strategy worldwide**: each brand will have its own pricing strategy, which will impact the final gross margin. A brand can have its gross margin vary across regions: it can be 40% in Europe and 70% in Japan for wholesale and 65% in Europe, 75% in the USA and 85% in Japan for Company stores.

Patek Philippe decided in 1999 to have a unique sales price before taxes worldwide. Therefore pricing differences could only be due to different local tax situations. This is definitely not the case for all brands. A recent survey (Spring 2001) of some 75 products in the women’s handbag and small leather goods categories show the following results:
<table>
<thead>
<tr>
<th>Brand</th>
<th>FRANCE</th>
<th>UK</th>
<th>GERMANY</th>
<th>HONG KONG</th>
<th>ITALY</th>
<th>JAPAN</th>
<th>SWITZ.</th>
<th>USA</th>
<th>AUSTRALIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gucci</td>
<td>100%</td>
<td>116%</td>
<td>101%</td>
<td>120%</td>
<td>86%</td>
<td>177%</td>
<td>102%</td>
<td>130%</td>
<td>144%</td>
</tr>
<tr>
<td>Prada</td>
<td>100%</td>
<td></td>
<td>118%</td>
<td>98%</td>
<td>147%</td>
<td>110%</td>
<td>144%</td>
<td>113%</td>
<td></td>
</tr>
<tr>
<td>Tod's</td>
<td>100%</td>
<td></td>
<td>143%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Louis</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vuitton</td>
<td>100%</td>
<td>138%</td>
<td>109%</td>
<td>129%</td>
<td>107%</td>
<td>145%</td>
<td>106%</td>
<td>141%</td>
<td>141%</td>
</tr>
<tr>
<td>Celine</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td>158%</td>
<td>100%</td>
<td></td>
<td></td>
<td>123%</td>
</tr>
<tr>
<td>Chanel</td>
<td>100%</td>
<td></td>
<td>98%</td>
<td>129%</td>
<td></td>
<td>134%</td>
<td>104%</td>
<td>95%</td>
<td>100%</td>
</tr>
<tr>
<td>Cartier</td>
<td>100%</td>
<td>84%</td>
<td>115%</td>
<td>163%</td>
<td></td>
<td>92%</td>
<td>100%</td>
<td>100%</td>
<td>117%</td>
</tr>
<tr>
<td>Ferragamo</td>
<td>100%</td>
<td></td>
<td>119%</td>
<td>101%</td>
<td>142%</td>
<td>100%</td>
<td>204%</td>
<td>99%</td>
<td>125%</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>100%</td>
<td>126%</td>
<td>102%</td>
<td>133%</td>
<td>96%</td>
<td>163%</td>
<td>104%</td>
<td>128%</td>
<td>131%</td>
</tr>
</tbody>
</table>

**Exhibit 19: Pricing strategies of some major luxury brands**

Prices are lower in the brand’s domestic market and highest in Japan (and sometimes the USA), Europe being on a par, with the exception of the UK, which is more expensive by 26%. The case of Japan needs to be considered. Each brand has its own policy here: differences with Europe can go from 34% (Chanel) to 104% (Ferragamo)! The differences between European prices and non-European prices are such that travelers will immediately benefit from buying in Europe. This, of course, is one of the reasons why Japanese travelers are n°1 buyers in Travel Retail, closely followed by Australians. In a world where most luxury brand customers are well traveled and will buy intelligently, is this practice still acceptable? Global prices will have to be focused and price differences justified: Patek Philippe’s policy should be standard in the coming period.
E. Love the Medias, they will love you: creating a cult around the brand name needs (also) money

“Today’s world is a media world. In order to be successful, you have to be well perceived by the media and have a personality that speaks to the public” Bernard Arnault

Luxury Brands have been investing large sums every year to maintain and develop the brand awareness as Figure 12 shows.

But figures are but the visible part of the iceberg: entertaining media relationship is of a much more complex nature than reading the figures. It all revolves around the same question: how to build brand awareness?

The name of the game remains the development of the global awareness of the brand. As we have seen, this very much depends on the quality of the story to be told and on the emotional charge it contains. But there is a minimum level of investment needed to convey the story: if the advertising and promotional budget is below a certain threshold, results will remain limited and disappointing.
Three critical factors to build brand awareness: heritage, product presence, buzz

There are three critical factors to build brand awareness, each of whom is necessary, all of whom, when present, will make “the big thing” happen. These three factors will be illustrated in the Ferragamo and Cartier cases:

1. **Heritage**: brand awareness is built with time; there is no escaping this. The brand must have a history; its name must bring images to the mind of the customer and the more these images are glamorous the better.

   - *Salvatore Ferragamo’s* success was largely due to the birth of the cinema and Hollywood. He had set up a custom-made shoe store in Santa Barbara in 1914, and started working for the studios. He designed shoes for costumes, starting with boots for a western serial, and then moving to biblical epics (Moses and his followers in exile in the 1923 version of “The Ten Commandments” by Cecil B. De Mille) and adventure movies. Then the stars themselves, who lived “likes kings and queens” a fascinating luxurious life, came to Salvatore Ferragamo for their shoes. This is when he was known as “the Shoemaker of the Stars”. Back in Italy he added new customers: the European noble and bourgeois families.

