

Philosophiae Doctor (Ph.D.)

**Understanding the formulation of
business strategy in luxury firms, a mixed
methods research including external
market factors and internal managerial
perspectives.**

*Hacia la comprensión de la formulación de la estrategia de
negocio en una empresa de lujo.*

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November 2016



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**To my wife Mari Carmen and to my son Gabriel
For showing me what real love is all about**

Acknowledgements

I would like to thank all the persons and organizations that helped me in the amazing journey of *creating* my PhD.

To my supervisor Ph.D José Albors from UPV.

His guidance and expertise have been fundamental in this endeavor. But perhaps more importantly I am grateful for his enthusiasm and for giving me the freedom to explore and follow my own thoughts.

To my dear college Ph.D Frédéric Godart from INSEAD.

For his kindness inviting me as a researcher at INSEAD. And also for his expertise, for his continuous support and for our inspirational conversations, which helped me so much in all this process.

To all the executives and companies who have participated.

Without them this would have been impossible.

To my colleagues at IE Business School.

For their support and their understanding. Without them I could not have been able to balance my professional life and this PhD.

And last, but not least, to my family.

To my wife Mari Carmen, for her loving inspiration, for her unconditional love and for her constant support. Without her I simply could not have done this.

But more importantly, without her I could not have done it in this way. Her consciousness and her perspectives always shaped beautifully my thinking.

To my son Gabriel, who came to the world while writing this PhD and he transformed everything in a way I never imagined.

To my mother Josefa, and to my uncles Pachelo and Carlos.

For their continuous support, unconditional love and for the great example they have been always be to me.

English Summary

Abstract

This Thesis is a research about the concept of luxury and its relationship to strategic management.

Motivations.

The driver behind the elaboration of this study is to explore the complexity involved in managing luxury firms, and particularly the process of business strategy formulation. The research has been extensive in the case of the state of the art and the research phase. Nevertheless, the author acknowledges that his experience both as a business lecturer (postgraduate level) and as a private consultant has influenced the ability to gather further insights into this research. The ultimate motivation of this research is to contribute to academic work and business practice by providing a theoretical framework to help executives to formulate the business strategy of a luxury firm.

Structure.

This work is organized into three main parts. The first part is an introduction to the concept of luxury. It also provides the state of the art with a short view on the historical evolution of such concept, the luxury market and review of consumer behavior literature. This part also provides the analysis of the relationship between luxury and management and it justifies the need of a managerial perspective. As a conclusion this first part provides the rationale behind the need of a management approach to luxury. The second part defines the hypothesis of this Thesis, a framework to formulate the business strategy of a luxury firm. This part also defines the mixed method research conducted, which entails a quantitative and qualitative analysis, and the findings of the research phase. Based on these results this part explores the viability of a business model and the limitations of such model. In the third part the model proposed is redefined taking into account the lessons of the research phase. And hence it is proposed a definitive version of the framework.

Objectives.

Two are the main goals of this study: To evaluate the state of the art in the field of luxury and particularly its relationship with business strategy and To define the basis for a model to improve the process of business strategy formulation for luxury firms.

Proposed Model



Spanish Summary

Introducción.

Esta tesis es una investigación sobre el concepto de lujo y su relación con la teoría de dirección estratégica.

Motivaciones.

La principal motivación detrás de la elaboración de este estudio es explorar la complejidad implicada en la gestión de las firmas de lujo, y en particular el proceso de formulación de la estrategia de negocio. La investigación ha sido extensa en el caso del estado del arte y en la fase de investigación. No obstante, el autor reconoce que su experiencia como profesor en escuelas de negocio (nivel de postgrado) y como consultor privado han influido en la capacidad de reunir más conocimientos en esta investigación. La motivación última de esta investigación es contribuir al trabajo académico y la práctica empresarial, proporcionando un marco teórico para ayudar a los ejecutivos a formular la estrategia de negocio de una empresa de lujo.

Estructura.

Este trabajo está organizado en tres partes principales. La primera parte es una introducción al concepto de lujo. Aquí se proporciona el estado del arte con una breve visión sobre la evolución histórica de dicho concepto, el mercado de lujo y la revisión de la literatura sobre comportamiento de los consumidores. Esta parte también proporciona el análisis de la relación entre el lujo y la gestión. Como conclusión de esta primera parte se exponen las razones detrás de la necesidad de un enfoque de gestión de lujo. La segunda parte define la hipótesis de esta tesis, un marco teórico para formular la estrategia de negocio de una empresa de lujo. Esta pieza también define el método mixto de investigación llevado a cabo, lo que implica un análisis cuantitativo y cualitativo. En los resultados de esta segunda fase de investigación se explora la viabilidad del modelo y sus limitaciones. En la tercera parte se propone un modelo redefinido en base a las lecciones obtenidas en la fase de investigación, proporcionando una versión definitiva del marco.

Objetivos.

Dos son los objetivos principales de este estudio. Uno, evaluar el estado del arte en el campo del lujo y sobre todo su relación con la estrategia de negocio. Y dos, definir las bases de un modelo para mejorar el proceso de formulación de la estrategia de negocios para firmas de lujo.

Modelo propuesto



Valencia Summary

Introducció.

Aquesta tesi és una investigació sobre el concepte de luxe i la seva relació amb la teoria de direcció estratègica.

Motivacions.

La principal motivació darrere de l'elaboració d'aquest estudi és explorar la complexitat implicada en la gestió de les firmes de luxe, i en particular el procés de formulació de l'estratègia de negoci. La investigació ha estat extensa en el cas de l'estat de l'art i en la fase d'investigació. No obstant això, l'autor reconeix que la seva experiència com a professor en escoles de negoci (nivell de postgrau) i com a consultor privat han influït en la capacitat de reunir més coneixements en aquesta investigació. La motivació última d'aquesta investigació és contribuir al treball acadèmic i la pràctica empresarial, proporcionant un marc teòric per ajudar els executius a formular l'estratègia de negoci d'una empresa de luxe.

Estructura.

Aquest treball està organitzat en tres parts principals. La primera part és una introducció al concepte de luxe. Aquí es proporciona l'estat de l'art amb una breu visió sobre l'evolució històrica d'aquest concepte, el mercat de luxe i la revisió de la literatura sobre comportament dels consumidors. Aquesta part també proporciona l'anàlisi de la relació entre el luxe i la gestió. Com a conclusió d'aquesta primera part s'exposen les raons darrere de la necessitat d'un enfocament de gestió de luxe. La segona part defineix la hipòtesi d'aquesta tesi, un marc teòric per formular l'estratègia de negoci d'una empresa de luxe. Aquesta peça també defineix el mètode mixt de recerca dut a terme, el que implica una anàlisi quantitativa i qualitativa. En els resultats d'aquesta segona fase d'investigació s'explora la viabilitat del model i les seves limitacions. A la tercera part es proposa un model redefinit en base a les lliçons obtingudes en la fase d'investigació, proporcionant una versió definitiva del marc.

Objectius.

Dos són els objectius principals d'aquest estudi. Un, avaluar l'estat de l'art en el camp del luxe i sobretot la seva relació amb l'estratègia de negoci. I dos, definir les bases d'un model per millorar el procés de formulació de l'estratègia de negocis per a firmes de luxe.

Model proposat



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Part I - Introduction and State of the Art

Parte I - Introducción y estado del arte

1 Introduction

The present work is a study about the concept of luxury and its relationship to strategic management.

Motivations.

The driver behind the elaboration of this study is to explore the complexity involved in managing luxury firms, and particularly the process of business strategy formulation.

The research has been extensive in the case of the state of the art and the research phase. Nevertheless, the author acknowledges that his experience both as a business lecturer (postgraduate level) and as a private consultant has influenced the ability to gather further insights into this research.

The ultimate motivation of the work is to contribute to academic work and business practice by providing a theoretical framework to help executives to formulate the business strategy of a luxury firm.

Structure.

This work is divided into three main parts.

The first part is an introduction to the concept of luxury. It also provides the state of the art with a short view on the historical evolution of such concept, the luxury market and review of consumer behavior literature. This part also provides the analysis of the relationship between luxury and management and it justifies the need of a managerial perspective. As a conclusion this first part provides the rationale behind the need of a management approach to luxury.

The second part defines the hypothesis of this Thesis, a framework to formulate the business strategy of a luxury firm. This part also defines the mixed method research conducted, which entails a quantitative and qualitative analysis, and the findings of the research phase. Based on these results this part explores the viability of a business model and the limitations of such model.

In the third part the model proposed is redefined taking into account the lessons of the research phase. And hence it is proposed a definitive version of the framework.

The scheme of this Thesis can be seen in the next Figure 1.

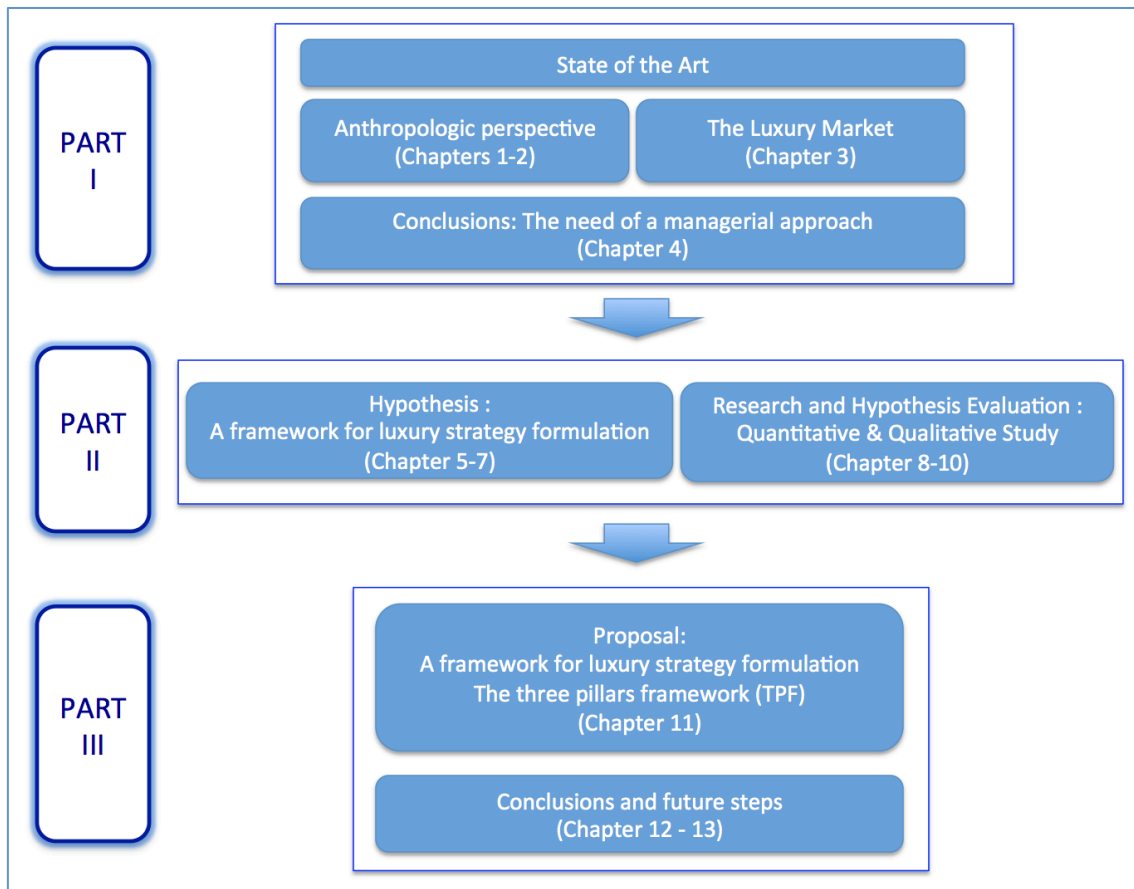


Figure 1.- Scheme of the Thesis

Objectives.

Two are the main goals of this study:

- To evaluate the state of the art in the field of luxury and particularly its relationship with business strategy.
- To define the basis for a model to improve the process of business strategy formulation for luxury firms.

2 A brief history of Luxury

The concept of luxury has accompanied the evolution of mankind from its early stages. As a consequence this first chapter provides a needed initial historical overview. The reason is twofold, since it will help to better understand its origins, and it will also help as the basis for the later discussion of the concept of luxury.

In this section it will be evaluated the origins and the evolution of the concept of luxury in order to understand the evolving relationship between luxury and society. This section though will not be extensive in length. On the one hand it is not the main object of this work to undertake an historical approach. And on the second hand, the previous research on specific sources about the history of luxury reveals the fact that there are not many academic and reliable sources. Nevertheless, while there are not that many sources, some preliminary and interesting conclusions can be drawn.

Since we are analyzing the relationship between luxury and society, one can not only consider a concept, but a sociological issue. Only taking into account this consideration we will be able to understand properly the concept of luxury today.

The influence of luxury overtime is not homogeneous. Based on the classical contribution (such as David Hume or Adam Smith) and the contributions of Berry (1994), Kemp (1998), Berg and Eger (2003), Berg (2004), Lipovetsky (2004) and Kapferer and Bastien (2009a), one could distinguish between five historical moments.

2.1 Early civilizations.

Luxury has always had a link to power as Lipovetsky argues (2004). And following Lipovetsky, power in early civilizations was characterized by a hierarchical society and a strong presence of divinities. This influence generated a much more stratified society where the accumulation of wealth started to be significant. By selecting one representative example, the Egyptians, we can get to know better this view.

The notion of the Egyptians that the survival of the body will guarantee the survival of the soul stimulated the design of advanced (and costly) techniques such as embalming or mummification (Kapferer et al., 2009a). Hence only a few, mainly the pharaoh and its family, were able to take advantage of such privilege. As that "technology" became much more available, it then passed into other spheres of the society. This could be considered as one of the first examples of the democratization of luxury, as Kapferer *et al.* points out.

What this example also represents is the relativity of luxury, as a technology or a know-how become more accessible, it then pass into more customers. Therefore, luxury cannot be understood only in absolute terms but also in relative terms. We will come back to this important lesson when we discuss the concept of luxury today.

2.2 Greece and Rome. Luxury, the enemy of man.

Greece.

One of the most renowned philosophers of that time, Plato, can serve as the basis of the exploration of the role of luxury in ancient Greece. Berry (1994a) suggests that one fundamental aspect is the understanding of "desire" (Greek: *epithumias*) for Plato. He distinguished between the *necessary desires* and the *unnecessary desires*^a. The later are those eradicable and of no positive good use.

One of the distinctive aspects is that luxury will be perceived in negative terms for these reasons (based on Berry 1994a):

- Luxury is a generator of desires and makes man to fall into unnecessary desires. This is also seen in Socrates with the association between luxury and going beyond the natural needs of the body.
- Luxury emasculates man. In simple terms a warrior has to defend his home and people. A man that falls into luxury will relax its capabilities. If we consider the etymological roots of luxury ("truphas") one can one also understands the negative aspects associated. Aristotle placed luxuriousness ("trupherotês") as an opposite to hardiness ("karteria") and endurance ("kakophateia").

Therefore luxury is not just a matter of wealth or ostentation. What luxury represents is a major threat to the natural life of man. This is another interesting aspect to be considered later on.

Rome.

Luxury was also a political issue, since it represented the potential disruptive power of human desires (Berry 1994b). A key concept for romans was the simplicity and frugality of natural life. Berry (1994b) provides multiple evidences for this point, for instance the Stoicism school of thought, considered the man of virtue as the man who understands the natural life and acts accordingly. Since luxury could *soften* that natural life, luxury was considered as a serious threat to the society (and controlling human desires was behind many political decisions, i.e. sumptuary laws and the censors).

Luxury was not only a quantitative issue (such as long banquets or wealth). It was also, and more importantly, a matter of fine or qualitative refinement (Berry 1994b). The key aspect here is that this refinement is not present in nature and hence it is beyond, or against, the natural basic need of man.

^a Berry (1994) provides a simple example to understand the difference. Natural desire is the desire for food, while unnatural desire is desire for food beyond the simple food or plain food.

Therefore luxury was identified with the use of wealth to serve personal satisfaction, which ended generating dangerous aspects, such as self-indulgence, greed and ambition (Berry 1994b).

As a threat, luxury had very negative associations. The thought of going against natural life was the reason behind corruption and a soft society. As Kapferer *et al.* (2009a) points out, the dispute between two perceptions of the Republic appeared:

- Frugality, simple/natural life and devotion to public wealth.
- Societies were personal motivations and aspirations played a role.

As Kapferer *et al.* (2009a) explains, the idea of Rome and luxury that persisted over time is in fact the result of the supporters of the second alternative, which eventually dominated and generated the Roman society that became famous.

2.3 Middle Age and The Renaissance.

In the middle age sumptuary laws persisted and luxury was perceived as a sin by the Christians (Berg *et al.*, 2003). In fact the strong connection between lechery and luxury comes from that age^b (Berry 1994). This obscure period also did not provide any significant change to the concept of luxury (Berg *et al.*, 2003).

In the renaissance, luxury was not hereditary anymore and starts being concentrated in specific *social classes*, such as the burgesses and aristocrats, since hierarchy and religion are no longer the only source of wealth (Lipovetsky, 2004).

One of the greatest contributions to the concept of luxury of the renaissance is the link between luxury and culture (Lipovetsky 2004), being a source of distinction to the people in power such as kings. As a consequence the first craftsman and the commerce of best materials appear.

2.4 18th and 19th Century. A change in the luxury paradigm

Berry (1994) argues that the concept of luxury is being linked to desire until the seventeenth-century, a connection that had being pernicious and harmful. This will change significantly, since luxury will start to be perceived as an economic issue. This is the foundation of the change in the luxury paradigm. As Lipovetsky argues (2004), luxury was a driver behind the disappearance of feudalism.

Berg (2004) explains one of the drivers of this change. He argues that the increase in trade of luxury goods between Asia (mainly China and India) and Europe fostered the

^b Etymologically still persist the link in French: *luxure-luxe* (Berry 1994) and in Spanish: *lujuria-lujo* (author)

improvement of the technologies to work with such products and raw materials. These are, Berg (2004) explains, the initial steps of the consumers markets and the production technologies in Europe. The reason behind it could be the lack of technology transfer from Asia to Europe.

The enlightenment in England was a turning point (Berg and Eger 2003), luxury lost previous associations with corruption and vice and started to be associated with production and trade^c. David Hume’s view of luxury (from Berg *et al.* 2003) also associated luxury almost entirely with commerce. For him luxury was “a refinement in the gratification of the senses and an incentive to the expansion of commerce”.

Similar view we found in Adam Smith (1776), for him there were four types of consumption:

- Necessary: to maintain life.
- Basic: for normal growth and prosperity of people and communities.
- Affluence: goods that are not essential for growth and prosperity.
- Luxury: goods that are in limited supply, difficult to procure and/or very expensive.

In the eighteenth-century is when the first “*luxury companies*” are born. Just to cite two examples. Jehan Jaques Blancpain (believed to be the oldest watch manufacturer of the world) founded Blancpain in 1735¹. Mötet & Chandon was founded in 1743².

2.5 Contemporary Luxury. The luxury “market”

Until the 19th century luxury was client based, as Lipovetsky (2004) argues. The artist and the craftsman were under the dictate of the (aristocratic) client and work for them. Later on the market for those goods expanded, those artisans became small to medium recognized companies and the reach of their products increased. This is the time, for instance, when the haute couture is born³.

This is a transformational period for luxury. Lipovetsky (2004) denotes the main differential aspects between those two periods as seen on Figure 2.

	Who dictates	Production	Benefits
Before 19th century	The client	Limited	Expressive
After 19th century	The company	Large	Emotional-Expressive

Figure 2.- Luxury evolution in the 19th century (Based on Lipovetsky 2004).

^c Berg *at al.* (2003) provides additional examples. For instance Melon and Montesquieu dedicated chapters to luxury in theirs treaties of political economy. But also generated controversy, Jean-Jaques Rousseau declared that consumerism was a negative force behind social disorder (Berg *et al.* 2003).

And hence what we have is luxury companies competing in the marketplace. That is the time when the luxury market was born.

2.6 Conclusions

The most relevant aspects that we have seen are based on the contributions of Berry (1994), Kemp (1998), Berg and Eger (2003), Berg (2004), Lipovetsky (2004) and Kapferer and Bastien (2009a). As said at the beginning of this chapter, we can draw some important lessons from this brief historical introduction. This will serve as a good starting point for the following chapters.

- Relativity & Dynamic

Luxury cannot be understood only in absolute terms but also in relative terms. The dynamic component is significant, so we cannot always consider something as a luxury since it might change over time.

- Beyond Basic Needs

Luxury meant going beyond the basic need of man.

- Threat (Negative)

Luxury is being over time a threat to early societies, and some of their current negative perspective could be inherited from that age.

- Quantitative vs. Qualitative.

Luxury did not mean only ostentation or wealth (quantitative), but also meant refinement of the basic needs of man (qualitative).

- Connected to culture.

Luxury is being a means of demonstrating elite and also refinement in the arts.

- An Economy issue

Luxury became over the last two centuries and economic issue. And as such it end up creating the luxury market.

This final statement makes us consider that today we should consider not only the concept of luxury but also the market of luxury. We now have companies in this market. One can start to think that this implies some significant changes, such as the way to manufacture, the (relationship with the) client, the scope of the company, etc.

Therefore it seems interesting devoting some time to understand properly such market. This is the reason why the next chapter is dedicated to understand the luxury market. In chapter 3, once we have evaluated the historical approach and the market,

we will be able to focus on the complexity of the concept of luxury with a wider perspective.

3 Overview of the luxury market

3.1 General overview

Over the last decade the luxury market has captured more and more attention. It has not been until very recently that we have some “estimated” market information. In this chapter it will be shown the recent available market information.

While the market information is important, this is not enough to understand properly a market (which include different industries). Therefore, this section also provides a comprehensive view of essential factors based on a generic strategic analysis (Grant, 2006). The essential factors are:

- An approximation to the luxury client.
- An overview of the main players.
- An overview of the main industries.
- And the latest trends.

This section will also provide a general overview of the main publications and information published so far about luxury. As it will be seen, most of the material published related to the luxury market is marketing based. Therefore an initial premise that this study provides is that: there is significant potential for researching and creating luxury business literature in the field of strategy.

One of the main characteristics of the luxury market has been opacity. Two are the main factors that can be pointed out as the reason for the traditionally lack of market (or company) information.

- Family based companies.
We have an industry (or a set of different industries as it will be pointed out later on) where most of the players were (relatively small) family based corporations. Very infrequently those companies were listed or had any necessity of publishing information (such as sales or profits). This made difficult to collect any kind of market information or suggest industry profitability.
- The nature of the product.
This made those companies even more reluctant about sharing any kind of information. To protect company's exclusivity these firms were rarely open to comment on any of their main financial information.

Likewise there is the idea that being open to unveil the cost structure could damage the image of the company/brand. Actually the idea of opacity and secrecy could also reinforce their image of exclusivity. As a consequence, based on these two main and

strong factors, the luxury companies have been over a long time very unknown players.

The previous situation has changed over the past decades as those companies transformed into listed big conglomerates, which forced them to disclose their annual financial information.

Nevertheless secrecy still persists, since many companies still do not provide specific sales by company/brand (as it will be seen later on). This reinforces the idea of how important is for these companies to keep control of their information.

3.2 The market. Size, volumes and industries.

One of the first approaches of this work is to evaluate the size of the market. In this section we will rely on the different studies that are published so far, with special interest in the way the market is defined.

One of the sources that provide information about the market size is the Fondazione Altagamma and the consultancy company Bain (Altagamma 2010). Perhaps, this annual study has been the first approach to provide a comprehensive view of the market. This study shows how the luxury market over the past decade has grown from a market size of 128.000 mill Euros to 173.000 mill Euros. The latest version of this study places the total size of the market in 223.000 mill Euros (Altagamma 2014).