   60 A journalist worked out Gloria Swanson’s annual budget on clothes: 25 000$ on furs, 10 000$ on her other coats, 50 000$ on dresses, 9 000$ on stockings, 5 000$ on shoes, 10 000$ on underwear, 5 000 $ on bags, the same on hats and no less than 6 000$ on perfume” Claudio Carrabba: “The invention of Hollywood: The Roaring Twenties”, Shoes and famous feet, Leonardo Arte, 2000

   61 Even when he had come back to Italy in 1927, he went on creating shoes for Marlene Dietrich, Greta Garbo, Loretta Young, Katherine Hepburn, Gene Tierney and Ida Lupino.
• Cartier started in a sense with a silver tea set for Empress Eugénie, wife of Napoleon III. All the courts of Europe will make him their privileged supplier: between 1904 and 1939, Cartier received 15 patent letters, making him an official supplier. Edward VII (England), Alphonso XIII (Spain), Carlos I (Portugal), Nicholas II (Russia), Chulalongkorn (Siam), George I (Greece), Zog (Albania), Fouad (Egypt) were on this list. It was the Prince of Wales, the future Edward VII that named him “Jeweler of Kings, King of Jewelers”. After the kings and princes came the bourgeoisie and the artists (like la belle Otero and Sarah Bernhardt).

2. The product presence: the brand’s products have to be embedded in the “spirit of the time”. It is no use being avant-garde; it is no use being just fashionable. The designer’s vision must be in line with a deeper, medium to long-term, trend of customer’s needs and desires.

• Ferragamo: why this success with the stars? Salvatore Ferragamo’s vision is based on two mantras: style and comfort. His vision of style is evident in the following quote: “There is no limit to beauty, no saturation point in design, no end to the materials a shoemaker may use to decorate his creation, so that every woman may be shod like a princess and a princess may be shod like a fairy queen”. His sense of style made him create shoes, which put glamour into footwear: in a sense he transferred the meaning of the “fairy tale” on every woman’s feet. Who would not feel a Princess wearing the 1952 “Vitreal Sandal” (exhibit 20)? His sense of comfort made him study the anatomy of the foot and adapt the shoe to the exact physical comfort of the said foot. Shape, height, material, comfort, all led to unique pieces that made him very different from other shoemakers.

Exhibit 21: The Vitreal sandal 1952
• Cartier: why did Cartier achieve this spectacular breakthrough with royalty when numerous other jewelers existed in Europe? Because of innovation. His first “creative leap” was working with Charles Frederic Worth, the creator of haute couture: he understood that jewels would be part of the dress and that both fashion and jewelry had to develop together\(^\text{62}\). His second “creative leap” is to mix tradition and modernity in his pieces: he mixes styles, references, from Antiquity to modern sculpture, from animals to contemporary designs. Louis-Joseph, better known as Louis Cartier, his grand son made a third innovative move: he transferred the Cartier store to Rue de la Paix, the luxury Mecca of Paris, next to Worth and Guerlain. The fourth concerned once again the product: his obsession had always been to privilege the stones and have the setting “disappear”. This led to the very innovative “Style Guirlande”, in which Cartier discarded silver and replaced it with platinum, a new modern material that did not tarnish. Where Bulgari says, “Bulgari is heavy”, Cartier could say, “Cartier is light”. Cartier magnifies absence.

3. The buzz: innovators, medias and the way rumor will spread about a brand play a central role. But how this happens has been rarely described\(^\text{63}\). Standard “diffusion of innovations” models

\(^{62}\) This went beyond just business and inspiration: two generations later Andrée Worth, grand daughter of Frederic, married Louis-Joseph Cartier, grand son of Louis François Cartier.

\(^{63}\) The only recent book on the topic is Malcolm Gladwell’s: The Tipping Point, Little, Brown and C, 2000. He identifies four change factors for the spread of the buzz: the existence of “Connectors” –persons that interconnect different groups and worlds, the existence of “Mavens” –information specialists that bring the buzz to exist, the necessity of information to be “sticky” (that is to make it irresistible) and that context should be favorable.
will describe adopter categories (innovators; early adopters; late adopters; laggards) but will not say how and why the adoption spreads. This is what we will try to sketch out now.

Why and how does the buzz spread?

Our starting point will be the Innovators. They have been identified as risk-takers, cosmopolitan, financially at ease and highly networked with other innovators. This profile is quite close to that of our “Snob” and our “Hedonic” consumers. They are the ones that will go for “well kept secrets”, will want to distinguish themselves from the crowd, they are seekers, discoverers and they will relate to other Innovators. These other Innovators are not necessarily consumers like them: they will often be designers, creators. But really creative, not just “me too” creators. This is where the innovative designer meets the innovative consumer. First meeting.