Even though the data for 2011 is estimated, this study has shown some good estimation in the past. For instance, last year (Altagamma 2010) there was estimated a market volume of \$172.000 mill., and finally this number rose up to \$173.000 mill, therefore the estimations of this study can be considered.

The importance of this study does not only rely on the estimation of the overall market, but also it provides a clear view of the different categories included. This can be seen below, where the different industries included are depicted. The overall size of the industry market, as of 2011, can be estimated in \$684.000 mill. (Altagamma 2014).

Another source to evaluate the size of the luxury market is the report of the consultancy company The Boston Consulting Group (BCG). In the study "The new world of luxury" (BCG 2010), the estimated overall size of the luxury industry in 2010 was \$960.000 mill Eur .

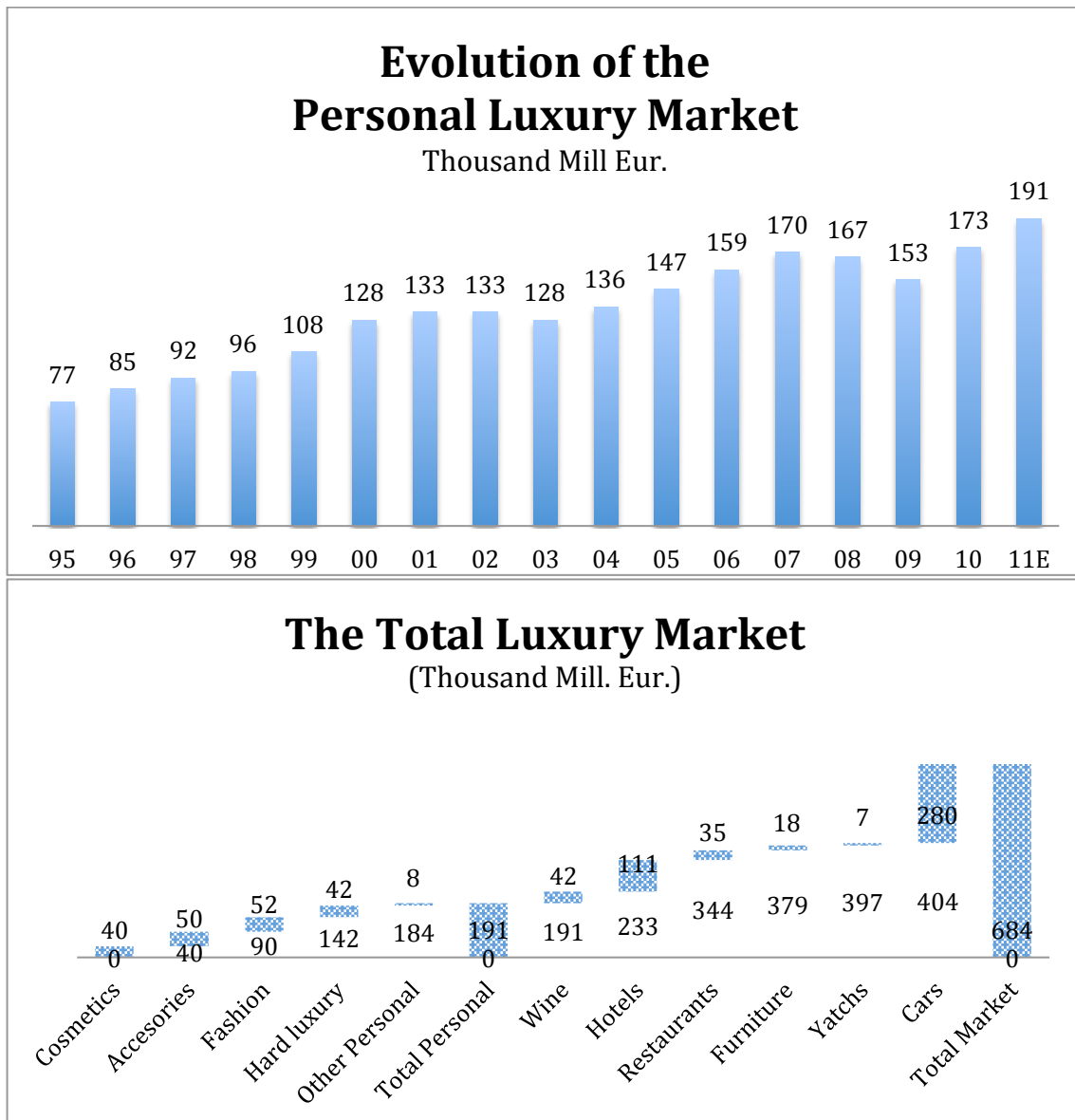


Figure 3.- The evolution and size of the industry market. Source: Altagamma 2011, extracted from "Mercado premium al alza", Obervatorio del mercado premium IE Business School.

As we see the main studies that covers the luxury market have some similarities:

- Definition of a "basic" luxury market.
 Either called "traditional" or "personal" we see a tendency to identify some categories as the main luxury industries, based on both studies these categories are:
 - Cosmetics & Fragrances.
 - Accessories & Leather.
 - Fashion.
 - Watches & Jewelry.

- The size of the "basic" luxury market can be estimated around 200.000 mill. Eur.

While there are obvious differences, these sources could be a first and valid approach to estimate the market size. Given the scope of this project, we will focus our observations on the “basic” luxury market and for simplicity we will avoid considering other industries. Nevertheless it is worth to say, that these new industries represent and interesting additional field of research.

3.3 Luxury in the world.

To complement the previous market information, this section provides some additional information about the geographic distribution of the luxury market. The impact of Asia as a driver of sales for luxury corporations is quite evident, given the significant 25% increase in just one year (Altagamma 2010).

Another issue, which is important to consider at this stage, is the impact of the tourism sales, that is the purchases of luxury goods that are done by people on their holidays and also on other types of trips. Recently a senior executive of Spanish’s rooted Loewe recognized that close to the half of their Spanish sales are done by tourist⁴.

Even though it is not the main argument of this section, an additional source of information that makes sense at this stage is to provide a final point on wealth distribution. The main point is to show the geographic distribution of wealth. Although we already know that there is no direct relationship between wealth and consumption it is interesting to explore how the wealth is distributed in the world. In Figure 4 it is shown one of the studies done in this regard.

Figure 4 reveals the distribution of High Net-Worth Individuals (HNWI). A HNWI is an individual that has at least one million (US) dollars in cash or assets excluding his main home). As one can see in Figure 4, there are three main areas. These regions are: USA, Europe and Japan. It is worth to notice how Japan is significantly the third player. Even the rate of growth in China is significant, still the amount of HNWI is lower that the first three countries.

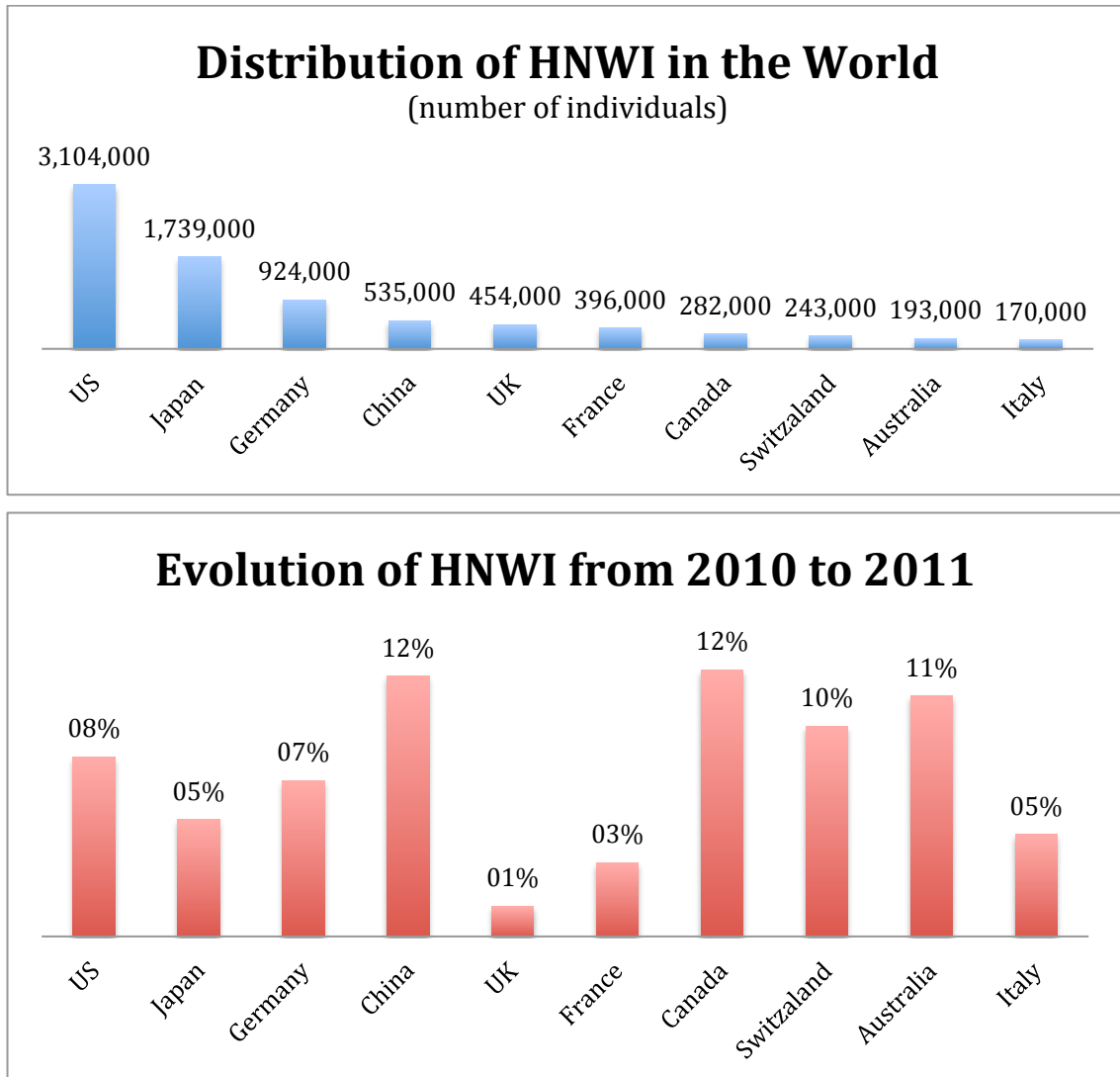


Figure 4.- Distribution of wealth. Source: Capgemini and Merrill Lynch 2011

3.4 The luxury client. Income / Spending based segmentations

As previously introduced, the market information is not enough to understand properly the complexity of the luxury market. The objective of this section is hence to provide a closer view to the luxury client.

Considering the literature on this topic, one could divide into spending-based segmentations and need-based segmentations. This section will cover the first, while the next section will focus on the second.

One of the first questions that we face is the purchase power. In this way, is the luxury client the one that can buy luxury products? Or on the contrary is the one willing to pay for luxury products? Therefore we face an interesting dilemma in the way of: is there a single definition of luxury client? And if not, how this market is segmented?

We could suggest that the rationale behind the income-based segmentations is that it is the buying power what defines the capability of buying luxury products. One attempt to classify the luxury clients has been done by BCG (BCG, The new world of luxury, 2010). According to this study, there are five types of consumers based on their income. In this way we have:

- Aspirational.
Family units with income higher than 55.000 € in developed countries and beyond (18.000 € in emerging markets).
- Rising middle class.
Family units with income higher than 110.000 € in developed countries and beyond 35.000 € in emerging markets.
- New Money.
Family units with bank assets higher that 725.000 € (\$1 mill.). They created themselves their wealth.
- Old Money.
Family units with bank assets higher that 725.000 € (\$1 mill.). They inherited their wealth (not created). Luxury is a matter of lifestyle.
- Beyond money.
Family units with bank assets higher that 725.000 € (\$1 mill.). Similar to old-money but indifferent with respect to status. Avoid ostentation.

This study provides a good general overview in terms of quantification of the luxury client and its spending power. Likewise, the study provides other aspects, like whether they are urban people, although these aspects are interesting, the study does not explore these aspects properly and it only provides some very general approximations, which we do not consider in this work.

	Households (mill)	Share Households	Spending (mill Eur)	Share Spending	Spendig per Household
Aspirationals	115	77.91%	50000	29.41%	€434.78
Rising MC	25	16.94%	40000	23.53%	€1,600.00
New Money	6	4.07%	60000	35.29%	€10,000.00
Old Money	1	0.68%	10000	5.88%	€10,000.00
Beyond Money	0.6	0.41%	10000	5.88%	€16,666.67
(TOTAL)	147.6	100%	170000	100%	

Prepared by the author based on the information provided by BCG, The New World of Luxury (2010), Exhibit 2.

Figure 5.- Segmentation of luxury client, based in income.

An interesting observation comes from the facts that the aspirational segment is significant, although it is not the main luxury customer in average spending (see Figure 4), there is no doubt of the importance of this segment for this market given its first position in the overall spending.

The “Observatorio del lujo del IE Business School” (Observatorio IE), provides a similar framework for understanding the luxury client. According to their first study, “*mercado premium al alza en tiempos de crisis, situación en España 2011*” (Observatorio IE, 2011), the client of luxury can be divided into three main categories:

- High Income. Family units with income higher than 110.000 €
- Heavy Spenders. Family units with annual credit card expenditures in luxury higher than 6.000 €.
- Premium consumers. Family units with casual purchases of luxury goods and family units and individuals with income below 45.000 €.

This study provides similar insights to the previous from BCG (actually they also follow the segmentation of BCG). Nevertheless this study brings an interesting insight from the perspective of purchase behavior.

It is interesting to see how the heavy spender do not only belong to the high income segment, but also could be some professional with fewer income but low family responsibilities (Observatorio IE, 2011). Therefore, it is interesting to understand at this point that in the luxury market it is not always valid the following statement, the higher the income the higher the luxury consumption. As a consequence of the previous statement we can say that: In order to understand the luxury consumer, income or purchase power cannot be the only aspects to analyze.

Another perspective that this study brings is the importance of the casual buyers, sometimes called excursionist (Campuzano 2007), it is also relevant of include them in this analysis (and for instance not included in the BCG study). This customer that occasionally buys luxury products for specific occasions (such as presents or aspirational purchases). Unfortunately this segment is not quantitative estimated in this study.

There are some other classifications for luxury clients, although at the very end they all remain similar in their nature of classifying consumer based on their income. For instance, there are the HENRY's, which stand for High Earners Not Rich Yet (a term created by Fortune writer Shawn Tully)⁵, meaning individuals with income between 100.000\$ and 250.000\$. And also there are Ultra-Affluent with income of 250.000\$ and above, which according to Pam Danziger accounts for a 2% of the US households⁶.

Some preliminary conclusion can be drawn from the information of this section. Segmentation based on income provides an initial discussion on the purchase power of luxury goods. However, the luxury consumer cannot be segmented based only on income or even annual spending. As seen, income cannot be considered as the only driver, since income is not equal to purchase willingness.

Therefore, some additional thoughts should be considered if one wants to properly understand the luxury consumer. This will be done in the next section.

3.5 The luxury client. Need based segmentations.

As argued in the previous section, the luxury client should be analyzed from different perspectives. Income and purchase capacity is not enough, since this will not properly explain the mindset and the drivers of decision making in acquiring luxury products. The idea that luxury segmentation goes beyond income can be also found in Dubois *et al.* (1993).

One interesting study that starts to deal with this situation is “Value-based segmentation of luxury consumption behavior” (Wiedmann, Hennigs and Siebels, 2007). This study defines a multidimensional approach, considering four drivers of value: financial, functional, individual and social components of luxury. Based on this Wiedmann *et al.* (2007) propose a scheme of four types of customers:

- The Materialists.
This type of consumer is characterized by *“the highest ratings for the materialistic and usability value of luxury goods, whereas the quality and self-identity value aspects were rather unimportant”*.
- The Rational Functionalists.
This type of consumer is characterized by *“highest ratings of all groups for quality value, followed by uniqueness and self-identity value”*.
- The Extravagant Prestige-Seekers.
This type of consumer is characterized by being *“more likely to take social value aspects of luxury consumption into account”*. The importance of functionality and uniqueness is very low
- The Introvert Hedonists.
This type of consumer is characterized by perceiving *“the hedonic value aspects of self-directed pleasure and life enrichment to be most important for their perception of luxury value”*.

This multidimensional approach seems similar to the benefits framework divided into functional, emotional and expressive (Aaker and Joachimsthaler, 2000). Another way of looking at this distinction is between extrinsic and intrinsic motivations (Truong 2010).

Veblen (1899) presented the first study about the “external” personal satisfaction, he defined the concept of “conspicuous consumption”, meaning that the consumption of certain (luxury) products denotes status and hence this becomes the drivers of its consumption.

The relevant point here is to understand the different drivers of satisfaction. One could be based on a personal perspective and a second could be based on the environmental or social perspective.

Although the approximation followed by Wiedmann *et al.* (2007) is useful, the conclusions of the study can be challenged, since the research is based on 750 interviews, where only 5% had an income higher than 5.000 € (for more information on

the research check Table 4 of Wiedmann, Hennigs, and Siebels, 2007).

It is important to outline this point. The intention of the study is to understand what really mean luxury from the consumer perspective (Wiedmann, Hennigs, & Siebels, 2007, p. 626). The author considers that with such lower representation of high income profiles in the research, the segmentation obtained could not be representative.

Dubois, Czellar and Laurent (2005) provide another study that categorizes the attitudes towards luxury. They established a typology focused on Elitist, Democratic and Distant. According to Dubois *et al.* (2005) the characteristics of these attitudes are:

- Elitist attitude proposes a traditional vision of luxury as appropriate only for a small elite, the “happy few.”
- Democratic attitude offers a more modern vision of luxury as open to a larger audience, which we might describe as the “happy many.”
- Distance segment “respondents believe that luxury is a different world to which they do not belong”.

Dubois *et al.* (2005) raise some concerns by being influenced by the “western” concept of luxury. Similarly to previous studies, this work draws its conclusion from a student’s based research. This could end up providing a general perspective of the luxury idea, but actual consumer of luxury good could complement this perspective.

One last example of a study identifying and categorizing typologies of luxury client was made by Vigneron *et al.* (1999). This study though, does not only cover this idea of luxury but also provides a wider perspective with the concept of prestige. According to Vigneron *et al.* (1999) prestige products can be characterized by status and price. The framework provided Prestige-seeking consumer behavior (PSCG) does provide with five types of client based on five values.

- Perfectionism → Quality value
- Hedonic → Emotional value
- Bandwagon → Social Value
- Snob → Unique Value
- Veblen → Conspicuous Value

This study has been further evaluated and has been presented a framework defined as Brand Luxury Index (BLI) (Dubois *et al.*, 2005). The object of this study is to propose a framework to study perceptions associated to luxury brands. Once again this study is based on a research with students.

Even though some other luxury studies are also based on students (Dubois *et al.* 1993, Kapferer 1998). The argument being made that MBA students are likely future consumer does not overcome the problematic extrapolations of their view and perceptions to general perspectives (and as said, consumption power is not enough to understand the luxury client). Therefore, one of the objects of the proposed thesis will be: to evaluate and question the hypothesis that MBA students are valuable for luxury studies on the concept of luxury.

Likewise, there are some other factors that contribute to the customer decision process.

In this way we can also include the positive effect of the role of environment and family, which stimulates the consumption of luxury products (Hung 2011).

3.6 The main players.

Traditionally luxury companies, as it has been described previously, started as small craftsman offices (ateliers) in the eighteenth-century. In the last century we have seen how some of this small and family based business transformed into big multinationals conglomerates. Nevertheless, some companies still compete in the marketplace as single (normally family based) corporations.

Three major luxury conglomerates are normally referred in business analysis (check for instance Bernstein Research, 2009), these are: LVMH, PPR and Richemont. On the other hand, there are still in the market place family based company, one of the most relevant example is Hermès.

It is worth to say that these companies have attracted the attention not only of the specialized and business press, but also have been used by business schools all over the world as the basis for business case studies.

In this section we will concentrate on these companies since they represent a good first approach to the main players of the industry.

Hermès.

Hermès International SA (Hermès) is a company that manufactures basically leather goods and complements. It is perhaps the best example of a successful and enduring family-based luxury company.

Today, the company is controlled by the originally Hermès family with a 60% of the capital (and 74% of vote rights)⁷. Recently rival LVMH acquired 20%, in a move that has been publicly defined by the owner family as an “attack”⁸. Actually this has given certain instability to the capital structure of the company.

Jean-Louis Dumas has been perhaps one of the most influential managers of Hermès and it is believed to be the responsible for today’s strong position of Hermès⁹. He resisted the temptation of the excessive brand extension of the 90’s and created a sound strategic sense of growth, as he used to say: “there is a difference between growing and becoming fatter”¹⁰.

Currently Hermès enjoys a solid position in the industry with a significant diversified geographic presence. According to their annual report (2011 edition) the company has revenues in total of almost 2.900 mill Eur and an operational result of 885 mill Eur.. This company is commonly known for its approach to sustainable growth and quality, being one of the few companies to be believed (this information is difficult to confirm) to have their entire production facilities in France.

LVMH.

The conglomerate Moët Hennessy Louis Vuitton (LVMH) as such was originally created in 1987 in Paris (France) through the merger of Louis Vuitton, an upscale luggage company (originally founded by Louis Vuitton in 1854) and Moët Hennessy, another French leading producer of champagne and cognac¹¹.

The founder and alma-matter of this corporation is Bernard Arnault¹². A successful and controvert executive, Mr. Arnault entered in the luxury industry acquiring Agache-Willot, owner of the, at that time, troubled Christian Dior¹³. That was the first step in a long history of acquisitions; creating a corporation of more than 60 renowned brands¹⁴.

From the strategic point of view, LVMH is one the clearest example of the aim for growth. In this way, it could be perceived as the contrary of Hermès, which is characterized by a conservative approach to growth. The aim for growth implies that sometimes LVMH is in the edge of surpassing the exclusivity of their offering. One example is their position in Japan, where it is believed that 30% of the Japanese women population owns a Louis Vuitton bag¹⁵.

LVMH is the biggest and more diversified corporation in the luxury market. In 2011 had a total turnover of 23.659 mill Eur. and a total operating profit of 5.263 mill Eur (LVMH Annual report 2011). Its business activity is divided into five business units: wines & spirits, fashion & leather goods, perfumes & cosmetics, watches& jewelry and selective retail¹⁶.

Although diversified, the LVMH conglomerate has a main root on leather goods. The importance of the fashion and leather goods section is significant with almost 40% of the business and close to 60% of the profits, according to their 2011 annual report. Taking into account that the fragrances and cosmetic brands rely mainly on the power of the parent fashion brands, we could estimate that 50% of the business and 65% of the profits comes from this area. Considering that actually the leather goods business unit is also the more profitable (35%), one could start to understand the size and influence that this conglomerate currently posses in the luxury market¹⁶.

Even though LVMH does not disclose data per company/brand, Louis Vuitton (LV) is estimated to be by far the most important brand of LVMH. Some estimates quantify in up to 71% the share of LV's sales in the fashion and leather goods division (Berstein Research, 2009).

LVMH Business Units (BU)	Revenues (mill. €)	BU / Total Revenues	Profit (mill. €)	BU Profitability	BU / Total Profit
wines & spirits	€3,524	15%	€1,101	31%	21%
fashion & leather goods	€8,712	37%	€3,075	35%	58%
perfumes & cosmetics	€3,195	14%	€348	11%	7%
watches & jewelry	€1,949	8%	€265	14%	5%
selective retail	€6,436	27%	€716	11%	14%
TOTAL	€23,659		€5,263		

Source: Elaborated by the author based on LVMH Annual Report 2011

Figure 6.- Profitability of LVMH's Business Units.