This is where the Medias step in. They are the “Gate keepers”. They are those that will spread the rumor or kill it -by ignoring it altogether, or dismissing it as unimportant. Innovators and Hedonic consumers alike are heavy media consumers. This is one of their major sources of inspiration (others being their own network and the web for instance). But they also relate directly with the Medias, because they are very close. There is a constant flow of information between Innovators and Medias: they share the same passions, similar desires and will only be different in the sense that Innovators may want to keep a secret to themselves while the Medias will want to spread it. Innovators and the Medias: second meeting.

When looking back at the “imitation vs. distinction” models we have analyzed earlier, it is evident that “imitative” individuals will engage in behaviors that are based on the proportion of people already engaged in that behavior. This is what sociologists call “threshold models” of behavior. “Individuals with low thresholds engage in collective behavior before many others do, while individuals with high thresholds do so only after most of the group has engaged in the collective behavior”\(^{64}\). Innovations (and adopting a new brand or buying a strange product are in a sense innovations) can be risky. People will turn to others to check if and when they can adopt them. The behavior these persons will adopt are directly linked to the number of direct communication links they have with others. The more adopters one person has in his/her network at a given time the more chances are that (s)he will adopt the innovation. Sociologists thus define one’s adoption threshold as the number of adopters one has in our personal network of relations. But they also define two sorts of innovative attitude: innovation vis a vis our personal network (those we relate directly with) and innovation vis a vis society. We can be late with our personal network and still be ahead of most in society.

\(^{64}\) T.W.Valente (1996): “Social network thresholds in the diffusion of innovations”, Social Networks 18
This is where the Early Adopters step in. They are people that have two major characteristics: they have a very low network threshold; they are innovative at both levels (personal network and society). As a consequence they have very high influence on others because others see them as consistently ahead of both their peer group AND society. This legitimates their choice in the eye of those that know them. That accelerates the choices of those others. Given that the Early Adopters will make a choice because of the information spread by Innovators or the Medias, third meeting.

Last but not least we have the Models. Those that are cast in social roles to be admired or envied. Those whose every movement can be tracked, to be imitated. Enter the Stars, Royalty, the Artists: each period has its Hall of Fame. They will be the ones that may accelerate the spread of the buzz, the adoption of the brand or of the product. This is where our Bandwagon Consumers and our Conspicuous Consumers step in: they are not risk-takers. They will first look at who has what. They are the Late Adopters, they are the mass. Fourth meeting.

We have tried to bring together all we have said concerning the creator, the brand, its products, its customers and the medias in the following graph:
Conclusion: There is room for all - Global, Local and Niche Luxury Brands

We have been using the word “Luxury Brand” as a common denominator to describe all brands of the luxury industry. This is convenient but reality shows that luxury brands are not all “equal”. There are differences that go beyond product categories and size and that are all related to the business life cycle. I suggest that we use two dimensions to understand this:

- **The geographical scope of the brand:** how spread out is it? There are three cases there:
  - *Global brands* that are spread across the three major luxury markets – Europe, USA, Asia. Louis Vuitton, Gucci, Prada, Cartier are global brands.
  - *Regional or local brands* that are spread across their home market, plus one strong foreign market. Coach, Tiffany, Tod’s are local brands.
  - *Niche brands*, with a small turnover that can either be quite local or thinly spread across a few cities in the world. Kiehl’s, Goyard, Manolo Blahnik are niche brands.

These three scopes can be understood as different positions on the business life cycle. Nevertheless, some brands may want to keep their present geographical scope. Recent history has however shown that the push to global development is strong and that it will only be achieved through financial backing from a Group: the hurdles to success are now higher and more numerous.

- **The status achieved by the brand on its business life cycle:** in the life cycle of the brand, a very simple and clear-cut division has to be made, separating the Mature Brands from the others. A brand will be considered Mature if it meets the following nine criteria:
  - Heritage
  - Strong brand identity (recognition, positioning, icon products, consistency)
  - Clearly identified core legitimacy
  - High product quality
  - Full product range
  - Strong national image
  - Strict control of production and distribution
  - Critical size of around $800 million to $1 billion in sales

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65 Adapted from Morgan Stanley Research
### Geographical and channel distribution balance

<table>
<thead>
<tr>
<th>Mature Brand</th>
<th>Luxury Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global Brands</strong></td>
<td></td>
</tr>
<tr>
<td>Hermès</td>
<td>Prada</td>
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<td>Chanel</td>
<td>Armani</td>
</tr>
<tr>
<td></td>
<td>Dior</td>
</tr>
</tbody>
</table>

| **Local Brands** | | |
| Coach          | | |
| Burberry       | | |
| Alfred Dunhill | | |
| Lancel         | | |
| MCM            | | |
| Tod’s          | | |
| Damiani        | | |
| Givenchy       | | |
| Kenzo          | | |

| **Niche Brands** | | |
| Harry Winston   | Kiehl’s     |
| Patek Philippe  | Goyard      |
|                | Jean Paul Gaultier |