Looking at their sales distribution geographically, it is clear to see how LVMH can be considered as a truly international company. It is significant to notice how France accounts for most of their European sales (12% France vs. 22% rest of Europe). Likewise it has become the most important market, although there is no specific information about China sales. Nevertheless, it has to be pointed out the LVMH still relies in specific countries, only France, Japan and the US accounts for more than 40% of their sales.

Richemont.

Compagnie Financière Richemont SA (Richemont) is a Swiss based conglomerate focused primarily on jewelry and watches. Brands like Cartier, Montblanc, Vacheron Constantin, Jaeger Le Coultre or Panerai are among their most iconic companies.

This conglomerate also enjoys a distinctive in the market. According to their 2011 annual report, 2011 brought record sales of 8.867 Mill Eur. (what account for a +29% increase over the previous period) for the fiscal year ending on March 2012.

The current strategy of the company seems to be focused on organic growth rather than on acquisitions. The fact that Richemont has a solid position on emerging markets is also an additional reason of their current strong position. With sales in Asia over 37% of their revenues, it seems that Richemont has acquired some short of advantage in these markets.

Former PPR, now Kering.

Pinault Printemps Redoute (PPR) is the third conglomerate of luxury brands, although with some distance to LVMH. Originally founded in 1963 by François Pinault, the PPR group was created in 1994 after the absorption of Au Printemps (1992) and La Redoute (1994)¹⁷.

Unlike its French competitor, PPR was not originally focused on luxury. The roots of the conglomerate were retail and distribution. It was in 1999 when PPR acquired Gucci

(after a long legal fight with rival LVMH^d) when the corporation focused its attention on luxury. Ever since the firm started a series of acquisition in the market creating its current portfolio, where companies like Gucci or Bottega Venetta are among the most representatives.

In 2005, PPR started a significant shift in strategy with the aim of becoming a luxury and life-style conglomerate. As a consequence, Printemps, a chain of department stores, was sold in 2006 and in 2007 followed the sell of Conforama, a furniture retailer. In that year PPR also bought the sports and lifestyle company Puma¹⁸. The current divisions and portfolio of brands can be seen in their annual report of PPR 2011 and still does not include the recent acquisition of Italian high-end suit manufacturer Brioni.

On the revenue side, if we look at the recent years (2010 and 2011) to avoid the disruptive effect of the strategic change, one can see that even at the sales level the role of luxury is not predominant (40%), the role of luxury in the profitability of the company, with up to 74%, it is though significant.

As a company that started later than LVMH and in the last five years has centered in luxury, we can see how their presence in other regions is weaker. Still in the case of PPR we see how close to 70% of their revenues comes from Europe and the US. The recent move with Brioni, which is by the way strong in China¹⁸, speaks about their intention to rearrange this situation. In the meantime this could be perceived as a likely weakness and reflects the current importance that these companies pay to global competition and market diversification.

Finally, the figure below shows that the sales evolution of the main players. It is not the intention of this work to gather an in-depth analysis of the main players, but to explore who they are and which are their main characteristics. In the following section about the main industries, it will also be cited some additional players.

^d The legal fight between PPR and LVMH for Gucci lasted for many. More information on this subject can be easily found on business press.

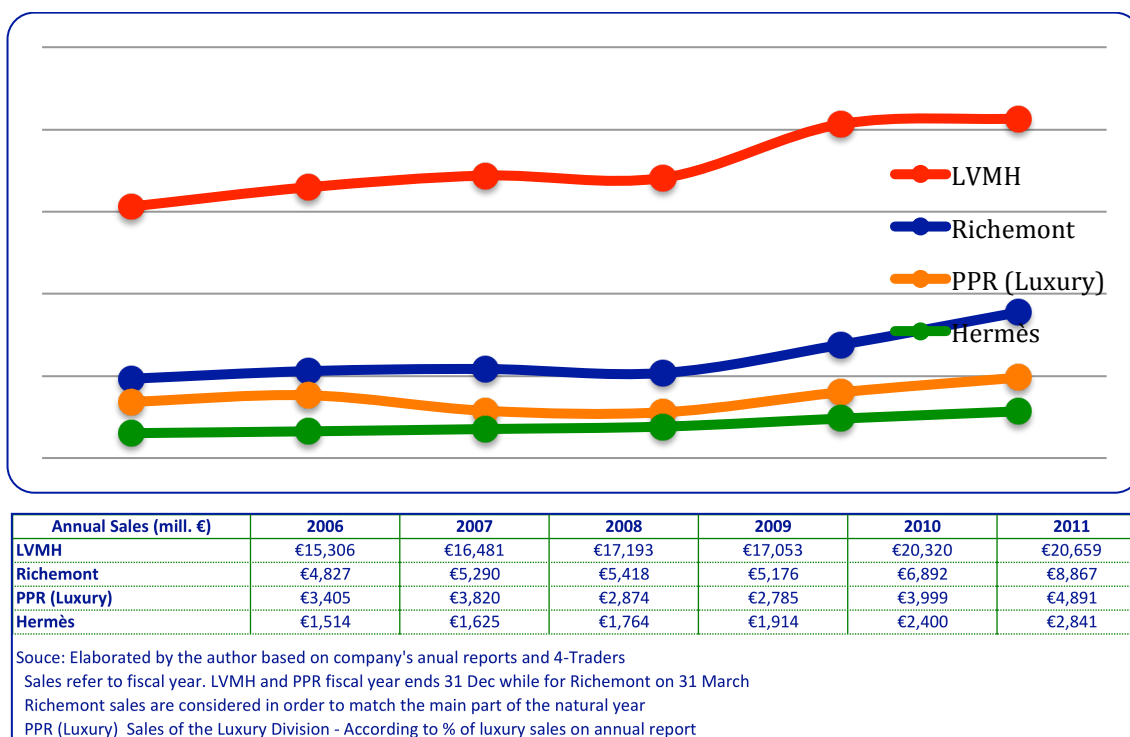


Figure 7.- Sales comparison between main players.

3.7 A brief view of the main industries

In this section we will briefly describe the different industries of the luxury market. Given the scope of this work, it will not be provided an in-depth approach to each of the industries. On the contrary, it will be provided an introductory view on each of the industries in order to understand the main aspects of each one and identify their main differences.

This knowledge will serve as a basis for further research of the author. The intention is to explore the likelihood of a general framework to be applied at the different settings that each of the industries provides. Likewise, as this is an introductory view, it will be considered first the industries associated to personal luxury (Altgamma 2011 and BCG 2010).

The rest of the industries, such as services (including hotel, relax, trips...etc.), food, furniture & home, wines & spirits, cars, yachts or even jets, will not be considered. The author considers that these other industries can be divided into experience-based luxury and engine-based luxury, although this is the object of future research.

The reason for considering only, at this stage, the industries in the personal luxury segment is twofold:

- On the one hand there is not much market information yet on the other industries, since these industries have been recently considered in the studies.

- On the second hand, the initial approach is to evaluate a management framework, therefore avoiding additional complexity and focusing on the traditional industries seems like a first valid approach.

Nevertheless the complexity of considering additional industries (its main characteristic, market information) it is considered as an interesting issue and it will be a point to consider for further studies, as previously stated. So far, by reducing the number of industries to handle we reduce the scope of the work in order to identify some initial relevant insights.

In this way, the main aspects of the industries in the personal luxury segment can be considered as follow. The market volume estimates comes from Altagamma (Altagamma 2011) and BCG (BCG 2010).

Watches (Watches & Jewelry estimated volume from 42.000 to 100.000 mill Eur.)

The watch industry is one of the most typical luxury industries. One of its main characteristics is that is geographically localized in Switzerland. While this figure represents watch exports for main countries and does not represent watch manufacturing (IFH 2012), it is a good estimation of the market.

The fact that this is an industry geographically localized has several implications. One of them is the problem with the supply of parts. Currently, one of the competitors, The Swatch Group, owns a majority stake in the manufacturing of watch parts with a current legal dispute with the European regulatory board on competition to be able to cut down their supply to others manufacturers¹⁹. A second issues, comes from the fact that actually this demand surpasses the capacity of producing watches²⁰.

The main competitors in this industry entail the main luxury players (LVMH, Richemont), plus The Swatch Group (with brand such as Breguet, Blancpain or Omega in their luxury segment). Likewise, there are independent companies such as Rolex and other relatively new companies linked to the name of the owner/designer, in this category we could name Frank Muller or Richard Mille²¹.

Jewelry (Watches & Jewelry estimated volume from 42.000 to 100.000 mill Eur.)

The jewelry industry complements the watch industry as one of the main luxury products. The main luxury conglomerates could be perceived to be the main players, still there are independent jewelry competitors such as Tiffany & Co. (Bulgari has been recently acquired by LVMH) or Chopard. This could be a signal about the importance of global competition and the ability to sustain a local competitive advantage.

From the point of view of profitability and growth potential this is also an interesting market. This is the underlying reason behind the fact that we see the main players are very interested in entering (and increasing its position) in this market²².

Accessories & Leather Goods (Estimated volume 50.000 mill Eur.)

This is another of the “classical” luxury industries. As we stated before LVMH has hold (most likely) its position thanks its core brand Louis Vuitton, which competes in this category with leather products and accessories. This talks about the profitability potential of this industry.

As said, the origins of most of the main luxury *ateliers* in this industry come from the last eighteenth-century. Today this is a very fragmented industry where most of the payers compete heavily. Its rate of growth, which in 2009 accounted for 3,3% it is expected to be one of the industries with higher growth, reaching a volume of around \$70.000 mill by 2014 (Datamonitor 2010),

In this industry bags, wallets and purses represent most of the market, some estimations points towards 60% and North America, in 2009, accounted for half of the market (Datamonitor 2010). While this figure might change due to the growth of emerging countries, there is no doubt of their significant role in this industry.

Cosmetics & Fragrances (Estimated volume 30.000 to 40.000 mill Eur.)

On the competitor’s side, Estee Lauder is the dominant premium cosmetics company²³. Given the scope of this industry, it is hard to find specific data about the luxury products. For instance one of the main player, The L’Oreal group, competes in wide variety of segments and since specific data about their different brand has not been found, it is very difficult to obtain relevant information. Likewise other players, such as Sisley Paris, remain a family business and hence it is also difficult to obtain specific information.

In any case, in this industry we could distinguish between three different types of players. As said, the first one would be the big multinationals, like L’Oreal or Sisheido, which compete in the whole spectrum of the industry (from the entry level products to the luxury ones). Then we could have small niche players like Sisley Paris o La Prairie, which only compete in the luxury segment of the industry. And finally we could name the main luxury players extending their products into this industry, in a similar way as it was described before for the case of jewelry.

3.8 Latest trends and threats in the industry

As a combination of several industries many are the trends that can be mentioned. Nevertheless, in this work we will keep a strategic view and we will focus only on those trends with the potential to alter the industry. In this way we can mention:

- The web and technology
- Sociological aspects
- Concentration and Oriental impact
- The Chinese bubble?

Web and technology

This has been one of the main discussions in the first decade of this new century. Should embrace luxury companies Internet? Should they sell on-line? In the recent years we have seen how many companies has started to take Internet to their advantage. Actually the recent news on web consumption of luxury goods are revealing. Online sales of luxury goods are said to have reached €6,2bill in 2011 (growing three times faster than the total personal luxury goods market growth) and they are expected to reach €15bill by 2016²⁴.

There are many views on this matters, still the degree to which technology should contribute to the so-called craftsmanship based industries is a relevant aspects to be evaluated. It seems that the latest data, shows significant changes over the previous paradigm.

Sociological aspects

In this section we can mention the recent sociological aspects in part rose after a recessionary cycle. Not because it will impact directly on buying power but in the social aspects related. One example is the mentioned fall of status and raise of personal experiences identified after the recessionary period. As Egol, Clyde and Rangan (2010) argue, one can detect changes in consumer after 2009. In this way people tend to value more the experiential aspect rather showing the status in a time where status is not socially positively seen.

Based to the increase in importance in sales in Asia (mainly China), an interesting question to consider is weather the consumption of luxury products is similar. So far for the traditional companies, mainly European based, this is a good market since they a willing to buy "European" luxury, but will this tendency continue?

Another interesting aspect to consider is the evolution in the knowledge of luxury from the consumer. When luxury enter new countries and regions, the less experienced consumer tend to value more expressive values (such as status). However in the case of China it seems that luxury consumers have learned much faster than expected and they can be now considered as well informed consumers (Economist (a), 2014)

Concentration and Oriental impact

As said before, there is an increase in the amount of luxury conglomerates. This tendency is significant in these days, just to cite one recent example; the Qatari royal family has acquired Valentino²⁵. Another evidence is the increased relevance of such conglomerates (Economist (a), 2014)

This has significant strategic implications; one of the most important is the change from business strategy to corporate strategy. As companies become conglomerates the synergies become quite evident in terms of supply chain, marketing retail and communication. Nevertheless it is not evident that these conglomerates still do have a sustainable competitive advantage at the corporate level. Hence this new issue becomes an additional source of research.

A luxury bubble?

The management of growth is one of the key issues for many luxury businesses (and for any type of business actually).

One of the aspects that the recent (and fast) expansion of many companies in the growing emerging market (with the predominance of China) is the question whether this is based on a long term value for the company or is just based on the short term rapid growing demand. Some concerns are already raised pointing out the likelihood of the former point (Economist, 2013).

On the one hand we have some indications of the potential of the Chinese market, with spectacular double digits growth for some companies²⁶. For many companies, the growth in China (or generally speaking in emerging markets) is the salvation for the decline on other mature markets, mainly US, Europe and Japan²⁷.

On the other hand, this issue also raises some concerns. Does this sound like previous bubbles? Is it about the sustainability of their strategies and investments?. In this regard, we have already noticed in the business press the first sign that this could be the case^{28 29 30}. Not only because the Chinese economy is slowing down, and that could also lead a decline in luxury sales³¹, it is also about the long-term investment of luxury companies. A similar example is the one provided by Versace abandoning Japan after 30 years³².

Finally, as growth becomes an important issue for luxury firms, new ways to sustain growth becomes more relevant, such as the role of the experience (Economist (c), 2014). This is another reminder of the complex dilemma between growth and exclusivity the luxury represents (Economist (d), 2014).

The important strategic issue here is to understand the management of growth and hence the dynamics of competition.

3.9 Conclusions

In this third chapter we have conducted a research on the main aspects of the luxury market. As it has been argued, the market information is just a part of the market knowledge and such it have treated in this work.

This chapter has also shown an initial approach to the main players of luxury and the main industries that the luxury market entails. While this is primarily market information, it provides a good first overview to properly understand the luxury market.

Likewise, additional market information (size, growth, etc.) has revealed the growing size and potential of luxury in the world. Here it has been identified an initial distinction between: personal (or traditional) luxury and the rest of the luxury market.

A closer look at the luxury client has shown the state of the art on consumer behavior for luxury products, this is a one of the major fields in luxury literature which is marketing based. Therefore this shows the potential of further management based luxury literature.

This research has found how the luxury client have been defined taking into consideration two main aspects: income and need. One of the lessons is that a luxury consumer is not only a matter of buying power. Furthermore, the literature of consumer behavior shows some interesting issues related to the perception and the attributes linked to luxury.

In summary this chapter has provided a summary of the market information but also has evaluated an important part of the state of art with the publications about luxury consumption.

Once we have evaluated the part of the state of the art related to market and consumer behavior, we will continue to the second part of the state of the art: the strategic management of luxury. This is the basis of the following section.

4 State of the art conclusions: The need of a managerial approach

4.1 The concept of luxury today

The concept of luxury has been historically linked to negative values (see introduction). Then, from the seventeenth-century it became not only a sociological issue but also an economic issue.

Today one of the most relevant aspects of luxury is the tension between two contradictory poles, between volume and scarcity³³. The essence of any business implies that, if successful, the company would like to increase their volumes and profits. This is not necessarily true for luxury companies, where more volumes will imply to break the promise of exclusivity and scarcity that the company made in the first place.

For a small artisan working in its workshop (atelier) and manufacturing on demand for certain clients (as it was before the 19th century, see introduction), the concept of exclusivity is self-evident. However, as the small atelier becomes a company, it could be interested in increasing their sales. This could not be now in line with the interest of the client, who is seeking (among other attributes) an exclusive product. Hence the tension “mass-exclusivity” is born as Lipovetsky (2004) points out. This can also be found on Nueno *et al.* (1998).

Some argue that the promise of scarcity is not real, and companies can only pretend to do so (Catty, 2009). Some others argue that luxury has open up two main categories, the inaccessible luxury and the luxury for the masses (Tungate, 2009). In this section, we aim to provide some light into this tension by understanding the concept of luxury from the management perspective. This will help us understand the likely source of decisions to be made to compete effectively in this market.

The rise of the luxury market and the potential for many companies (competing in luxury industries or not, the latter are commonly known as “trading up”) to offer more expensive and profitable products is for obvious reason very attractive. While this study will not focus on the companies outside the luxury market, many are the examples of companies trying to offer “also luxury products” (Silverstein, 2003).

As a consequence many have been the utilization of luxury and many have been the pseudo-concepts introduced for that matter: prestige, premium, ultra-luxury, real luxury, *masstige* (from mass and prestige)...and a long etc. The point at this stage is to realize that luxury have been utilized by companies of several industries (like mass-market industries) to (try to) provide additional value to their products. One would need to disregard these views in order to understand properly the concept of luxury.

Let's clarify the concept of premium first. We understand that we have a premium product, when its price is triple from the average price of that product category

(Observatorio IE, 2011). In this way premium denotes price. As we will see, luxury cannot only be defined by price or even a single attribute (this is a similar discussion to the previous one about the client of luxury).

One could also consider much more technical definitions of luxury. For instance, a luxury product will be that one with an elasticity of the profit with respect to the price utility bigger than one (Besiey 1989). We will not consider those definitions at this stage since we will focus more on the concept, rather than a quantification of it.

As an introductory hypothesis we can consider that based on the lessons of the state of the art of the previous chapters, the concept of luxury today, can be understood as the combination of the sociological aspects and the business aspects. Let's explore this statement in detail.

Luxury as a sociological issue

The concept of luxury entails a significant dynamic effect, since it depends on how the society provides value to the content; even today we can see that (Rosen, 2003). Therefore, one interesting aspect is to understand what luxury meant for other societies and how that understanding helps us today for a better comprehension of the roots of luxury.

As we have seen for Berry (1994) the concept of luxury is so important that different perception of need and desire creates different societies. This is also found in Kemp (1998). Therefore the sociological aspect of luxury seems worth to be considered.

Today's main categories of luxury (considering the industries that belongs to the personal luxury industries, as seen on

) are not that far away from Plato's view on human desires: clothing, shelter and food. Or even to the four categories of consumption of Adam Smith: Necessary, Basic, Affluence, and Luxury. Therefore in nature, luxury is a concept linked to human beings and cannot be completely different. This builds on the idea on considering the past meaning of luxury.

The main issues that one to take into account at this stage comes from some of the lessons obtained in the conclusion of the historical overview, in summary:

- Relativity & Dynamic
- Beyond Basic Needs
- Threat (Negative)
- Quantitative vs. Qualitative.
- Connected to culture.
- An Economy issue

These aspects are essential to be considered when analyzing the concept of luxury and hence we can conclude that:

- Luxury plays a role in the society
- Luxury motivates human needs and desires beyond the basic needs. This is why it has been traditionally considered as negative. Those aspects could still remain.
- Luxury should be considered in relative terms given its dynamic effects.
- Luxury is not a matter of quantity nor only a matter of qualitative improvement. We should evaluate both aspects in the analysis of luxury.

Luxury as a business issue

But luxury can also be understood as a business, as a collection of many and different industries with some sort of similarity. That similarity could be defined as the need or the needs it satisfies. Likewise we have also seen in the historical overview how luxury became an economic issue in the 18th century and later on became a market. Therefore the business approach is also needed.

As a business, there are some interesting aspects of luxury that one wants to explore. In this way we can provide an approximation to this concept by giving a set of attributes that are linked somehow to it. This is the approach provided by Kapferer and Bastien (2009a). In this case Kapferer *et al.* mention:

- Design.
- Manufacture.
- Distribution.
- Communication (Sicard 2006).

These aspects recognize that in order to evaluate the concept of luxury one needs to consider the fundamentals of business management. Although these authors take into account mainly the marketing perspective, there is a good approach to the importance of an overall business approach in Kapferer and Bastien (2009b).

Another interesting perspective is to consider whether all luxury companies should follow a similar business model. In this regard a recent report (Frontier 2012) shows an interesting approach to this matter. According to Frontier (2012), there are some similarities in the business model of a luxury company regardless of the difference in products or sectors, these are:

- **Aura**
Maintaining the aura of luxury is a key driver of consumer behavior and differentiates luxury products from mass-market sales.
- **Craftsmanship and creative people**

Quality and craftsmanship are at the heart of the luxury proposition. Access to an appropriately skilled and trained workforce is essential for the continued success of the sector.

- Substantial investment in industrial property

The luxury sector invests heavily in IP in terms of brand development and also in relation to design and innovation;

- Selective Distribution

It is essential to maintain control of the distribution and retail of products to ensure that the product's brand and image is not damaged by inappropriate distribution and retail; and

- Developing new markets

The European luxury sector is a significant exporter, and prospects for future growth of the sector are predicated on maintaining free and fair access to high-growth developing markets.

The main idea at this stage is to recognize that there is a specific complexity in managing a business in the luxury market. Therefore it is not only about one single issue (product, craftsmanship, pomp and excess, fashion, distribution. just to cite some examples).

The conclusion is that still we face a company to be managed. There are some things to be define, such as the strategy, the competition...this is why we need a management approach as we will see in the next section. So far we can say that the previous analysis and all of the lessons obtained from the state of the art confirms the idea that: The analysis of luxury should follow an open perspective, considering sociological and business issues.

4.2 The need of a managerial approach

The first discussion on this point is self-explanatory; the managerial approach is needed since we deal with a business in specific industries to be managed. While many of the literature on luxury are either historical (few) or marketing based, still the relevancy of luxury, as a strategic issue seems not being properly discussed.

The conclusion of the previous section provides a solid argumentation about the need of a managerial approach. In summary we deal with a complex concept, which is a combination of sociological and business components. Likewise there is the added complexity of running the business. Hence a managerial approach seems like a valid field to research. Some initial considerations of such necessity would be to provide an answer to some distinctive issues, such as:

- Distinguish luxury issues from profit issues
- Evaluate the dynamics and the environment of the industry
- Identify the main challenges of company competing in the luxury market
- Define the strategic management of a luxury company

- Learn from previous lessons
- Maximizing the ability to compete in the marketplace (which is not exactly the same as maximizing profits).
- Respond to specific business situation, for instance respond to the counterfeit problem (Wilcox 2009).

Therefore, based in the previous lessons of the state of art which point out the necessity of a managerial approach, it seems a valid point to propose a hypothesis to be evaluated with further research: is it useful a management framework to define the strategic management of a luxury company?

The first step is to research the similar proposition on the business literature. The models and frameworks that have been found in the research show that they do not respond completely to the overall necessity of a company. Most of the frameworks respond to the idea on identifying the attributes of a luxury brand. A good summary of the different attributes linked to the concept of luxury can be found on Vigneron et al. (2004).

	Vigneron & Johnson (1999)	(Items developed in Vigneron et al. study)	Kapferer (1998)	Dubois, Laurent and Czellar (2001)
Non-personal-oriented Perceptions	Conspicuousness	Conspicuous, Elitist Extremely expensive For wealthy	Belong to a minority Its price	Conspicuous Elitist Very high price Differentiated from others
	Uniqueness	Very exclusive Precious Rare Unique	Exclusiveness Its uniqueness	Scarcity Uniqueness
	Quality	Crafted Luxurious Best quality Sophisticated Superior	Craftsman Its quality Beauty of object Ecellence of product	Not mass-produced Rather like luxury Excellent quality Good taste
Personal-oriented Perceptions	Hedonism	Exquisite Glamorous Stunning	Its geat creativity Its sensuality Its magic	Pleasure Aesthetics and polysensuality Makes life beautiful
	Extended Self	Leading Very powerful Rewarding Succesful	Knowing that few have one	Refined people Reveal who you are Pleasing Few people own
Item without apparent commonalities			Savoir faire and tradition International reputation Long history Grown out of a creative genius Never out of fashion Forefront of fashion	Ancestral heritage and personal history Superfluous and non-functional Makes dream

Figure 8.- Summary of Luxury frameworks. Source: Vigneron at al. 2004.

Here we could also add the Berry's (1994) contribution, where we link the concept of luxury to some attributes: need & desire, refinement, pleasing, superfluity and expense & rarity.

While the importance of the brand is tremendous, there is no evidence that an evaluation of the brand is not sufficient to understand of the issues that a luxury company faces, especially if we consider the previous initial considerations above. We will evaluate this statement by looking at the different frameworks to conclude whether there is room for a distinctive research.

Vigneron et al. (2004) propose a model to evaluate luxury brands, the Brand Luxury Index (BLI). This purpose of this framework is mainly to distinguish between the different luxury brands (for instance high end versus low luxury). To do so, it ranks the different aspects identified in the study (see the column "Items identified in this study"). As we can see, this framework does not respond to the management approach introduced above.

Kapferer *et al.* (2009a & b) also provides some marketing lessons targeted to manage the specificity of luxury brands. Again while these lessons introduce valid knowledge, does not respond to the overall issues of a luxury company. Another study focusing also on marketing lessons for luxury brands can be found on Nueno *et al.* (1998)

Berthon *et al.* (2009) introduce a categorization of luxury brands based on the two modes (aesthetics mode and ontological mode). In addition, in Berthon et al. (2009) we find some additional concerns about the need of a managerial approach. On the one hand, Berthon et al. (2009) point out that luxury goes beyond than the mere categorization of attributes. This is in line with the previous finding of this present work on the complexity of the concept of luxury. In this way it is provided a framework with different dimension of a luxury brands, see Figure 9.

Furthermore, Berthon et al. (2009) also point out the cycle of luxury, see

Figure 10. This could also be perceived as similar to the previous lessons presented in this work about the dynamic effect of luxury. Therefore in this paper, there are some additional issues rather than the luxury brands. This points towards the interest that the field of luxury has for management. Actually, this paper has been published in a management journal and not on a marketing journal.

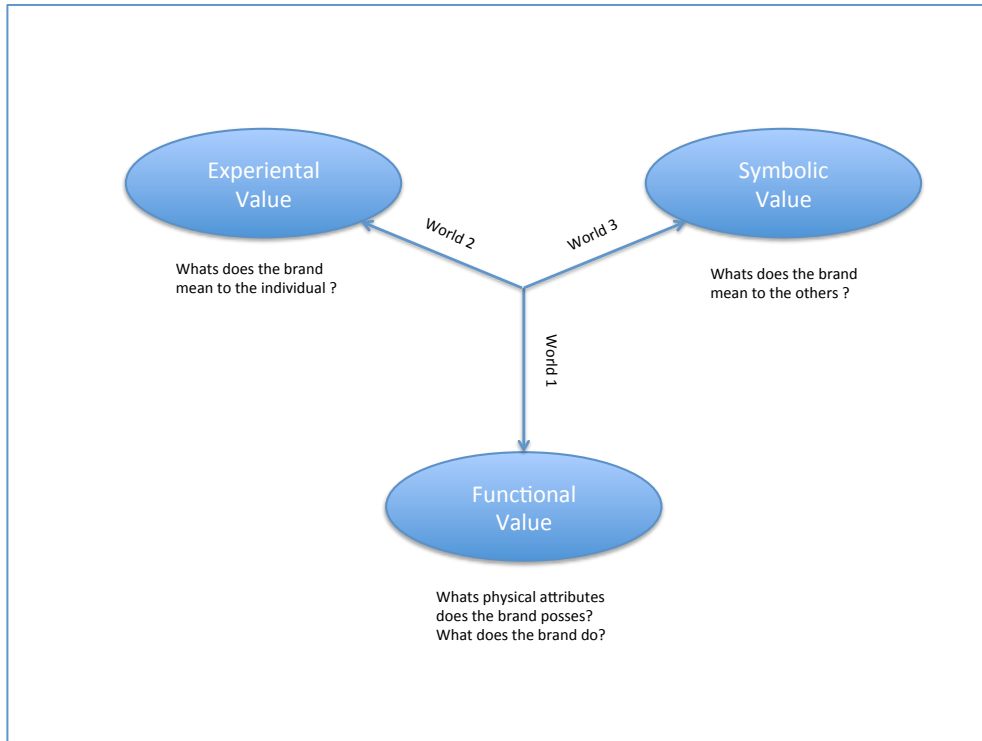


Figure 9.- Value Dimensions of luxury brands. Berthon et al. (2009)

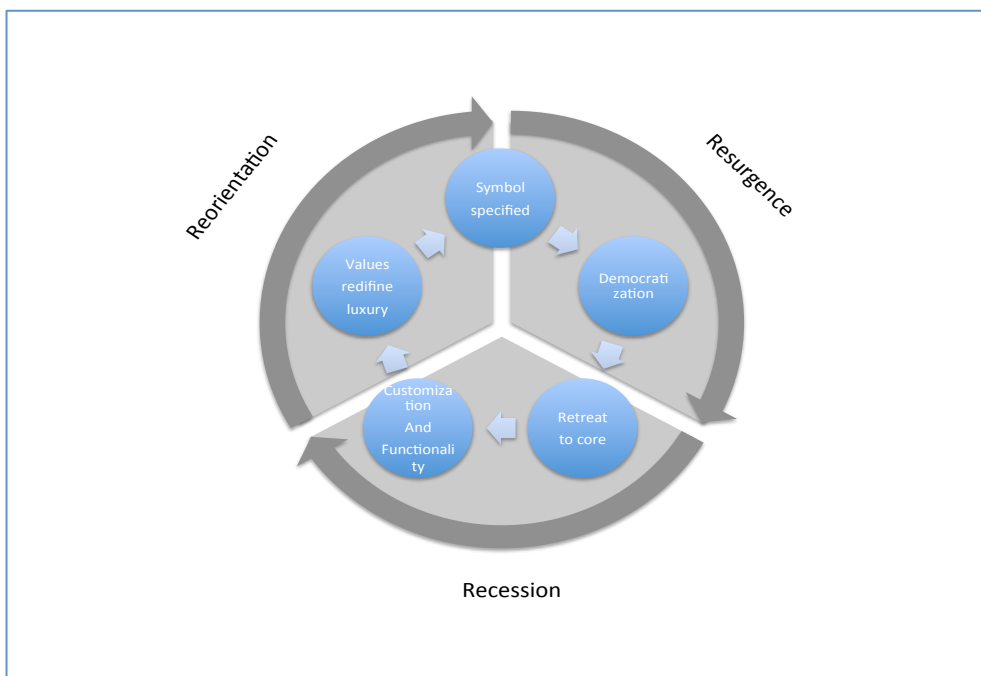


Figure 10.- The cycle of luxury. Berthon et al. 2009.

4.3 Conclusions and contribution.

In this chapter we have evaluated the concept of luxury. This chapter has also confirmed the complexity of the concept of luxury and the suitability of further research from a managerial perspective.

The research on the concept of luxury has shown how a multidimensional approach is needed and how this complexity can be evaluated from different perspectives. Based on the findings of the state of the art, it seems valid the hypothesis that luxury is a combination of sociological issues and business issues. And hence a view of luxury based on one aspect (such as the price) is not suitable.

As a result, the management approach to luxury should embrace this complexity and respond to a second question: Is it useful a management framework to define the strategic management of a luxury company?

This chapter has set the basis and has shown the state of the art on luxury management. The findings reveal that while there is good marketing research on luxury (brand and consumer behavior mainly), little is done so far about the problems of strategy. Likewise we have seen how the management approach to luxury seems like a valid field of research. Therefore the next chapter explores this field.

Contribution

The state of the art shows how luxury in academy has been mostly treated from the perspective of marketing. The fundamental questions that have been addressed revolve around the values or association of luxury brands and consumer perceptions on luxury. However this knowledge is not comprehensive. As argued before, it seems to be a research void in the understanding of luxury as a managerial phenomenon.

We observe a lack of understating in the strategic decision making process for luxury firms. In this ways, this thesis dissertation explores the relevancy of traditional strategy concepts for luxury firms. This knowledge does not contradict previous research, but it enhances and explores additional aspects not considered yet in depth. As a result the concept of luxury, its relationship with society and its managerial implications would be better understood by elaborating this proposed study.

Part II - Hypothesis definition and research phase.

Towards a framework to formulate the business strategy of a luxury firms.

Parte II. Definición de la hipótesis y fase de investigación.

Hacia un modelo para la formulación de la estrategia de negocio
en empresas de lujo

5 Research question and research design.

The purpose of this research study is to provide an advanced understanding of the strategy of luxury firms. The main objective of the study is to understand the extent to which traditional strategy concepts are able to answer the fundamental managerial questions of luxury companies.

To do so, it has been proposed a framework to define the strategy of a luxury firm as an initial hypothesis. The aim is to contribute to academia and managerial practice, providing a framework that is able to properly assess the managerial problems of luxury firms, and moreover, is able to formulate the business strategy of a luxury firm.

This study contributes to knowledge and practice in three of the five ways proposed by Creswell (Creswell 2002, pg 70). First, it fills a void in existing research, second, it is an area that has not been studied, and third, it gives voice to people not heard or silenced until now.

It has been argued previously that there is a gap in current research in the understanding of luxury firms, as oftentimes research of luxury firms is oriented towards marketing issues. Therefore, an advanced understanding of the main managerial complexities and how to formulate the strategic principles of a luxury firm is a topic that has not been explored in academia and constitutes a significant void in current research.

The second aspect deals with topics, which have not been previously studied. As argued earlier, the fact that luxury firms have normally been studied from one angle, marketing and client perception, demonstrates how new perspectives in understanding luxury firms are new topics of research not yet explored.

The third aspect, giving voice to people not heard until now, is also considered in this study. This is a mixed study, as it will be explained in detail in Part 4, that aims to obtain information from luxury executives. The state of the art shows how the main source of data collection has been notably the client (or the potential client). While this former source may reveal interesting information, it is perhaps not the only, or even the main, one. The executives of luxury firms are also a primary source worth exploring. This source initially presents itself as a proper way to understand the challenges of luxury firms and whether those challenges can somehow be summarized or categorized.

Following Creswell conceptualization (Creswell 2003) there are three main central elements to designing a research study, the knowledge claim, the strategy of inquiry, and the methods of data collection. This is also consistent with other authors such as Marczyk (Marczyk et al.), Corbetta (Corbetta 2003) Miller (Miller 2002), as they also define the research design in these three basic elements.

This work provides an approximation to the concepts of strategic management in the field of the luxury market. Therefore the knowledge claim revolves around the idea of how appropriate the traditional strategy concepts are as a means of understanding the specific complexity of a luxury firm and to define its strategy. To focus the design, and based on the previous state of the art analysis, only the personal luxury industries will be considered. This knowledge claim could be classified as a pragmatism claim according to Creswell (2003), since it deals with the questions of what and how, rather than be based on antecedents.

The second question deals with the strategy of inquiry, also known as methodology (Mertens 1998). Here there are three basic options, first a quantitative approach, second a qualitative approach, and third a mixed approach, which is a combination of both quantitative and qualitative. This work will follow a mixed approach, as it is normally more convenient for a pragmatic knowledge claim (Creswell 2003). The choice of approach will be further explained in Part 3 of this report.

The third aspect of the research design refers to the specific methods of data collection. This aspect will also be explained in depth in Part 3. The methods of data collection for mixed methods can be very diverse, as it combines quantitative with qualitative methodologies, and could include a combination of open and closed questions. Additionally, as it will be argued in Part 3, a specific rationale for combining both qualitative and quantitative approaches is needed (Creswell 2003).

Having identified why this research study provides a valuable contribution to knowledge, and how the research study has been designed, we are in a position to conclude this section with the definition of the research question. The question that provides meaning to this whole research study is:

“How should the business strategy of a luxury firm be formulated? “

This question will also provide an understanding of the potential differences between luxury and non-luxury firms in terms of the formulation of business strategy. These potential differences will likely open more areas of research. In turn this will improve our understanding of the competitive problems and whether they can be addressed with the concepts, tools, and frameworks known to date.

Following Creswell's (Creswell 2007, pg 44) guidelines the research study has been titled:

“Understanding the formulation of business strategy in luxury firms, a mixed methods including external market factor and internal managerial perspective considerations.”

6 Previous considerations.

There are two considerations in this research. First, as previously outlined, is the consideration of personal luxury categories. These are fashion, accessories, watches and jewelry (hard luxury), and perfumes and cosmetics.

Personal luxury is the segment with the most information in the whole luxury market. As described in the state of the art, Altgamma has been tracking the personal luxury market for the last decade. This is perhaps the only available source of market information about the luxury industry. Therefore, it makes sense to narrow the scope of luxury industries to this specific field.

Based on this, future research should be aimed at exploring how the findings of this work could be extrapolated to other luxury industries.

The second consideration is to have access to people and sites (Creswell 2002, pg 71). In this research a mixed approach has been used. Therefore, access to people and sites has to be secured in both the quantitative and the qualitative phase.

In the first phase, the quantitative research, the access to people has been secured through the MBA students. This technique has been already used (Kapferer 1998). In the second qualitative part, the access has been secured through personal interviews with luxury executives.

As the state of the art has shown, a traditional way to research the luxury market has been through marketing and consumer research. While this perspective is not to be criticized, it does seem to be incomplete as a means to understand the management of luxury. Based on this, this research has a main objective of expanding the understanding of luxury from a management perspective. This new perspective may bring some additional factors, identify new sources of knowledge, and provide new ways of solving complex managerial situations.

7 Hypothesis definition: A management framework to formulate the strategy of a luxury firm: The 3 pillars of luxury framework.

One of the most important goals of management research is to provide an understanding of the practical problems facing the profession (Van de Ven, 1989). Therefore, it should be a priority to understand the problems executives face and how theories can help to deal with such a situation from a practical perspective. As Van de Ven highlights, a good theory is practical when it helps to advance the knowledge, it guides research towards crucial questions and it enlightens the profession of management.

With these principles in mind, one of the fundamental goals of this research is to understand the real complexity faced by luxury executives and provide a helpful theory that contributes to the managerial process of strategy formulation.

7.1 Introduction

In this section we will outline the hypothesis to define a management framework for luxury companies. Based on the lessons obtained from the previous research undertaken in the field and provided in the state of the art, there is great potential in advancing the managerial understanding of luxury.

First we will complete the previous lessons from the state of the art, starting with the formal definition of the concept of luxury. According to the definition, luxury can be expressed as^e:

- A state of great comfort or elegance, especially when involving great expense.
- An inessential, desirable item, which is expensive or difficult to obtain.
- A pleasure only rarely obtained.

We can begin to identify fundamental aspects that we would like to point out when dealing with the concept of luxury. The author considers that there are six fundamental aspects:

State / expense / inessential desirable item / difficult to obtain / rare pleasure

Considering the etymological roots, an interesting additional clue could be drawn. The origins of the word luxury come from the Latin “luxus”, which means excess. As we introduced in the previous sections, excess has always been very close to the idea of luxury. This is also an aspect which we will explore.

^e There is wide similarity across sources. The definition provided is the one of the Oxford Dictionary. For instance, the Spanish real Academy provides a similar one.

Therefore, what we have is a relationship of concepts that are very close to the idea of luxury. By evaluating those elements, we will be able to draw some interesting conclusions.

State.

It seems interesting to start by pointing out that luxury is a state (of mind, one could consider). This is a very important variable to consider, since every time we evaluate situations or products that we link to luxury, we will want to consider them from this perspective.

The reason why luxury can be related to the emotions, and not so much to logic, is because of this mental state.

Expense.

This could be one of the most obvious aspects, yet also the aspect that often generates confusion or misunderstanding. As we have defined, luxury goes beyond prestige, which could be evaluated as a product priced at three times the average price of such category. When we talk about great expense, we will mean more than that.

Inessential desire.

As mentioned, a fundamental element is the definition of need. Luxury has been traditionally linked to unneeded items. However, it is important to understand how luxury is satisfying those differentiated needs. Here it is important to consider both the external and the internal aspects, previously introduced.

Difficult to obtain.

Another important aspect is availability. This difficulty to obtain also denotes the dynamic effect. As we have seen, something could be considered luxury for a society, and it can become a standard for the next generation. This also speaks about the difficulty of accessing to such luxury product

Likewise, this has also important implications for the management of growth. As explained before, a successful business might be tempted to grow its revenues by increasing the availability of their offering. Keeping some sort of restriction to the distribution is also a significant aspect of luxury.

Rare pleasure.

Luxury goes beyond a standard product, as we have already seen. There are elements that have already been cited that refer to this point: the refinement of a basic need, difficulty or satisfaction. It is clear that if we speak about the occasion of purchase or consumption it should be considered a restriction about it. Therefore the "rare" or occasional aspects are also important.

Etymological roots - Excess.

As said, “luxus” comes from the Latin “excess”. But here we need to properly understand this concept. When we cite excess it should not only consider the quantitative approach, meaning an excess of quantity. It must also consider the qualitative refinement, as we have already identified.

An interesting way to consider the etymological roots would be to understand excess as going beyond normality. Based on the historical approach, most likely the word that describes luxury is going beyond the normality of that society. This can be perfectly translated into present day. Going beyond normality means having an understanding of quality and quantity, but also understanding the normality of that person/society.

In this way we could add a new perspective by considering the relative aspect of normality: normality for whom? In this way we can understand that what makes an item luxury for a certain person does not necessarily make it luxury for another. Once again we stated that luxury is relative concept and cannot be defined in absolute terms.

Based in all these statements, the next section will evaluate them and combine them with the previous lessons found in the analysis of the state of the art.

7.2 The three pillars framework

The three pillars framework (TPF) tries to respond to the complexity of managing luxury companies. We define three main categories, named *the pillars*, as follows (see Figure 11).



Figure 11.- The three pillars framework - The Definition.

Essence.

With the essence we understand the concepts that belong to the sociological aspects of luxury, so we understand the root of it. Hence we have:

- State
- Desire (inessential)

- Pleasure (rare)

Considering a corporation the discussion of the essence brings light to one of the fundamental questions of a company: the *WHAT*. What are the products and services that the company delivers? What qualifies the company to compete in the luxury environment? It is only by considering the previous attributes that one is able to provide an answer to these questions.

Considering the lessons from the state of the art, found in the section “luxury as a sociological aspect”, some interesting issues could be considered:

- Relative & Dynamic
- Beyond Basic Needs
- Threat (Negative)

If we take into account the lessons that the state of the art expressed in the previous sections, we see that the pillar of essence includes all of these issues since the essence of all these points are the benefits of luxury and the value offered by luxury products. In using this approach, we follow Millán’s approach to the concept of value (Millán 2011).

Therefore, the key point, besides the actual aspects depicted, is to understand that the essence of a luxury corporation will be centered on the ability to provide a specific sort of value and benefit. An interesting perspective is that, somehow, they all refer to the fact that there is a need for a specific know-how. This is suppose to be an important concept to consider, and the previous categorization is a very valuable example of them. What we see here is not a critic to the literature depicted, but a categorization of it.

Nature.

With nature we understand the roots and etymology of luxury. Within nature we have:

- Excess
- To go beyond normality (quantity and quality)

From the corporate perspective, the nature will be considered to be the comparative perspective into the main issues in which the company competes. Here we can point out two, the industry and the heritage.

How relevant is the industry attractiveness? What are the lessons we need to understand to compete in such an industry? It is important to understand that as a business a company competes in an industry, and as said already, that all industries in the luxury market have their own particularities.

Another interesting comparative aspect is the role of heritage. In a fast moving environment where technology becomes more relevant, how relevant is the heritage and inherited know-how to compete in the marketplace? Is heritage needed at all? The answers to these questions will depend on the consumer, as well as on the industry in which the company is competing. This is the reason for placing heritage in the nature pillar.

The nature of the luxury responds to another important question: The WHY. This question centers the debate on why does it goes beyond normality? And, why does it makes sense to compete in that particular industry?

Means.

With the means pillar we understand all of the issues that we need to consider when managing the specificity of luxury companies and the achievement of business sense in the marketplace. In this way we have:

- Expense (which entails, but goes beyond, price)
- Difficult to obtain (occasion, buying experience, distribution)

This speaks to the third fundamental question of a business: the *HOW*. How can we deliver a successful business proposition? This is a fundamental question as it covers exactly how the strategic aspects are considered to deploy the tactics of a corporation.

With the means, we bring the analysis of the management and the organization of a corporation when competing in the luxury market.

Going back to the lessons obtained in the state of the art, there is room to consider the lessons for luxury as a business issue.

We could also add some interesting aspects, like distribution issues. Therefore, when discussing the means, what we are dealing with are all the answers related to the management and organization of the business.

In Figure 12 we now provide a summary of the main issues covered by the TPF.

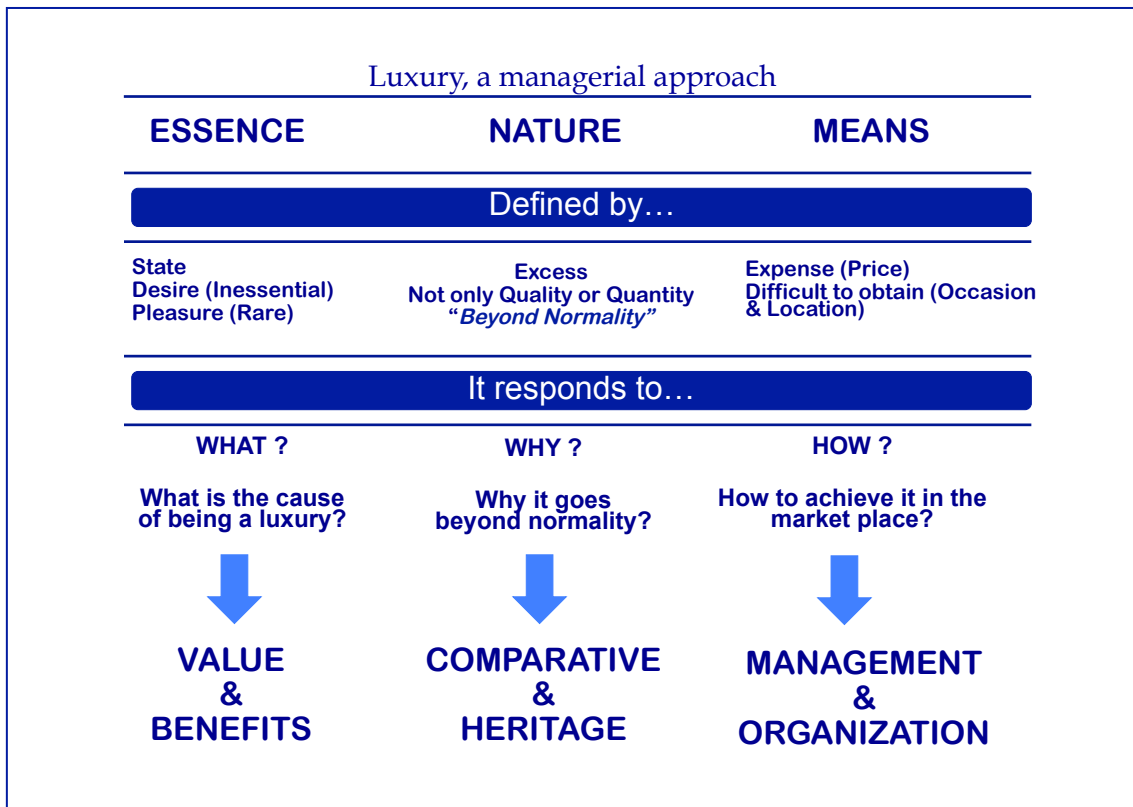


Figure 12.- The three pillars framework. Fundamental answers.

7.3 Objective of the framework

The aim of the framework is to provide a comprehensive answer to the challenges and specificity of companies competing in the luxury market.

As we have seen already in the state of the art, most of the literature and research within the luxury industry is marketing based. While this approach is certainly interesting, it is most likely unable to address the complexity of a corporation, and particularly their strategic issues, in its entirety. This is why the framework has yet to be completed with the points previously expressed.

Therefore, as it has been explained in the previous point, the TPF provides an approach that covers the fundamental questions that a corporation might face.

As a conscience the framework will likely be more useful if it covers the wide strategic spectrum of a corporation. If we define the main strategic concepts of business strategy (Grant 2006), we will find three main areas:

- Industry Analysis
- Competitive Analysis
- Positioning & Client. – Business proposition.

If we combine the three pillars approach and include the fundamental strategic management, we are now in position to propose a comprehensive management framework for the specific needs of luxury companies. As previously stated, this goes beyond the marketing problems of luxury brands. It is complementary, but it is not contradictory. Therefore, the lessons of the state of the art analysis are valuable for the construct of the framework.

Building on the previous point, linking the TPF with the different main strategic issues we have that:

- Essence deals with the issues of the client (and positioning)

There is an obvious relationship between the values and benefits and the essence expressed with the goal of those benefits of the client and his perception (that is positioning).

- Nature deals with the issues of the Environment

This is the area where the research should demonstrate its validity, since the definition of the nature of luxury can be improved.

- Means deals with the issues of the Company

The means combines all the issues of the company to provide a proper management perspective.

In conclusion, Figure 13 provides an overview of the TPF and its relationship to the main strategic concepts. Figure 14 provides an overall view of the TPF. And finally, Figure 15 provides a comprehensive view of the TPF.

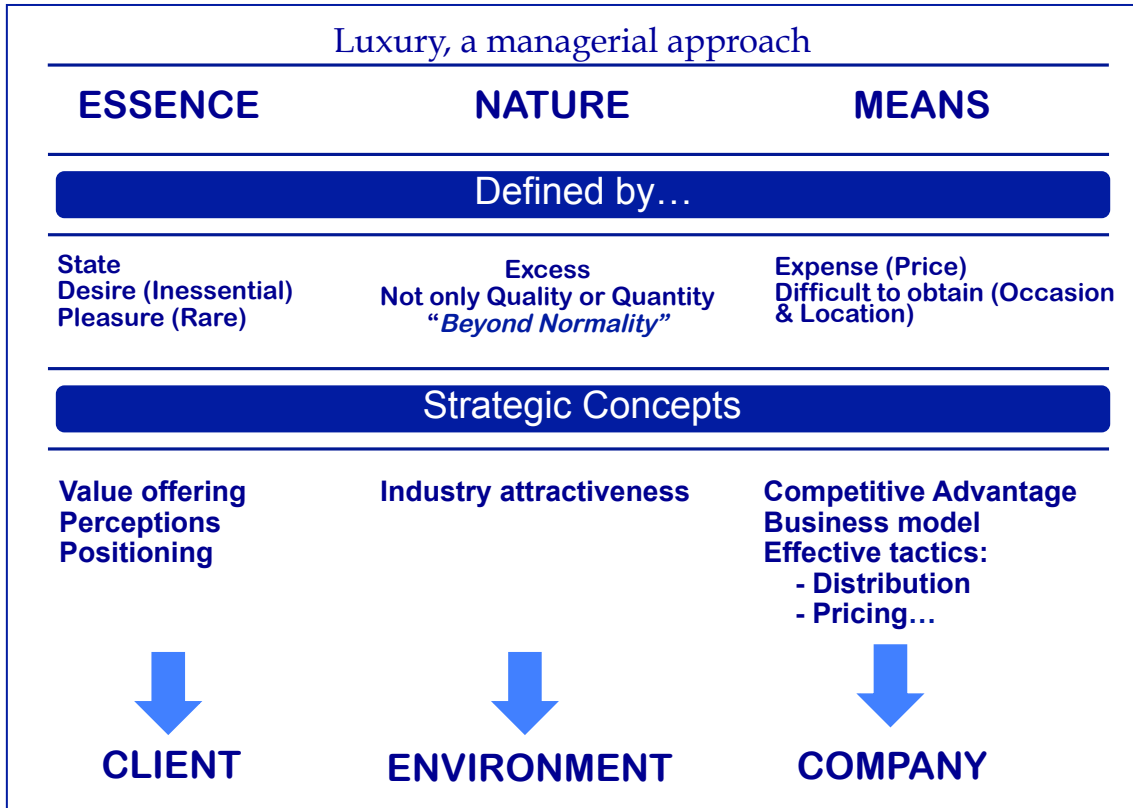


Figure 13.- The three pillars framework. Strategic Concepts

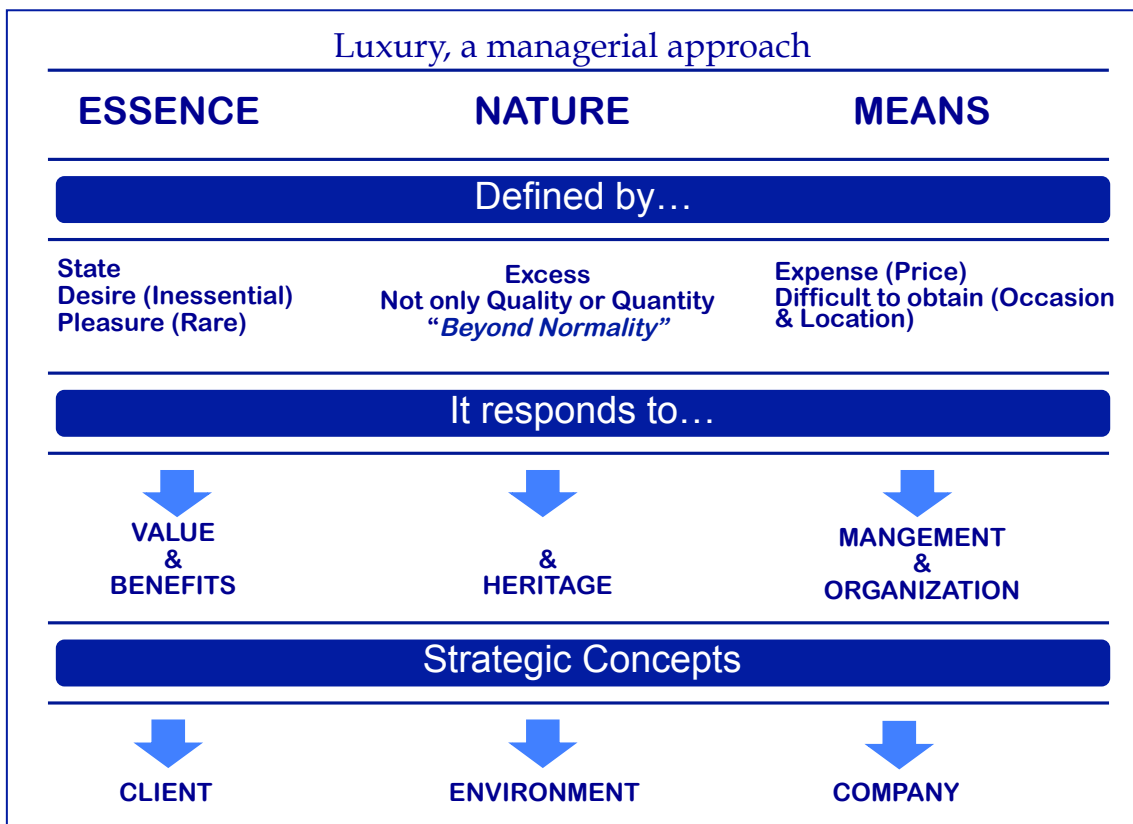


Figure 14.- The three pillars framework. Summary.

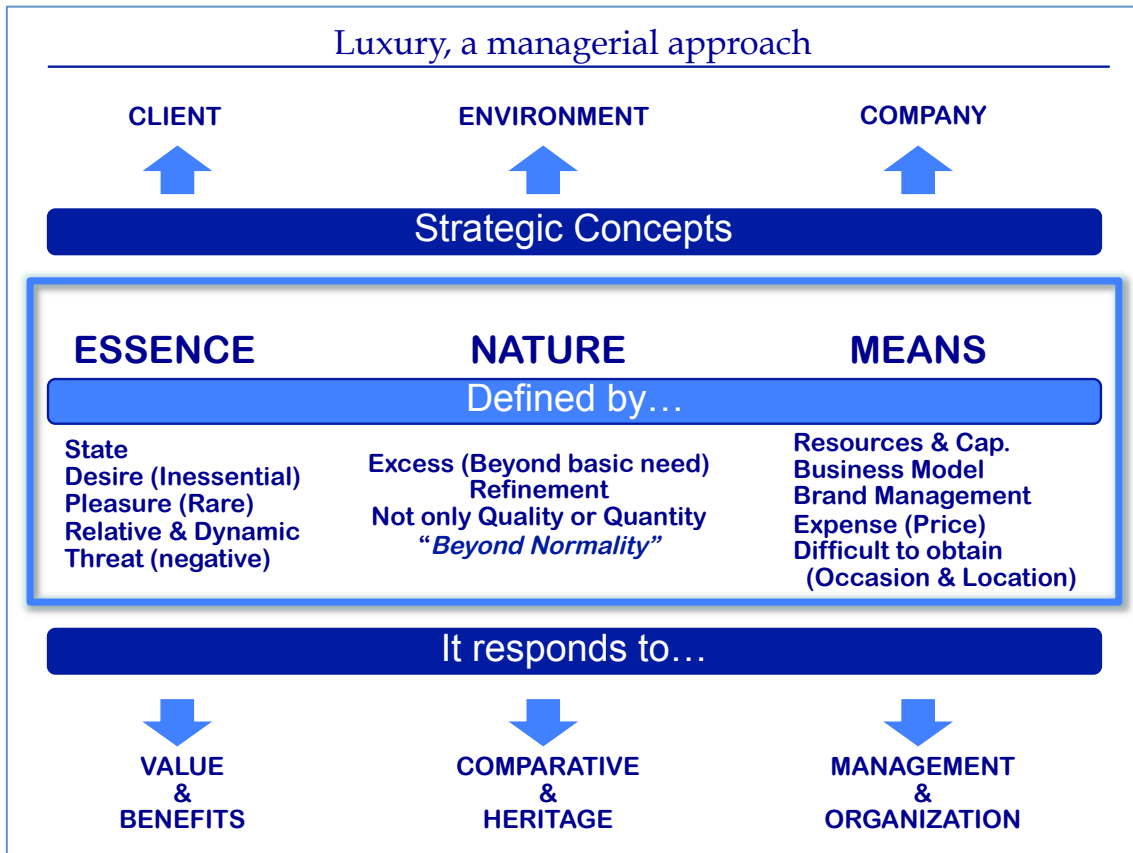


Figure 15.- The three pillars of luxury framework.

7.4 Evaluation of challenges and risks

One of the first aspects to consider with the TPF is the evaluation of whether or not it responds to the main problems of luxury corporations.

This is a point for further evaluation on a thesis, nevertheless, in this section we will provide an early research on typical problems for luxury companies and their relationship to the three pillars identified, see Figure 16.

7.4.1 Risks associated to the essence of luxury.

What happens if a company fails to understand the benefits that the consumer expects? Or if they do not properly assess who the client is? And what if they do not properly consider their capability of value creation for the client? What if we misunderstood the value creation? These questions express the problematic issues related to the essence of luxury.

One interesting aspect is the discussion of the know-how that is needed to compete in the marketplace. For instance, is it possible to sell different products and still maintain the value proposition? This is for instance what happened to Gucci in the early 80's, and the basis of a typical business school discussion³⁴.

7.4.2 Risks associated to the nature of luxury.

One of the conclusions of the state of the art is that luxury could generate a market bubble. Consequently, are the previous investments in countries such as Japan (with the example provided of Versace³²) really competitive? Do they follow a business approach? Or do they spill over the excess represented by luxury?. Furthermore, a distinction should be made between going beyond normality to offer products to the clients with a sustainable business approach or undertake an excessive investment that sets the company at the edge of bankruptcy. The concept of excess must be properly understood, since it could be the reason for problems in a luxury company.

7.4.3 Risks associated to the means of luxury.

As a family business in the origins, many luxury companies have failed to transform its successful "atelier" into a sustainable company.

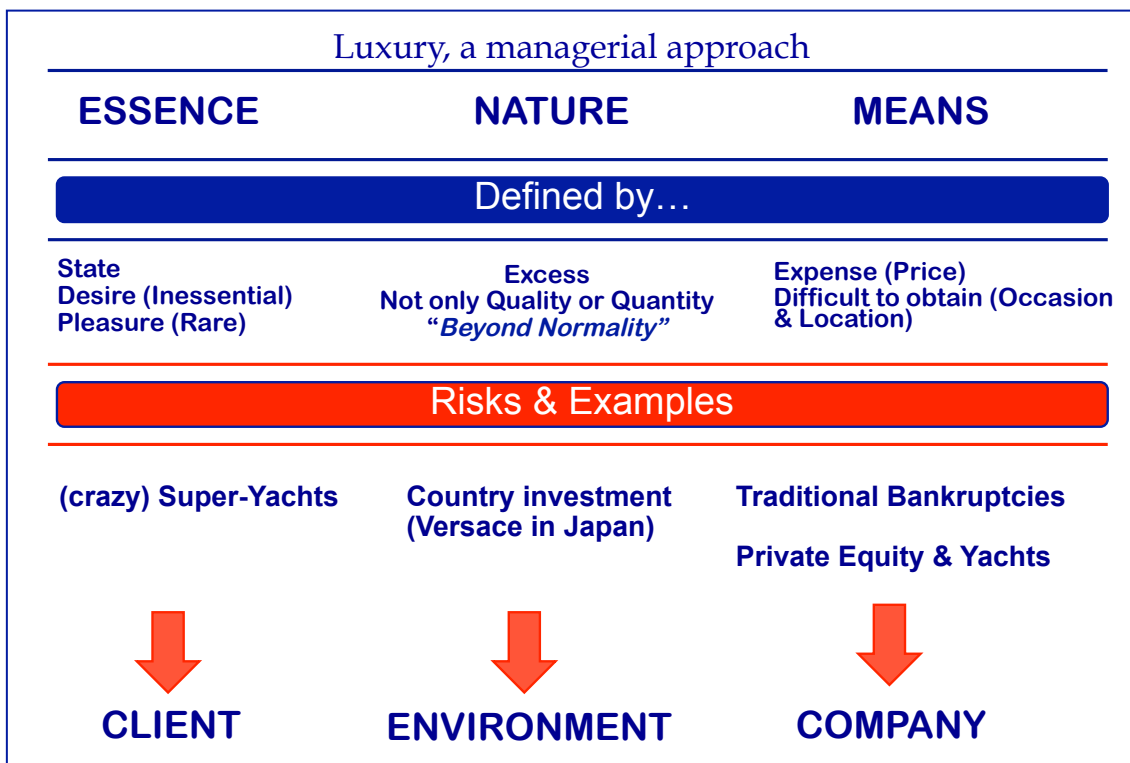


Figure 16.- The three pillars framework. Risks.

7.5 Hypothesis definition: The three pillars of luxury framework

In summary we introduce a framework that applies the fundamental strategic aspects to understand the specific reality of luxury firms.

Therefore, this framework is presented as a hypothesis to be tested with the research phase. The summary of the framework is finally summarized as follows:

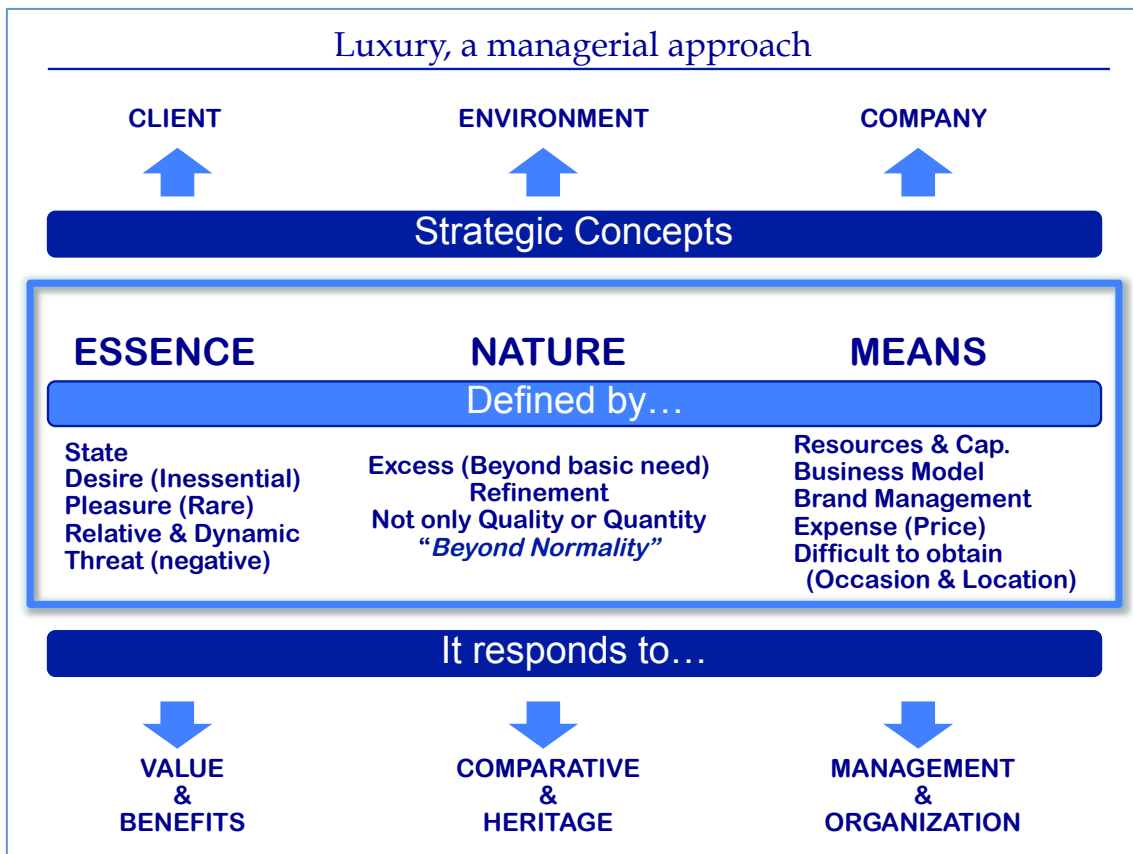


Figure 17.- The definition of the Framework: The three pillars of luxury

8 Metodología de investigación.

8.1 Metodología de investigación y estado del arte.

Con la llegada del siglo XX las metodologías de investigación sociales han sufrido una amplia evolución (Teddlie et al. 2009). Posiblemente uno de los mayores cambios experimentados ha sido la consideración de los estudios cualitativos como herramienta válida del estudio científico (Corbin et al. 1990).

La llegada del nuevo milenio ha representado un fortalecimiento en la tendencia a considerar los estudios cualitativos como una metodología no solo relevante sino complementaria (ver por ejemplo Mugenda 1990, Murray 2003, Chamaz 2006, o Neuman 2005). De hecho los estudios cualitativos habían sido tradicionalmente tratados como de menor importancia. Sin embargo esto no solo ha dejado de ser así, sino que se observa una tendencia de reconocimiento sobre la relevancia de los estudios basados en evidencias (Denzin, 2009).

En el ámbito particular de la investigación en el campo de la estrategia empresarial se observa la predominancia de la tipología cuantitativa (Mukhopadhyay et al. 2014). Tal es así, como apunta Mukhopadhyay, que las principales publicaciones académicas en éste área se basan en un 80% en la metodología cuantitativa. Sin embargo, Mukhopadhyay también confirma que en este ámbito se aprecia el cambio en la tendencia en favor de los estudios cualitativos, lo cual supone una evidencia adicional a lo apuntado en el párrafo anterior.

Existen tres tipologías de investigación social que se suelen considerar (Creswell, 2014, p3), los estudio cuantitativos, aquellos en los que se observa la relación entre variables que pueden ser cuantificadas, los estudio cualitativos, aquellos en los que se observa o se comprende el significado que individuos o grupos atribuyen a un determinado problema social o humano, y finalmente los estudios mixtos, que se resultan de la combinación de los dos anteriores (Creswell et al, 2007, p5).

El entendimiento y aplicación de los estudios cualitativos y cuantitativos es con frecuencia objeto de simplificación. Como apunta Creswell (2014, p8) los estudios cuantitativos no únicamente vienen definidos por la utilización o tratamiento numérico de la variables observadas. De igual modo la naturaleza de un estudio cualitativo no debe ser reducida a una visión de un estudio donde se basa únicamente en la observación.

Las diferencias entre los estudios cualitativos y cuantitativos también comprende las distintas estrategias de investigación que pueden ser utilizadas y sus respectivas técnicas. Así Creswell (2007) apunta como ejemplos de esta visión los experimentos en el caso cuantitativo o casos de estudio para el caso cualitativo.

Igualmente otro aspecto fundamental para diferenciar ambos tipos de estudios es el objeto del mismo (ver por ejemplo Neuman 2005). Así los estudios cualitativos demuestran una mayor capacidad en estudios cuyo objeto sea construir una teoría en base a la observación de una determinada realidad social (Corbin et al. 1990). Por ello, en escenarios donde la realidad social es construida, compleja y cambiante los estudios cualitativos tienen mayor idoneidad (Murray, 2003, p8).

In relation to the utilization of case studies, a seminal author (Yin, 2009) defines a case study as “an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (p. 19). Furthermore, it has been pointed out that “case study research is a qualitative approach in which the investigator explores a bounded system ..or multiple bounded systems ..over time, through detailed, in-depth data collection involving multiple sources of information (e.g., observations, interviews, audiovisual material, and documents and reports), and reports a case description and case-based themes” (Creswell, 2007: p. 73).

Moreover, Dube and Paré (2003) notes that strictness associated with a case study should take into consideration, among other aspects, the following: design issues: research questions, longitudinal observation, alternative hypotheses, data collection, and additional data, etc.. Other key aspects related to qualitative research are relevance of the case and contribution to new knowledge.

To this effect, we have selected a number of case studies and interviews carried out in a real life context (Flyvbjerg, 2006). On the other hand, theory building can be drawn from this case study due to its novelty, testability and empirical validity. The fact that the case presents close links to previous academic literature reinforces its suitability since the case studies present certain level of novelty, empirical validity and are testable with alternative data obtained in interviews and surveys (Eisenhardt, 1989). The same author (Eisenhardt and Graebner, 2007) postulate that the challenges of qualitative approaches based in case studies can be met through adequate language and research design, a fine sampling of cases, focused interviews where the informant bias is controlled, presentation of and appendixes and clear statements of theoretical arguments.

8.2 Selección de la Metodología de investigación. Justificación de un estudio mixto: cualitativo y cuantitativo.

A la hora de la selección de la metodología adecuada se debe tener en cuenta que no existe una superioridad de una tipología respecto de la otra (Murray, 2003, p7). Así, esta decisión no se debe establecer en base a seleccionar la mejor una metodología, dado que como Murray apunta, esta supuesta superioridad en términos absolutos de una metodología frente a otra no existe. De este modo, la selección de la metodología de investigación a emplear se debe realizar en base al objetivo de la misma (Neuman 2005), tal y como también se ha apuntado en el punto anterior.

Por todo ello, la selección de la metodología no se debe realizar en base a los beneficios o limitaciones de una determinada tipología de investigación, sino en base a los beneficios que una determinada tipología ofrece respecto del objeto y características del estudio a realizar.

Con respecto a los estudios cualitativos se pueden observar que su mayor idoneidad se centra cuando (Murray, 2003, p9).

- El objetivo es generar o descubrir un teoría.
- La teoría se enfoca en como los individuos interaccionan con el fenómeno de estudio.
- La teoría se deriva de los datos adquiridos a través del trabajo de campos con entrevistas, observaciones o documentos.
- La toma de datos adicionales se realiza en función de conceptos emergentes

Estos son precisamente los motivos que justifican la selección de métodos cualitativos en el presente estudio.

En primer lugar la teoría objeto del estudio es nueva. Como se ha apuntado en el estado del arte de la industria del lujo. No existe un teoría a cerca del tratamiento estratégico de una empresa de lujo. Por ello estamos ante el caso de generación y descubrimiento, en caso de que existiese, de una teoría.

En segundo lugar, es importante la visión de un determinado tipo de individuos, ejecutivos de lujo, para una adecuada comprensión del fenómeno objeto del estudio. Por ello, la interacción de este tipo de individuos con el objeto de estudio tiene relevancia.

En tercer lugar, la teoría se deriva de la observación a través de fuentes primarias mediante entrevista. Tal y como se ha argumentado en la fase del estado del arte, no existen evidencias relevantes de otro tipo de fuente para la comprensión del objeto del estudio.

En cuarto lugar, al tratarse de una teoría emergente en base a la observación de los citados individuos, es razonable considerar que la toma de datos puede evolucionar en base a la identificación de aspectos o conceptos adicionales que se prueben relevantes durante el estudio.

Una vez que se ha argumentado la idoneidad de los estudios cualitativos. Se debe argumentar la utilización o no de estudios cuantitativos. Por ello se trata de comprender si la tipología adecuada para este estudio es la mixta o únicamente la cualitativa.

La utilización de una metodología de investigación mixta se apunta idónea bajo las siguientes premisas (Creswell, 2014, p15):

- Integrar datos cualitativos y cuantitativos, como una bases de datos, que pueda ser usada para validar otra base de datos.
- Una base de datos pueda explicar otra base de datos, o que una base de datos pueda explorar otra base de datos.
- Una base de datos puede llevar a mejores instrumentos, cuando los instrumentos no son adecuados para un determinada población o muestra

- Una base de datos puede construir otra base de datos, y una base de datos puede alternarse con otra base de datos durante un estudio.

Esto nos lleva a considerar que esta metodología de estudios muestra ventajas, entre otras, en situaciones donde una fuente de información puede no ser suficiente para el estudio de la situación en cuestión (Creswell et al., 2007, p8) o donde el estudio se pueda mejorar con el empleo de una segunda metodología (Creswell et al., 2007, p10).

El hecho de utilizar distintas metodologías en una investigación deber ser argumentado en función del tipo de situación de estudio. En este caso la investigación de las percepciones del lujo y de los problemas de una empresa de lujo no son aportadas por una única fuente de conocimiento, lo que sugiere la idea de una estudio mixto (Creswell et al. 2007, pg 60).

Una vez que un estudio mixto parece razonable, otro criterio esencial para justificar un estudio mixto consiste en definir el motivo de la idoneidad de juntar ambos tipos de estudios (Creswell et al. 2007, pg 61). Bryman (Bryman 2006) ofrece un amplio listado de hasta 16 motivos por lo que elegir un estudio mixto. Entre ellos se destacan a continuación aquellos motivos que justifican el estudio mixto en el caso de la presente tesis doctoral.

En nuestro caso, dentro del listado de Bryman (2006), encontramos los siguientes motivos. Triangulación o mayor validez, dado que ambos métodos ayuda a la corroboración de los resultados obtenidos. Complementariedad dada la necesidad de aclarar los resultados de la población encuestada (clientes) con las perspectivas de los gestores. Así se desprende que diferentes preguntas de estudio son necesarias en función de la población y tipo de conocimiento evaluado. Proceso, dado que es necesario una cierta profundidad con estudios cualitativos al tratar de establecer una teoría. Confirmación y descubrimiento, dado el cariz de generación de teoría que tiene el estudio. Y por último diversidad de perspectivas, como anteriormente se ha apuntado. Por ello, se puede concluir que existen diversos y argumentados motivos que justifican la utilización de un estudio mixto.

El siguiente aspecto de un estudio mixto consiste en definir el diseño del mismo. Es decir como se van a utilizar y a combinar las distintas metodologías. Existen cuatro criterios generales para definir el diseño del estudio mixto (Creswell et al. 2007, pg 64) estos son el nivel de interacción de ambas metodologías, su prioridad y el momento y forma de la combinación.

En este caso se ha optado por un diseño convergente paralelo (Creswell et al. 2007, pg 72). En este caso también existe el condicionante que las poblaciones de estudio son diversas por lo que cada tipología se refiere a un conocimiento distinto, lo que se corresponde con una parte distinta del proceso de generación de teoría.

Además existe otra evidencia de la importancia de los estudios mixtos. Ésta radica en la demanda de este tipo de investigaciones desde los journals y publicaciones académicas con más prestigio en el área de estrategia empresarial (Bettis et. al, Editorial, 2015). Esto prueba la relevancia de este tipo de estudios y la idoneidad de estos estudios en el área de la gestión estratégica.

Para el caso del presente estudio se justifica el empleo de una metodología mixta por los aspectos anteriormente descritos. Por un lado existen distintas fuentes de recolección de datos y se desconoce a priori la relevancia de cada uno. Por ello, la metodología mixta permitirá disponer de diversas bases de datos para su posterior utilización. Así, en este sentido, se considera el potencial de las distintas metodologías puedan aportar a la observación y análisis del objeto de estudio.

Una vez argumentada la viabilidad de la tipología de mixta como metodología de investigación, se pasa a estudiar que técnica de investigación puede ser idónea. En este caso, al tener distintos tipos de conocimiento y distintos tipos de fuente de conocimiento, se plantea como hipótesis la utilización de diversas técnicas de investigación en función del conocimiento objeto de comprensión (pregunta de investigación) y de la fuente de conocimiento. Por ello a continuación se detalla la selección de la técnica de investigación en función de cada pilar del lujo.

8.3 Esencia del lujo. Percepción del lujo mediante un estudio cuantitativo.

8.3.1 Objeto del estudio.

La esencia del lujo define la percepción del cliente y los aspectos por los cuales una empresa crea valor y por ello se puede considerar como empresa de lujo. Así con la esencia estamos hablando de los beneficios que trasmite una empresa de lujo y como son percibidos estos por el cliente.

Metodología: estudio cuantitativo

Los estudios cuantitativos tienden a estar basados en la medida numérica de los aspectos de un determinado fenómeno, buscando descripciones generales abstrayéndose de los casos particulares o para probar hipótesis de causalidad (Murray 2003, pg. 2).

La tipología de estudios cuantitativos, para el caso de una investigación basada en información actual, es decir no basada en información o eventos del pasado, son encuestas, estudios de correlación y experimentos (Murray 2003, pg 41 a 57).

Como Murray describe, los estudios de correlación muestra la relación entre dos determinadas variables ante una modificación o cambio de alguna de ellas. Los experimentos consisten en tratar determinados elementos de una manera particular y observar las consecuencias de dichas acciones. Por la propia naturaleza de estas técnicas y de los objetivos de estudio parece razonable descartar estas técnicas cuantitativas de investigación.

Las encuestas son idóneas ante situaciones donde se trate de mostrar el estatus actual de una variable dentro de una entidad particular (Murray 2003, pg 44). Así la

relevancia de la encuesta será mayor en el caso de determinar las variables en forma numérica (porcentajes, frecuencias, etc.) y no en una imprecisa descripción verbal (mayoría, a menudo, ..etc).

Por ello, para investigar la idoneidad de la esencia del lujo, se propone un estudio cuantitativo en base a un cuestionario a personas con capacidad de ser clientes o clientes potenciales de lujo. Sería idónea hacer un cuestionario a clientes de lujo. Sin embargo, es altamente complicado tener acceso a este cliente en cantidad suficiente como para obtener una muestra representativa. Prueba de ello es por ejemplo es estudio sobre el mercado del lujo en España (Observatorio IE-A, 2012). En un estudio dirigido a conocer las expectativas de compra de clientes de lujo. Este estudio se realizó a través de los subscriptores de las revistas de la sociedad Condénast (con carteles como Vogue, etc).

Estos dos ejemplos constatan la dificultad que subyace en poder realizar un cuestionario directamente a clientes de lujo. Por ello, se estima como una muestra representativa los estudiantes de MBA. Esto es debido a dos motivos. Por un lado, son clientes potenciales en el futuro que ya han tenido cierta exposición al lujo. Y por otro, dado el precio de entrada de un MBA (de prestigio) que se sitúa en torno a los 50.000 euros, se estima un nivel económico alto. Dado el perfil internacional de la muestra (estudiantes MBA de prestigio), el cuestionario se ha definido en inglés.

8.3.2 Estructura y diseño del estudio cuantitativo

Con el cuestionario cuantitativo se trata de obtener las percepciones sobre el concepto de lujo y las variables principales identificadas en la primera parte con el estado del arte.

Para el diseño del cuestionario se ha seguido un enfoque de análisis contextual (Murray 2003, pg58). Por este motivo el cuestionario se ha dividido en 6 partes. En cada parte se han definido preguntas destinadas a estudiar un concepto o una variable. Las seis partes de las que consta el cuestionario son las siguientes.

Page 1 Intro
Page 2 Regional Values - Role of Emerging Markets
Page 3 Authenticity
Page 4 Benefits: Functional-Emotional-Expressive
Page 5 Generational Values - Luxury over time
Page 6 Mass-Exclusivity: Growth & Selective Distr. vs On-line

Figure 18.- Estudio Cuantitativo. Estructura del Cuestionario

A continuación se detallan las motivaciones y los aspectos que han dirigido la definición de las preguntas de cada parte (Murray 2003, pg 58).

La primera parte incorpora preguntas para conocer el nivel de exposición del encuestado con el lujo. Esto se hace tanto a nivel de experiencia profesional como a nivel de consumidor de lujo. Con esto se obtiene una primera valoración del grado de exposición al lujo del encuestado. Además se incluye una primera pregunta sobre los factores que suele asociar al lujo.

En la segunda parte se pregunta sobre el rol de los países emergentes desde el punto de vista de potenciales competidores del mercado de lujo. Así se trata de entender las percepciones que se generan al plantear productos de lujo de empresas de países emergentes. Esto se hace desde el punto de vista del corto plazo y del largo plazo.

En la tercera parte se pregunta sobre la importancia de la autenticidad en el lujo. En esta investigación se entiende por autenticidad principalmente la capacidad de una empresa de diseñar y producir el producto o servicio de lujo que venda. La evolución empresarial en algunas industrias de lujo (como la moda o la relojería) ha llevado a empresas a gestionar su marca pero no producir el producto, sino que este es producido por una tercera empresa. En el caso de la relojería algunas empresas confían en productores especialistas a los que compran los mecanismos para solo ensamblar bajo su propia marca el reloj. En este sentido se trata de conocer la reacción sobre este hecho o en el caso de conocerlo en el momento de la compra si afectaría a la misma.

En la cuarta parte está diseñada para conocer las percepciones sobre el beneficio de los productos de lujo. En este sentido se pregunta sobre los beneficios utilizando el esquema de Aacher-Joachimsthaler (Aacher, 2000), según el cual los beneficios de un producto pueden ser funcionales, emocionales y/o expresivos. Estos además ofrece una visión adicional sobre la posible evolución de los beneficios del lujo si se considera por ejemplo el gran poder expresivo con grandes logos de los años 90 frente a la actualidad.

En la quinta parte, precisamente se profundiza en la posible evolución de la percepción del lujo. En este sentido se pregunta sobre si se considera que se percibirá el lujo de forma igual en un horizonte de 10 años o si se considera que los valores asociados al lujo cambian con el tiempo. Esto nos puede ofrecer aspectos interesantes sobre la percepción del lujo como un elemento dinámico. Tal y como ya se ha introducido en la Parte 1.

En la sexta parte, se pregunta sobre uno de los aspectos fundamentales la gestión del crecimiento. Así se pregunta sobre la influencia del creciente tamaño y alcance de las empresas de lujo y que percepciones genera eso en el consumidor. Es interesante evaluar desde la perspectiva del consumidor como afecta el tamaño de la empresa de lujo.

Asimismo, en este sentido el efecto de la venta on-line y en un sentido más amplio los cambios de la distribución son también uno de los cambios que se anticipan de relevancia. Por este sentido también se incluyen preguntas para evaluar la percepción que el consumidor tiene sobre este tipo de cambios.

Toda esta información se describe en detalle la estructura y motivos del diseño del cuestionario. Los motivos por los que se ha estructurado de esta forma y sobre todo que tipo de información se espera evaluar con el estudio cuantitativo. Para mayor información, se proporciona una copia del cuestionario como anexo al final de la presente tesis doctoral (

Exhibit 2. Quantitative questionnaire.).

8.4 Medios del lujo. Gestión del lujo mediante el método de estudio cualitativo de entrevistas personales.

8.4.1 Objeto del estudio cualitativo.

Entender la complejidad en la gestión de empresa de lujo, es otro de los aspectos fundamentales que estudia el modelo de los tres pilares del lujo. Este es el pilar que se ha definido como los medios del lujo.

8.4.2 Metodología del estudio cualitativo

Se suele entender por estudios cualitativos aquellos en los que el objeto de estudio, ya sea una población o un evento, no se establece en base a la comparación o medida numérica (Murray 2003, pg1). En este sentido los estudios cualitativos se acercan a eventos en su estado natural tratando de entender su sentido o interpretar el significado que una población le concede (Denzin et al. 1994).

Las entrevistas como metodología cuantitativa permite mayor flexibilidad que otras técnicas (como los cuestionarios). Esta técnica es idónea en el caso de querer extraer el conocimiento de una determinada población, así como sus experiencias y opiniones (Murray 2003, pg66). Por estos motivos el uso de entrevistas personales se plantea como el modo más efectivo de estudio para conocer los problemas principales que un ejecutivo de lujo debe enfrentar.

Para investigar esta complejidad se ha optado por entrevistas cualitativas en profundidad con ejecutivos con experiencia probada en el mercado del lujo. De esta manera se puede obtener información desde una fuente de conocimiento primaria relevante sobre la complejidad referida en el modelo como los medios del lujo.

Como se ha argumentado, el motivo de esta selección es que es ciertamente complejo obtener este tipo de información mediante estudios cualitativos. Es necesario dirigirse a la fuente de conocimiento en materia de gestión de empresas de lujo. Por ello, las entrevistas en profundidad se consideran la metodología más adecuada para investigar este apartado.

8.4.3 Estructura y diseño del estudio cualitativo.

Los estudios cualitativo no han sido una metodología considerada con tanta asiduidad que la cualitativa. Sin embargo esto no significa que disponga de validez académica. De hecho los últimos años esta metodología ha tomado mayor relevancia académica.

Así se han obtenidos mejoras en el diseño y planificación de un estudios cualitativo Verd (2004), Neuman (2005) y Patton (2005). Igualmente la validez de la combinación de estudios cualitativos con cuantitativos ha quedado probada, Mugenda (1999), Creswell (2003) y Creswell et al. (2007).

La estructura de las entrevistas en la primera fase era completamente abierta, esto permite identificar aspectos no previstos y obtener de los entrevistados la información relevante sobre la que profundizar. En este sentido, para el diseño de las entrevistas en profundidad se han seguido los criterios de Glaser y Straus sobre el diseño de estudios cualitativos. Los estudios cualitativos pueden ser fuente de verificación o generación de teoría (Glaser, 1967).

En base la situación de partida de esta tesis en la que se ha propuesto como hipótesis un modelo de gestión, parece razonable utilizar los estudios cualitativos como fuente de verificación y mejora de las hipótesis de partida establecidas.

Otro aspecto adicional es establecer la forma del estudio cualitativo. La forma discusional para este tipo de estudios se ofrece como un modo adecuado para entender la teoría como un proceso continuo lo que permite mejorar las hipótesis establecidas al inicio, así como generar nuevas características de la teoría de partida (Glaser, 1967). Además la forma discusional permite también desarrollar la teoría de una forma más rica y mayor número de detalles. Por este motivo el modelo comparativo constante (Glaser, 1967) se presenta como un modelo muy adecuado para realizar el estudio cualitativo.

Por último se apunta que en la elaboración del diseño del cuestionarios ha participado activamente el Dr. Federic Godart de INSEAD, durante la estancia del autor de tres meses en la referida institución francesa.

Figure 19.- Borrador inicial de las entrevistas del estudio cualitativo.

Introducción. ¿Qué es lujo en su experiencia?

referencia a: beneficios del lujo

referencias : rol de la calidad y el saber hacer

referencias a: rol de la exclusividad

referencias a: aspectos de "esencia del lujo"

(estado, deseo-necesario, placer-raro, relativo&dinamico, amenaza)

Principal complejidad en la gestión del lujo:

¿Quién define el lujo, la empresa o el cliente?

¿El reto de la distribución (tiendas propias, web..)?

¿Cambios y tendencias?

referencias a: mercados emergentes

referencias a: nuevos valores

referencias a: diferencias entre países

Criterios en las empresas de lujo: como tomar decisiones

¿Ser conglomerado es una ventaja?

¿Cuáles son los problemas típicos de una empresa de lujo?

Open: client, market, counterfeit, competitors, product, distr...

¿Cuáles son los principales problemas estratégicos del lujo?

referencias a: gestión del crecimiento

referencias a: dilema temporal

referencias a : dilema creativo

Cómo se define la estrategia de una empresa de lujo?

referencias a : conceptos de strategic management

referencias a : modelos de strategic management

¿Cuáles son los principales problemas al gestionar emp. de lujo?

Open: control distr., Brand, authenticity, lack of new consumers, maktg failures, por management skills.

Si no ha salido antes:

¿Cómo deben enfocar las emp. de lujo su crecimiento?

¿Alguna aspecto de interés que no se haya mencionado?

8.5 Naturaleza del lujo. Entorno del lujo mediante el método cualitativo del caso de estudio

8.5.1 Objeto del estudio.

El tercer componente objeto de investigación es lo que se ha definido en el modelo propuesto como la naturaleza del lujo. Con ello se entiende el entorno en el cual la empresa compete y el impacto del análisis de la industria.

8.5.2 Metodología: estudio cuantitativo mediante el método del caso.

El estudio del caso es una investigación empírica dentro del contexto de la vida real, particularmente cuando los límites entre los fenómenos y el contexto no son claramente evidentes (Yin, 1994).

Tradicionalmente el estudio del caso se ha percibido como una metodología menor o de menor rigor académico (Flyvberg, 2006). Además, frente a las creencias generalizadas, el ámbito de utilización de esta metodología no solo se ciñe al ámbito estratégico y de gestión, sobre todo por su popularización como herramienta de aprendizaje en escuelas de negocio. En la actualidad el método del caso es una metodología de investigación utilizada en otros campos de conocimiento, como por ejemplo en los sistemas de información (Dubé et al. 2003), la sociología (Hamel 1998) o la educación (Stake 1997, Taber 2000).

Sin embargo ha sido con la llegada del nuevo milenio cuando esta metodología ha tomando un nuevo impulso a la hora de ser considerado como una metodología válida en la creación de teoría (ver por ejemplo Flyvberg, 2006 y Ridder et al. 2014). No solo se observa como una metodología válida, sino que se empieza a desterrar el mito de que el método del caso no es válido para generalizar una teoría (Tsang, 2014). De hecho como apunta Tsang, incluso en momentos de cambio se comprueba que esta metodología tiene aún mayor potencial. Por ello, como se concluye de lo anterior, el método del caso se presenta como una metodología válida y relevante de estudio.

El método del caso se muestra como una herramienta relevante para investigar áreas novedosas (Eisenhardt 1989). Con respecto a la idoneidad del método del caso como metodología de estudio, tal y como apunta Yin (2003-a), ésta radica en alguna de las siguientes situaciones:

- Definir objetos de estudio amplios y no cerrados
- Depender de varias y no únicas fuentes de evidencia
- Además, si bien no existe un formula, cuanto más se trata de entender un evento actual o novedoso (por ejemplo cuando la pregunta de investigación son ¿cómo? y ¿por qué?) mas relevante se hacen los casos de estudio. (Yin 2014, pg. 4)

Estos son los motivos que justifican la idoneidad de esta metodología para investigar el tercer componente del TPF, los medios.

En primer lugar el objeto de la investigación es novedoso, ya que, como se ha argumentado en la Part I – Introduction and State of the Art, si bien existe investigación sobre el concepto y consumo de lujo, es fundamentalmente desde un perspectiva de marketing. Así existe un amplio margen de investigación desde la perspectiva de definición de la estrategia y los aspectos diferenciales a la hora de desarrollar la estrategia de una empresa de lujo. Y este es precisamente el objetivo de los medios del lujo.

En segundo lugar estamos ante el tipo de preguntas adecuadas para esta metodología. De hecho, el propósito de los medios del lujo es avanzar en la comprensión de ¿Cómo compiten las empresas de lujo?. Esto nos llevará a entender sus mejores prácticas y los aspectos esenciales para competir adecuadamente en el mercado.

Por todo ello parece razonable considerar el método del caso como la metodología de investigación adecuada. Además el método del caso permite un objetivo adicional. Con el estudio en profundidad de situaciones complejas de gestión mediante el método del caso, se permite de forma adicional evaluar la aplicación y alcance del modelo propuesto como hipótesis en esta Tesis.

Para la selección de los casos se han seguido las directrices sobre diseño y métodos de investigación sobre el método del caso establecidas por Yin (Yin, 2002, 2003-a, 2003-b), tal y como se detalla en el punto 9.3 con la descripción de cada caso de estudio.

8.6 Conclusiones sobre la metodología de estudio seleccionada.

En resumen, la fase de investigación de la presente tesis doctoral está dirigida a evaluar la hipótesis fundamental realizada en este trabajo con la definición de un modelo de gestión para empresas de lujo. Tal y como se ha definido el modelo de los tres pilares o Three Pillar Framework (TPF), existen tres aspectos fundamentales en la gestión del lujo: esencia, naturaleza y medios.

Tal y como se ha argumentado en esta sección, cada pilar del modelo se evaluará utilizando una metodología de investigación diferente. De esta forma se consigue una mayor profundidad en el conocimiento de la hipótesis planteada y sobre todo se valida la hipótesis de que las tres áreas de conocimiento definidas para diseñar el modelo son adecuadas. El resumen de la metodología utilizada para cada pilar del modelo se detalla a continuación en la siguiente tabla.

Modelo TPF	Tipo Estudio	Metodología	Objetivo Estudio
Esencia	Cuantitativo	Encuestas a MBA	Percepciones del Cliente
Naturaleza	Cualitativo	Investigación primaria con método del caso	Entorno Industrial
Medios	Cualitativo	Entrevista Personal a Profesionales del Lujo	Empresa, complejidad en la gestión

8.7 Methodology and field research (English summary)

Section 8 justifies and illustrates the methodology followed, in view of its relevance here it is provided an English summary.

The first section (8.1) introduces the methodology providing a general updated framework for the research methodology approach in social studies and strategy management considering the updated academic references (Teddlie et al. 2009, Mukhopadhyay et al. 2014; Creswell 2007, Murray, 2003 and Neuman 2005 among others).

Section 8.2 justifies the selected mixed approach of qualitative and quantitative methods also based on updated academic references in the field of mixed methods (Murray 2003, Neumann 2005, Creswell et al. 2007, Creswell 2014 and Bettis et al. 2015 among others). In this section it is also justified, based on Bryman (Bryman 2006), the reasons why the two selected methods (quantitative and qualitative) can be combined. Finally this section introduces the design of the study, which has been made following Creswell 2007.

The design of the study is described in the following sections 8.3, 8.4 and 8.5. Each of the section deals with an individual aspect of the framework proposed.

Section 8.3 discusses the luxury essence, this aspects deals with the perception of the luxury client. To evaluate this aspect it has been followed a quantitative study.

Section 8.4 discussed the luxury means. This aspect covers the management of luxury through. To evaluate this aspect is has been followed a qualitative approach utilizing personal interviews.

Section 8.5 discussed the nature of luxury. This aspect covers the industrial environment of luxury. To evaluate this aspect it has been followed a qualitative approach with two case studies.

Sections 8.3 to 8.5 also justify the selected methodology selected. Here it is provided a summary of the final research design. The research with primary sources is intended to overcome some of the barriers that characterize the luxury market. In this way we will be able to obtain deeper knowledge about the strategic issues of luxury companies which will enrich the framework presented in this work.

Two are the main methods considered to continue this research: interviews and questionnaires. The reason for selecting these two methods is because they are complementary.

Interviews offer higher quality in the answers. It also provides an in-depth approach about the researched issue, which provides the opportunity to identify additional aspects. An interview with relevant luxury players also represents an important opportunity to access to top management issues from the perspective of decision makers. This information is normally impossible to find through secondary sources.

However, interviews have also some drawbacks. Interview with top-level executives are difficult to get. Likewise the information provided cannot be treated with quantitative models.

This is the reason why the field research is complemented with a questionnaire. They represent an economic and fast way to access to a higher amount of information that can be treated with quantitative models.

8.7.1 Interviews

It is intended to conduct personal interviews with executives of luxury companies (both family based and conglomerates) in order to acquire further information on the following topics:

- How do they understand luxury and its client?
- What is their main complexity in running their companies?
- Are there commonalities across the different industries of a given conglomerate?

As mentioned above, the results of the interviews are expected to be much more open. It actually could lead to identify further issues of study or aspects that have not been considered in this work. This is the reason why the interviews will also be the first stage of the field study. In this way we assure to have a better perspective to define the questionnaires.

8.7.2 Questionnaires

The questionnaire evaluates the answers to some identified aspects. This is why this will be the second stage of the field research. Hence in this work it is not yet provided a detailed list of questions for the questionnaires.

It is worth to mention that the questionnaires will be tailored to two different populations: luxury executives and luxury clients (current and potential). We believe that in this way we will be able to have access to a wider view of the concept of luxury and its management implications. As it has been identified in this work, most of the studies published so far about luxury are based on MBA students. Therefore an interesting aspect to explore will be the difference between the two types of researches.

In any case, some of the issues suitable to be researched with the questionnaire have been already stated in this work.

- Perception of luxury
- Luxury consumer behavior
- Dynamic effect. The view of potential consumers
- Evaluate the new aspects identified in the interviews
- Management issues and challenges
- Luxury Market (trends, etc.)

Based on this double field research, we consider that we will be in a position to further understand the concept of luxury, to gain an in-depth view of the managerial challenges for luxury corporations and finally to evaluate the TPF. In sum the different methodologies used are described in the next table

TPF Framework	Methodology	Methodology Technique	Object of study
Essence	Quantitative	Survey to MBA students	Client Perceptions
Nature	Qualitative	Personal interviews to luxury executives	Environment
Means	Qualitative	Case study	Managerial complexity

9 Resultados y Conclusiones de la fase de Investigación.

A continuación se muestran los resultados obtenidos para cada tipo de investigación realizada.

9.1 Esencia del lujo. Resultados del estudio cuantitativo.

Como se ha detallado en el punto anterior, esta fase de la investigación ha consistido en un estudio cuantitativo a través de una encuesta a estudiantes de MBA.

La investigación se ha llevado a cabo en el periodo comprendido entre Mayo de 2013 y Marzo de 2015. En este periodo un total de 150 estudiantes de MBA han contestado voluntariamente a la encuesta. La edad de los estudiantes de MBA está comprendida entre los 29 y los 32 años.

Como se ha definido en el punto anterior la encuesta ha dividido en 6 partes. A continuación se muestran los resultados obtenidos para cada una de las seis fases del estudio cuantitativo.

9.1.1 Resultados de la primera parte de la encuesta: El concepto de lujo

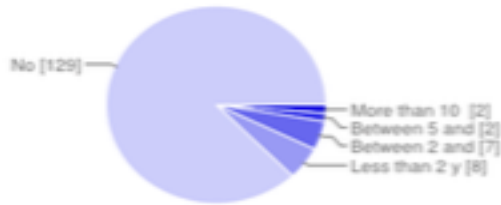
En la primera parte de la encuesta se han realizado preguntas para comprender el grado de experiencia profesional y conocimiento del sector a nivel de cliente. Los resultados se muestran en Resultados 9-1.

En estas preguntas se aprecia como la gran mayoría, casi el 90%, no tiene experiencia profesional en el mercado del lujo. Esto limita la información que revela la encuesta desde el punto de vista profesional, lo que da aún mayor relevancia a la necesidad del estudio cualitativo con ejecutivos de empresas de lujo.

Además se releva como la población seleccionada no dispone de un alto conocimiento del sector del lujo como cliente. Ante la pregunta si han comprado recientemente artículos de lujo la mayoría de las respuestas es que no. Aquí es interesante resaltar la diferencia entre las compras de productos de lujo en función del precio. Mientras casi un 50% reconoce no haber comprado artículos de lujo en los últimos tres meses con un precio inferior a 600 Euros, esta respuesta se incrementa hasta el 70% en el caso de artículos con precios superiores a 600 Euros.

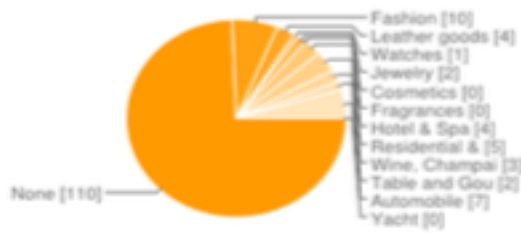
Esto nos hace considerar que su opinión como futuros compradores es relevante, pero dado su limitada experiencia como clientes de lujo, los estudiantes de MBA no son un fuente adecuada de conocimiento. Este hecho es muy relevante no solo en el análisis de esta fase de la investigación. Sino que además cuestiona la utilización de estudiantes de MBA en este tipo de estudios (Kapferer, 1998).

Do you have any professional experience in any of the luxury industries?



More than 10 years	2	1%
Between 5 and 10 years	2	1%
Between 2 and 5 years	7	5%
Less than 2 years	8	5%
No	129	87%

In which luxury industry do you have the most expertise?



None	110	74%
Fashion	10	7%
Leather goods and accessories	4	3%
Watches	1	1%
Jewelry	2	1%
Cosmetics	0	0%
Fragrances	0	0%
Hotel & Spa	4	3%
Residential & Real State	5	3%
Wine, Champaign & Spirits	3	2%
Table and Gourmet products	2	1%
Automobile	7	5%
Yacht	0	0%

Have you purchased a luxury product/service (value below 600 Euros) in the past 3 months?



Yes	101	68%
No	47	32%

Have you purchased a luxury product/service (value above 600 Euros) in the past 3 months?



Yes	46	31%
No	102	69%

Resultados 9-1.- Resultados preguntas experiencia y compras de productos de lujo.

Además, en esta primera parte se ha realizado una de las preguntas clave de la fase de investigación, los criterios que definen el lujo. Los resultados se muestran en Resultados 9-2. Para desarrollar el listado de posibles respuestas ante esta pregunta el autor se ha basado en los atributos más repetido de entre los identificados en el estado del arte.

Superior price	48	32%
Superior quality	102	69%
Superior functionality or performance of their Products/Services	53	36%
Refinement in terms of art and creativity	54	36%
Status icon	62	42%
Prestige through brand image	90	61%
Global presence	8	5%
An scarce know-how	10	7%
An scarce distribution	10	7%
Heritage	43	29%
Craftsmanship	52	35%
Luxury companies do not truly offer distinctive products but capitalize on the demand of rich consumers	15	10%

Resultados 9-2.- Resultados preguntas atributos del lujo.

Las respuestas ante esta pregunta también han desvelado un contenido interesante. Con respecto a las respuestas obtenidas claramente el aspecto más valorado es la superioridad en la calidad, con prácticamente el 70% de respuestas. En segundo lugar, y con cierta distancia se encuentra el prestigio a través de la marca, con un 61%. Y en tercer lugar, con un 42% de las respuestas, aparece el estatus. Ya en un cuarto lugar encontramos en el rango entre el 29% y el 36% un conjunto de cinco aspectos: funcionalidad superior, refinamiento en arte y diseño, artesanía, precio y herencia.

Es interesante destacar como la presencia global, el conocimiento distintivo y la escasez en al distribución claramente aparece en el rango inferior de respuestas. Esto nos muestra de nuevo una interesante disyuntiva en relación a los resultados obtenidos en la fase cualitativa con ejecutivos de lujo. El motivo es que el control en la distribución es una de los aspectos esencial de las empresas de lujo.

Esta contradicción en los aspectos esenciales identificados parecen mostrar otro elemento a la hora valorar el conocimiento que estudiantes de MBA tienen con respecto a las empresas de lujo.

Mientras que sus percepciones pueden válidas para comprender la mentalidad del cliente de lujo, los resultados de esta investigación apuntan hacia severas restricciones a la hora de considerar esta fuente, estudiantes de MBA, como una fuente primaria válida para el conocimiento de las empresas de lujo.

9.1.2 Resultados de la segunda parte: Mercados emergentes como competidores

Para complementar las percepciones de la población encuestada se ha preguntado sobre aspecto de importancia creciente en el mercado. Los resultados se muestran en la Resultados 9-3. Los competidores del mercado del lujo son eminentemente europeos.

En los últimos años consumidores de los países emergentes, particularmente China, suponen un parte significa (Altagamma 2010). Sin embargo, esta nueva ola de consumidores puede llevar a cabo un aspecto adicionales en el mercado, la llegada de nuevas empresas de lujo de esos países emergentes.

Mientras la llegada de estas empresas depende de diversos factores que son el foco de eta investigación, si parece interesante comprobar la disposición de los consumidores a aceptar este nuevo tipo de empresa.

The Concept of Luxury - 2

Would you be willing to purchase a luxury item from a luxury firm which is originally from an emerging country?



Yes, I do not care about the origin of the company as long as the product/service satisfies me	111	75%
No, I do care about the origin of the company, even if the product/service satisfies me	37	25%

Luxury firms have been traditionally perceived to be European (and to some extent North-American). Do you think the development of emerging countries will also bring new luxury firms from such regions in the short term?



Yes, new luxury firms are likely to emerge.	107	72%
No, luxury firms will remain being predominantly European.	41	28%

And in the long term?, Do you think that the current situation will be modified with new luxury firms from emerging countries?



Yes, new luxury firms are likely to emerge.	126	85%
No, luxury firms will remain being predominantly European.	22	15%

Resultados 9-3.- Resultado preguntas compras de productos de lujo.

Los resultados de esta parte del estudio no han podido ser más reveladores. La población encuestada admite en 75% estar dispuesta a comprar productos de empresas de lujo de países emergentes. Además ente la pregunta si creen que existirán este tipo

de empresas en el futuro cercano, un 72% se muestra de acuerdo. Y este porcentaje incrementa hasta el 85% si considera la misma pregunta en el largo plazo.

Como se ha comentado antes, esta respuesta solo muestra las inquietudes de la población encuestada como cliente potencial. Lo cual como se ha comprobado anteriormente tiene diversas limitaciones. Sin embargo, la respuesta de esta pregunta si muestra una interesante tendencia hacia la posible consideración de nuevos competidores de mercados emergentes.

Esto puede combinarse con información de mercado como las adquisiciones de empresas chinas por parte de empresas francesas. Ejemplos de ello son la adquisición de Xan Shia por parte de Hermès o la adquisición de Shanghai Tang por parte de Kering.

Por ello, lo que estos datos ponen de manifiesto es un dato adicional a considerar ante esta tendencia en el mercado.

9.1.3 Resultados de la tercera parte: Manufactura propia de las empresas de lujo

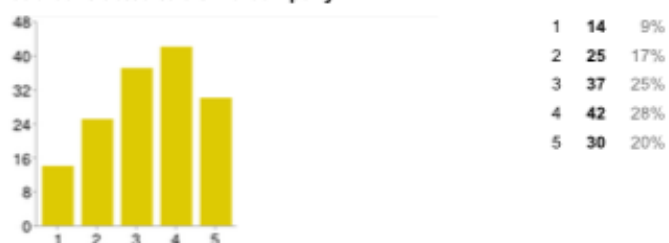
Otro aspecto considerado en la investigación ha sido el papel que juega la manufactura propia para las empresas de lujo. Los resultados se muestran en Resultados 9-4. Este aspecto esta íntimamente relacionado con la capacidad de la empresas de declarar un conocimiento distintivo unido a la producción o la calidad de sus productos.

The Concept of Luxury - 3

How relevant is for you that a Luxury brand is actually manufacturing the product?



You are about to purchase a luxury item. Would it change your decision if you suddenly know that the product is being sub-contracted to a third company?



Resultados 9-4.- Resultado preguntas autenticidad lujo

Los resultados apuntan claramente hacia la consideración positiva de la manufactura propia. El 72% de las respuestas consideran entre alta y muy alta la relevancia de que la empresa sea la que manufactura el producto. Además preguntados sobre si cambiarían su decisión de compra al saber que el producto es realizado por terceras empresas, casi el 50% considera una probabilidad alta o muy alta de cambiar su decisión.

Por ello desde el punto de vista de la población encuestada, y con las limitaciones anteriormente identificadas, parece que la manufactura propia es un aspecto de vital importancia en la generación de percepciones al cliente potencial.

9.1.4 Resultados de la cuarta parte: Valores percibidos del lujo

La cuarta parte del cuestionario ha estado dirigida a investigar los valores percibidos del lujo. Para ello se ha usado el esquema de los tres tipos de beneficios: funcionales, emocionales y expresivos (Aaker and Joachimsthaler, 2000).

Además se ha añadido un aspecto adicional, así se ha preguntado por la percepción personal y la percepción que se considera existente en el mercado. Así potencialmente se pueden identificar divergencias entre la percepción personal y la que se tiene del resto del mercado.

The Concept of Luxury - 4

How relevant do you think is "Personal Fulfillment" for consumers when acquiring a luxury product/service?



How relevant is "Personal Fulfillment" when you buy or plan to buy luxury?



Resultados 9-5.- Respuestas preguntas tipos de beneficio Emocional.

Los resultados de la percepción de los valores emocionales se muestran altos en ambas preguntas. Tanto en la percepción de mercado, que se sitúa en un 91% entre alta y muy alta, como para la percepción personal, que se sitúa en un 84%.

How relevant do you think is "Superior Functionality or Quality" for consumers when acquiring a luxury product/service?



How relevant is "Superior Functionality or Quality" when you buy or plan to buy luxury?

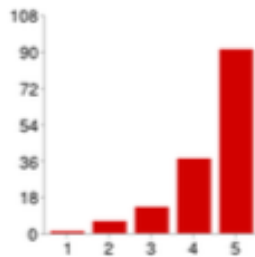


Resultados 9-6.- Respuestas preguntas tipos de beneficio Funcional

Los resultados, según se muestran las Resultados 9-5 y Reultados 9-6. se de la percepción de los valores funcionales igualmente se muestran altos en ambas preguntas. Si bien en un grado inferior a los valores emocionales en la percepción de mercado. En la percepción de mercado, un 63% la considera entre alta y muy alta, mientras que en la percepción personal estos valores emocionales se sitúan en un 85%.

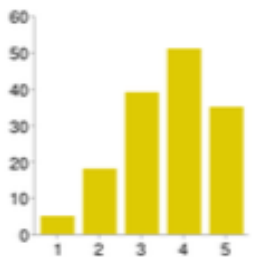
Esto es coherente con la identificación de la primera parte de la encuesta donde se situaba la calidad como elemento distintivo de las empresas de lujo.

How relevant do you think is "Social Recognition" for consumers when acquiring a luxury product/service?



1	1	1%
2	6	4%
3	13	9%
4	37	25%
5	91	61%

How relevant is "Social Recognition" when you buy or plan to buy luxury?



1	5	3%
2	18	12%
3	39	26%
4	51	34%
5	35	24%

Resultados 9-7.- Resultados preguntas tipo de beneficio Expresivo.

Los resultados de la percepción de los valores expresivos, según muestra la Resultados 9-7. se sitúan a un nivel superior en la percepción de mercado. Así el nivel de respuesta de valoración alta o muy alta se sitúa en el 86%. Sin embargo en la percepción personal se sitúa en el 58%. Esto significa que la población encuestada considera que el lujo tiene un alto componente expresivo para los consumidores del mercado pero no la ellos mismos.

En este sentido cabe destacar que los valores expresivos, ligados a la ostentación, tienden a ser valorados negativamente. Por ello esta respuesta puede ocultar sesgos por parte de la población encuestada.

En resume de los tres tipos de beneficios se observan diferencias significativas para la población encuestada en los beneficios expresivos. Sin embargo no se aprecian diferencias significativas entre los beneficios funcionales, particularmente la calidad, y los beneficios emocionales.

Como se ha cuestionado anteriormente estos resultados no son fácilmente extrapolables al consumidor actual del lujo. Sin embargo si puede constituir una fuente de conocimiento relevante en el estudio dinámico de las percepciones asociadas al lujo. Es decir, puede constituir una fuente relevante del consumidor de lujo y lo que valora dentro de unos años.

Por último se ha preguntado sobre los atributos que definen el lujo. Los resultados se muestran en la Resultados 9-8.

What do you think when you think of luxury?

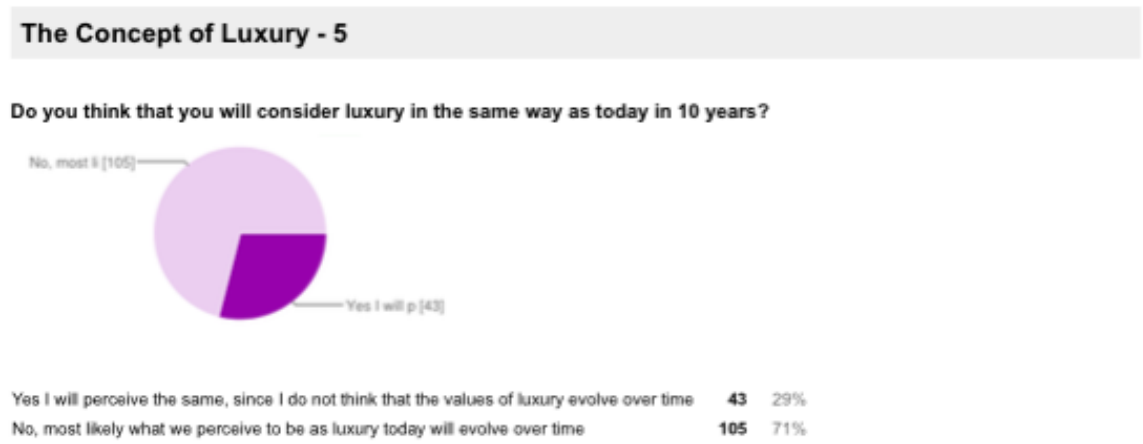


Resultados 9-8.- Resultados preguntas percepción del lujo.

Aquí los resultados aunque no muestran una gran divergencia si parecen ser coherentes con el papel de la calidad y los valores emocionales, pues ambos aspectos son los más identificados con un 54% y un 42% respectivamente.

9.1.5 Resultados de la quinta parte: Cambios en el concepto de lujo.

La quinta parte del cuestionario ha estado dirigida a investigar la percepción de cambio en el largo plazo.



Resultados 9-9.- Resultados evolución concepto de lujo.

Según muestra la Resultados 9-9, se observa como la población estudiada considera ampliamente, en un 70%, que ellos mismos creen que percibirán de modo distinto el lujo en un horizonte de diez años.

Este dato es significativo y confirma una de las lecciones obtenidas en el estado del arte. Y es que los valores y atributos del lujo deben ser considerados como un concepto sociológico definido por los valores y características de la sociedad que lo define

9.1.6 Resultados de la sexta parte: Distribución Selectiva y el Reto Digital

La sexta parte del cuestionario ha estado dirigida a investigar la relevancia de la distribución selectiva y las percepciones asociadas al cambio o reto digital que supone internet.

The Concept of Luxury - 6

How relevant is for you that a luxury item is normally only sold on specific and limited locations?



It does not affect my decision, it is actually better since this enhances the experience	109	74%
It is clearly inconvenient	39	26%

How do you value the possibility of buying luxury on-line?



On-line is good for research and comparison, but I prefer to buy in-store because of the experience	62	42%
On-line is good for research and comparison, but I prefer to buy in-store because I understand better the product (features, usage, maintenance...)	60	41%
On-line is certainly better in most occasions.	26	18%

Resultados 9-10.- Resultados preguntas distribución selectiva.

Aquí, como muestra la Resultados 9-10, se puede apreciar como la población encuestada valora positivamente la posibilidad de la distribución selectiva en un 74%. Sin embargo, en la compra on-line parecen que el valor es complementario, ya que solo un 18% lo valora como una alternativa netamente mejor. Los dos motivos propuestos, experiencia de compra e información en tienda, parecen ser valoradas con similar importancia, obteniendo un 42% y un 41% respectivamente.

A modo de conclusión se ha propuesto una pregunta sobre los cambios potenciales en la percepción debido al incremento del mercado y las empresas de lujo. Los resultados se muestran en la Resultados 9-11.

Luxury companies have increased significantly their reach over the past decade. Now they are appealing to a wider consumer base. Do you consider this is an issue that hurts luxury buyers perceptions?



Luxury companies have increased significantly their reach over the past decade and now they are appealing to a wider consumer base. Does this hurt your personal perception of luxury firms?



Resultados 9-11.- Resultados preguntas evolución del lujo.

Ante esta pregunta, no parece haber una inclinación significativa hacia cualquiera de los espectros de la respuesta. En particular ante la pregunta de si afectará a las percepciones del encuestado, las respuestas muestran un alto grado de ambigüedad con un 35% de respuestas de quizás será un aspecto a considerar. Además la mayoría de las respuestas, con un 36%, se decantan por no considerar este un hecho relevante que les puede hacer cambiar sus percepciones.

9.1.7 Conclusiones de la fase de estudio cuantitativa.

En resumen los datos de la fase de estudio cuantitativo muestran elementos interesantes de conocimiento primario. La población objeto de estudio, estudiantes de MBA, son una adecuada fuente para conocer aspectos relacionados con el desarrollo del mercado del lujo.

En particular el estudio se muestra como un fuente de conocimiento válida para evaluar la posible evolución de los tipos de beneficio asociados al lujo, los valores del lujo y el reto digital.

Sin embargo, el estudio no se muestra relevante para conocer en la actualidad el mercado del lujo y en particular la percepción del cliente de lujo. Como se ha argumentado el bajo nivel de experiencia profesional en el sector y sobre todo el bajo nivel de experiencia como cliente.

Por ello se ha descartado el tratamiento estadístico de los resultados obtenidos, dado que los resultados tienen un muy limitada representatividad. Esto supone que la representatividad del cliente de lujo que formaba parte del objetivo de esta fase de estudio no se ha podido completar con esta fase del estudio.

9.2 Medios del lujo. Investigación con estudio cualitativo.

Esta es la fase del estudio diseñada para investigar la complejidad competitiva de las empresas de lujo. Para entender la complejidad de las empresas de lujo parece razonable considerar como hipótesis de trabajo que la fuente primaria relevante para acceder a este tipo de conocimiento son los profesionales y ejecutivos con amplia experiencia en la gestión de este tipo de empresas. Solo así se podrá acceder de primera mano a comprende la complejidad real que existen en la gestión de las empresas de lujo.

Por este motivo se ha apostado por entrevistar a ejecutivos de lujo con una dilatada experiencia en el sector para este fase del estudio.

Cabe señalar la gran dificultad que el autor ha tenido para acceder a ejecutivos con experiencia relevante en el sector. La dificultad no solo ha radicado en acceder a las cargadas agendas de altos responsables, que en algunos casos eran el responsable máximo de la empresa. A esto se une la tradicional discreción de este sector y el alto recelo a conceder entrevistas y desvelar cualquier tipo de información.

Además en la gran parte de las ocasiones ha sido imposible grabar la entrevista para podre transcribir sus palabras después. Esto ha dificultado aún más la extracción del conocimiento compartido durante las entrevistas.

La entrevista se ha estructurado en base a dos temas esenciales. Por un lado la comprensión del concepto de lujo desde la perspectiva de una ejecutivo con dilatada experiencia. Y en segundo lugar conocer la complejidad empresarial en la gestión de una empresa de lujo.

Para evitar sesgos, las entrevistas se han realizado sin aportar ningún tipo de información preliminar, salvo el enunciado de las preguntas. Así no se han facilitado un listado de problemas sobre los que elegir. El esquema de la entrevista enviada a cada entrevista con anterioridad se muestra a continuación en la

Figure 20.

Interview STRUCTURE

Part 1.- The concept of Luxury.

- What is your definition of / approach to luxury?
- How would you explain what luxury companies are about to someone who does not know the industry?
- What sets apart or characterizes a luxury firm? (viz. other industries)

Part 2.- The complexity of luxury

- What is complex about managing a luxury firm?
- What is relevant to define the strategy of a luxury firm?
- What is relevant in your industry/industries in terms of expertise?

Figure 20.- Preguntas fase cualitativa

Se han realizado un total de veinte seis (26) entrevistas personales en profundidad. El listado completo de las entrevistas realizadas se detalla en el anexo sección 17. Por motivos de privacidad la mayoría de los ejecutivos entrevistados no permiten que se releve su nombre, y solo mencionan su cargo cuando no es posible identificar su empresa. A modo de orientación en la Figure 21 se muestra el perfil con el cargo general.

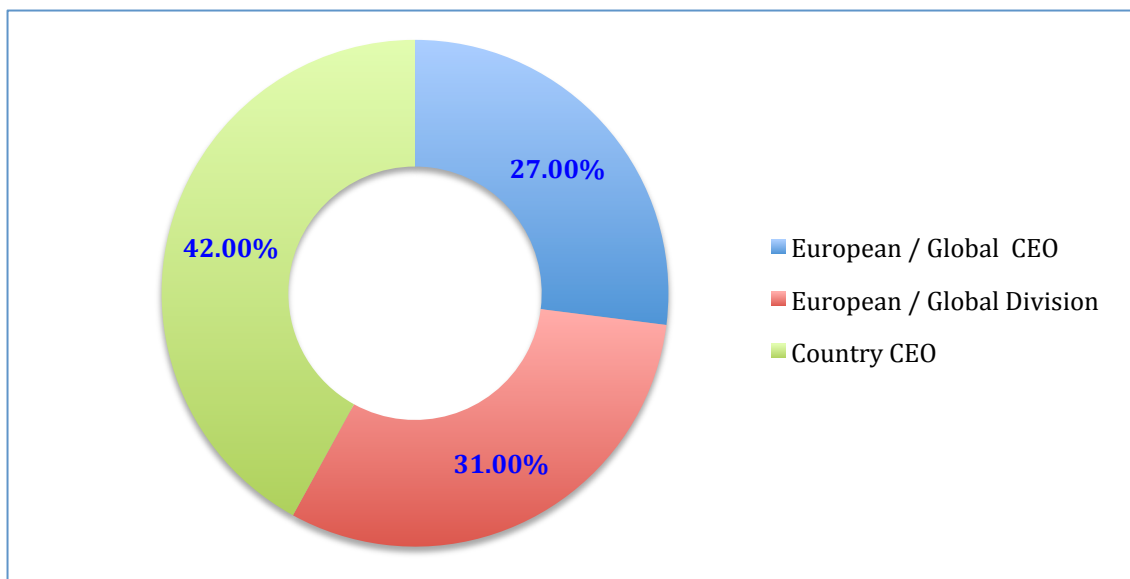


Figure 21.- Perfil de los encuestados fase cualitativa.

Cabe señalar que este es el número de entrevistas realizadas con el mismo esquema de entrevista es decir con la mismas preguntas de control. Sin embargo durante la realización de la presente Tesis Doctoral el autor ha mantenido conversaciones con un considerable número adicional ejecutivos de lujo. Por ejemplo, como más adelante se detalla, durante el estudio del método del caso se han entrevistado a más de quince expertos en los sectores de relojería y automoción. Además durante el estudio realizado por el autor para el Observatorio del Mercado Premium y de productos de Prestigio se han realizado entrevistas y conversaciones con cuarenta ejecutivos de lujo.

El conocimiento transmitido por estos profesionales no está directamente evaluado en esta sección al no ser el modelo de entrevista homogéneo. Esto podría causar divergencias sobre las preguntas de control y sesgos. No obstante, parece reseñable destacar el esfuerzo realizado por el autor al lograr entrar en contacto y acceder al conocimiento de un alto número de ejecutivos y profesionales de empresas de lujo durante la realización de la presente tesis doctoral.

Para le mejor comprensión de los resultados obtenidos se han catalogado todas las entrevistas en base a conceptos esenciales. Los conceptos más repetidos se consideran de mayor relevancia. Los resultados obtenidos se muestran en la Figure 41-A.

CONCEPTO DE LUJO		COMPLEJIDAD DEL LUJO	
		Vbles. Hipótesis	
Cambio-Innovación	13	Crecimiento	11
Creatividad	13	Diseñador-Manager	10
Control	10	Dilema Temporal	4
Calidad Demostrable	6		
Artesanía	7	Vbles. identificadas	
Excelencia	4	Digital	2
Saber Hacer	4	Emergentes	1
Escaso	3	Gremio/Partners	3
Cultura	1	Vulgarización	2
Servicio	1	Criterio	3
Diseño	1	Control/Distribución	12
		Servicio/Experiencia	1
		No lógica económica	4
		Innovación/Cambio	3
		Stocks	1

Figure 22-A.- Resultados fase cualitativa.

9.2.1 Resultados de la primera pregunta: El concepto de lujo.

Para el caso de la primera pregunta la respuesta era libre. Para no incrementar el número de variables y sobre todo identificar las más relevantes durante la entrevistas se preguntaba expresamente a los entrevistados que identificasen aquellas variables, dos o tres, que definían con mas claridad al lujo y que se argumentase el por qué.

Por ello el número de variables ante esta pregunta abierta es tan reducido. El hecho de tratar de identificar y sintetizar a un reducido número de variables ha permitido una mayor riqueza en la entrevista y una mayor reflexión para la identificación de aquellas variables fundamentales. Esto ha repercutido en un análisis más profundo y sobre todo una mayor calidad en las respuestas recibidas.

Los resultados muestran una alta relevancia de las variables: cambio/innovación, creatividad y control. Además las cuatro siguientes variables (calidad, artesanía, saber hacer, y excelencia) tienen una cierta similitud y ciertamente algunos de los entrevistados las utilizaban indistintamente.

Estas variables además han sido claramente destacadas por los entrevistados como las variables más importantes. A continuación se muestran algunas citas que lo demuestran

Informante 6.

“Sin control (de la calidad, de la experiencia, etc) no se puede aspirar a gestionar un empresa de lujo. Es esencial definir claramente las métricas que te aseguran un control total”.

Informante 7.

“Nuestra empresa se caracteriza por un espíritu continuo de cambio, de innovación. Se trata de ofrecer lo que el cliente ni se imagina. Para eso es esencial la creatividad de nuestro Director Artístico”

Informante 12.

“Lujo es ofrece lo que no se espera, por lo que hay que estar con un espíritu constante de cambio. Nuestro director artístico es el responsable de garantizar que este cambio tiene un mismo espíritu y así se garantizan los valores de nuestra empresa”

Informante 18.

“En realidad no me gusta la palabra lujo, por que se ha devaluado. Yo de lo que hablo es de creatividad. de ofrecer algo inesperado y no solo porque técnicamente es mejor, sino porque creativamente es excepcional”.

Informante 21

“Se asocia lujo a inmovilidad y no es así. Pero no solo hoy, recuerdo incluso los diseñadores de los 70 diciendo hemos venido a cambiar esto.”

Informante 22

“exclusividad en nuestro caso significa tener tiendas propias donde absolutamente todo lo controlamos nosotros. Esto es esencial para entender una empresa de lujo y lo separa seguramente de otras industrias”.

Con respecto a estos resultados, la única variables que sorprende por su baja aparición es la escasez. Esto puede ser debido a diversos factores. Por un lado una explicación, que necesitaría de mayor investigación, sería que los ejecutivos de hoy no asocien lujo a escasez y que la dimensión y tamaño de las empresas de lujo al ser muy superior hoy se asocie más a una posible “escasez virtual” (Kapferer 2012).

Por otra lado, una explicación a esto puede ser que sea considerado más un aspecto operacional ligado al control de la distribución, aspectos que si aparece en mayor proporción en la segunda pregunta.

Con respecto a la definición de las variables de esta pregunta cabe resaltar dos aspectos. Por un lado el tratamiento del cambio/innovación que aparece junto y por otro el tratamiento de la calidad.

Como se puede observar se ha considerado la innovación y el cambio como una sola variable. El motivo es que durante las entrevistas en una mayoría de las ocasiones estos términos se han utilizado por los entrevistados de forma indistinta. Ciertamente estos dos conceptos no son exactamente iguales y se podrían señalar diversas diferencias conceptuales. Sin embargo el uso indistinto y a modo de sinónimo por parte de los entrevistados parece indicar que considerando una sola variable se respecta más fidedignamente el conocimiento que han tratado de desvelar.

Además considerar cambio e innovación como una sola variables no parece una simplificación tan grande. De hecho el tratamiento de la innovación lleva generalmente asociado al cambio.

Por otro lado existen cuatro variables, calidad, saber hacer (KH), artesanía y excelencia que se han utilizado en ocasionalmente como sinónimas, pero que no mayoritariamente. Aquí a diferencia de la variable anterior de la innovación, no existe una utilización a modo de sinónimo entre las diversas variables. No obstante si es cierto que en diversas ocasiones lo entrevistados han asociado diversas variables. Por ejemplo clarificar que al alta calidad es consecuencia del saber hacer o que la artesanía debe ser de la más alta calidad.

Para evitar sesgos por parte del autor en esta ocasión no se ha optado por simplificar estas variables y se ha respectado el resultado individual de cada. No obstante se debe hacer notar que en ocasiones estas variables no son independientes y tratan de reflejar una misma realidad.

9.2.2 Resultados de la segunda pregunta: La complejidad del lujo.

Con respecto a la segunda pregunta si existían tres variables a modo de hipótesis fruto del estudio del estado del arte de la presente tesis doctoral (Millán 2013-D). Las variables de control iniciales antes del estudio eran:

- *Exclusividad versus crecimiento.* Uno de los grandes problemas de la empresas de lujo es gestionar adecuadamente el límite entre exclusividad y ventas. Dado que ambas variables son inversamente proporcionales.
- *Dirección artística versus Dirección General.* El éxito de reconocidas empresas como Gucci o Louis Vuitton en los años 90 se debe al binomio CEO - Director Creativo. Gestionar adecuadamente esta relación es a priori otra fuente esencia de complejidad en la empresa.
- *Dilema temporal.* Con dilema temporal se define la relación entre valores clásicos e inmutables asociados al lujo y la necesidad de acceder a nuevos y jóvenes consumidores de lujo. Esto a priori puede representar una contradicción pues la jóvenes generaciones no suelen desear objetos a asociados a consumidores de mayor edad o con valores más clásicos.

Como se ha detallado con anterioridad, durante las entrevistas personales en ningún momento se han proporcionada estas ni otras alternativas de respuesta. De igual manera que en la pregunta anterior, el número de variables obtenidas es limitado. Si por una parte las respuestas han sido libres para explorar el conocimiento del entrevistado. Por otra parte si se ha pedido concreción y que la respuesta se concretase a un limitado número de variables esenciales.

Como se observa en los resultados, Figure 41-B, las variables hipótesis crecimiento y diseñador han sido identificadas en un mayor número de ocasiones. Esto confirma la hipótesis sobre estas variables y su relación con la complejidad del lujo. Sin embargo el estudio no aporta datos relevantes sobre la tercera variable, el dilema temporal.

Vbles. Hipótesis	
Crecimiento	11
Diseñador-Manager	10
Dilema Temporal	4
Vbles. identificadas	
Digital	2
Emergentes	1
Gremio/Partners	3
Vulgarización	2
Criterio	3
Control/Distribución	12
Servicio/Experiencia	1
No lógica económica	4
Innovación/Cambio	3
Stocks	1

Figure 41-B.- Resultados segunda pregunta fase cualitativa.

Esta variables han sido claramente destacadas por los entrevistados. A continuación se muestran algunas citas que lo demuestran:

Informante 16.

“En mi experiencia en contacto con múltiples empresa de lujo, diría que gestionar el crecimiento para no devaluar la marca es esencial. En el momento que se prima la venta suelen empezar los problemas”

Informante 11.

“No nos consideramos un vendedor, sino un fabricante. Nuestro objetivo no es vender sino producir de acuerdo a nuestros estándares. Yo diría que un problema sería perder este enfoque y orientarlo a la venta a al crecimiento”

Informante 17.

“Hay ciertos enemigos de la creatividad. Principalmente la visión de shareholder value donde el corto plazo y el crecimiento son preponderantes”

“otro problema son los gestores que añaden capas de complejidad a la empresa pero que no entienden la creatividad de la empresa”

Informante 21.

“Un problema esencial es entender el mundo en el que vives y tener la capacidad adecuada para responder manteniendo la calidad”

“En un mundo en que todo cambia el papel del diseñador es aún más importante para adaptarse a estos cambios. Una empresa debe saber gestionar eso bien”.

Con respecto al resto de variables proporcionadas destaca sobre manera el control. Esta variable representa dos aspectos fundamentales, el control de la experiencia del cliente y el control de la distribución. Al estar ambos temas relacionados, y como los entrevistados relacionaban directamente estos dos aspectos, se ha considerado como una sola variable.

Esta variable de control ha sido claramente destacada por los entrevistados. A continuación se muestran algunas citas que lo demuestran:

Informante 6.

“El problema esencial es control. Sin control no hay empresa de lujo”

Informante 9.

“un problema esencial para nosotros es controlar los puntos de contacto con el cliente. Tenemos identificados más de 50. Sino establecemos un control claro, el cliente obtiene una mala experiencia de compra y además no entiende los valores de nuestra empresa”

Informante 8.

“La experiencia es esencial, si no controlas bien tu red la puedes perder, yo diría que este es uno de los mayores problemas”.

Conclusiones de la fase de estudio cualitativa.

Los resultados de la fase de estudio cualitativa muestran una alta idoneidad de este tipo de estudio para avanzar en el conocimiento de este sector. Las entrevistas con fuentes primarias relevantes han aportado diversidad de variables que merece la pena analizar con detalle. Así se confirma que este tipo de estudio es relevante

9.3 Naturaleza del lujo. Investigación con el método del caso.

Durante la realización de la presente tesis doctoral se han analizado con detalle dos situaciones concretas. El propósito ha sido evaluar dos situaciones empresariales diversas, como son la diversificación y el posicionamiento, en diferentes industrias. Como se ha detallado con anterioridad la pregunta de investigación ha sido del tipo “por qué” (Yin 2003-a, pg. 5), utilizando para ello múltiples fuentes de evidencia con una importancia relevante de estudiar una situación actual (Yin 2003-a, pg. 100). Por ello el método del caso se plantea como la metodología de estudio adecuada.

Para la identificación de las situaciones susceptibles de ser investigadas se ha optado por seleccionar dos tipos de situaciones que se encuentran con gran facilidad entre las empresas de lujo. Por un lado se ha seleccionado la diversificación, entendida esta como la competencia de una misma empresa en diversas industrias. Esta situación es una constante en muchas empresas y uno de los signos distintivos. Esto es particularmente significativo en las conocidas como empresas de lujo personal. Así empresas de lujo han sido capaces tradicionalmente de competir en diferentes industrias como moda, accesorios, cuero, perfumería y cosméticos. En este sentido empresas de relojería han tenido una capacidad de diversificación más limitada. Por ello la situación del grupo LVMH y su intento de competir en la relojería de lujo se presentaba como una situación de un alto atractivo.

En segundo lugar se ha seleccionado una situación que a priori se consideraba como uno de los problemas esenciales de las empresa de lujo, la gestión del crecimiento (Millán 2013-D). Como sea argumentado en la sección anterior el dilema entre crecimiento y exclusividad es un área de complejidad en la empresa de lujo. Por este motivo el lanzamiento de dos nuevos modelos por parte de Porsche en dos área de mercado diversas se planteaba como una situación de gran a tractivo para estudiar. Además el planteamiento expresado públicamente por la empresa con su estrategia denominada Plan 2018 de una apuesta decidida por el crecimiento confirmaba el interés de esta situación.

A continuación se describen los resultados obtenidos el desarrollo de cada uno de los casos elaborados. Una copia final de los casos realizados se muestra en los anexos, apartado 18 y 19.

9.3.1 Caso de estudio. Diversificación en relojería y joyería de lujo.

La escritura del caso LVMH & Bulgari tiempo de lujo (Millán 2013 A y B), se ha concebido como un caso de estudio explicativo para encontrar la relación causa-efecto entre dos variables con múltiples fuentes de evidencia (Yin 2003-b).

La causa-efecto objeto del estudio ha sido evaluar hasta que punto la diversificación para una empresa de lujo crea o destruye valor. Así la pregunta esencial reside en conocer hasta que punto la diversificación (causa) conlleva la creación/destrucción de valor (efecto).

Un opción alternativa de estudio de esta situación hubiera sido identificar una serie de empresas con esta situación y analizar el resultado de la diversificación trascurridos unos a los para evaluar el éxito de la iniciativa. El éxito se puede medir desde el punto de vista de retorno al accionista, por ejemplo con la evolución del precio de la acción o del mantenimiento de la diversificación, por ejemplo no vendiendo las empresas adquiridas en la diversificación. Sea cual fuera el baremo utilizado, establecer un control temporal entre la acción de diversificación y la creación de valor pasados los años es un alternativa aceptable (Porter 1988, Collis et al. 1998).

Tanto Porter (1988) como (Collis et al. 1998) utilizan un listado de empresas de diversos sectores industriales donde existe facilidad para encontrar este tipo de situación. Sin embargo en el mercado del no existe tal facilidad de encontrar ejemplos. Como se ha comentado en el Parte 1, estudio del arte, básicamente tres son los grandes conglomerados susceptibles de estudiar este tipo de diversificaciones y esto limita mucho la posibilidad de establecer conclusiones cuantitativas. Por todo ello, se ha optado por estudiar esta situación en detalle y en profundidad con un ejemplo real.

La situación de partida del caso de estudio es la voluntad del conglomerado galo de competir de una forma más sólida en los mercados de relojería y joyería. Tradicionalmente LVMH ha adquirido empresas en estos sectores con unos resultados pobres. Por este motivo se decide adquirir la empresa romana Bulgari.

En el caso de estudio se encuentran las evidencias encontradas en fuentes públicas (ver sección bibliografía caso de estudio LVMH & Bulgari, tiempo de lujo), así como las evidencias encontradas con las entrevistas a quince profesionales del sector. Entrevistas que por motivos de confidencialidad no han podido ser grabadas.

El caso de estudio analiza en detalle la industria del la relojería mecánica en Suiza. Esto es esencial para entender la capacidad de generar valor de un nuevo competidor en esta industria. Al comprende esta industria el caso de estudio ha mostrado las principales características que un competidor debe asimilar a la hora de competir satisfactoriamente en esta industria. Esto después se puede comparar con las fortalezas competitivas de la empresa entrante (LVMH).

Una de los aspectos identificados como esenciales en la industria el alto poder de negociación del proveedor. La relojería mecánica es una industria altamente concentrada geográficamente en Suiza, pero además está altamente concentrada en torno a grandes proveedores de la industria, principalmente el Grupo Swatch. En el

caso de algunos componentes esenciales de un reloj mecánico, como es el regulador^f el Grupo Swatch a través de su empresa Nivarox posee cerca del 90% del mercado.

Tradicionalmente ha habido una manera de reducir este poder del proveedor que es confiar plenamente en él para evitar las inversiones necesarias en el desarrollo propio de los mecanismos del reloj. Esto ha llevado al Grupo Swatch a dejar de proveer de movimientos a algunos competidores. Esto implica que estos competidores para poder seguir en el mercado deberán realizar una alta inversión para dotarse de los medios manufactureros necesarios para poder realizar completamente un reloj mecánico.

Otro aspecto fundamental de esta industria es la falta de mano de obra cualificada. Debido a la amenaza de la relojería de cuarzo en los años setenta y ochenta, muchas empresas de relojería mecánica en Suiza entraron en bancarrota. Esto generó escasas alternativas profesionales para los estudiantes de relojería mecánica y así la formación en esta profesión prácticamente desapareció. Esta situación en la actualidad se ha paliado, gracias al renacer la relojería de lujo en los años noventa. Sin embargo los maestros relojeros siguen siendo escasos, hasta que el mercado laboral vuelva a formar a las nuevas generaciones.

Además la formación y experiencia de un maestro relojero es un activo esencial para este tipo de empresas. Fuentes relevantes primarias han definido como las empresas necesitan hasta diez años para que un licenciado consiga las capacidades necesarias para desarrollar un trabajo de precisión y calidad. Esto lleva asociado otro aspecto, las empresas deben formar y retener a sus empleados para ser capaces de producir piezas de manufactura propia.

Dada la diversidad de diseños y funciones de un reloj mecánico (también llamadas complicaciones) las economías de escala en la producción de movimientos mecánicos son limitadas. Esto proporciona ciertas ventajas a los conglomerados que pueden limitar el coste y la alta inversión asociada.

Sin embargo hay un aspecto final adicional identificado. Los consumidores valoran sobre manera la capacidad propia de producción y diseño, también llamada manufactura propia. Esto limita la capacidad de generar economías de escala. Pero por otro lado esto no ha limitado el poder de los conglomerados en este negocio. El Grupo Swatch y Richemont aglutinan a muchas de las marcas más renombradas del sector. Por otro lado, siguen existiendo potentes empresas independientes como Patek Philippe y Audemars Piguet.

El caso de estudio de LVMH es una herramienta que permite identificar los atributos necesarios para la competición en la selectiva industria relojera, como son: capacidad de manufactura propia, inversión y economías de escala, tradición y herencia, recursos humanos en la figura de maestros relojeros. Esto permite identificar aquellos recursos que LVMH puede reunir para competir en este mercado. Pero sobre todo explica porque LVMH no ha podido durante la primera década del siglo XXI crear valor en su división de relojería pues no cumplía con todos los requisitos necesarios. De hecho, el

^f El regulador es el componente encargado de distribuir la energía externa recogida por el mecanismo (a través de la cuerda o través del giro de la masa oscilante) y distribuirla al mecanismo automático. Coloquialmente se suele decir que es el motor de un reloj automático.

caso de estudio demuestra como la adquisición de Bulgari representa un cambio de estrategia para poder generar valor en su diversificación en la industria relojera al tratar de cumplir con todos los requisitos necesarios.

En definitiva el caso de estudio muestra como en diversificación la comprensión de la industria de lujo es esencial.

- 1.- Crear valor mediante diversificación un una industria de lujo distinta a la original debe conllevar la comprensión de las características propias de la industria de destino.
- 2.- No se puede crear valor sin entender los criterios que significa se un buen competidor en la industria destino de la diversificación. Esto ayuda a identificar las sinergias reales de las imaginadas (Porter 1988)
- 2.- Las sinergias que llevan a la creación de valor cambian en función de la industria. Por ello cada caso de diversificación debe ser evaluado por separado.

Además el caso de estudio tiene un objetivo pedagógico claro para los estudiantes de escuelas de negocio. Así el caso de estudio “LVMH & Bulgari. Tiempo de lujo” ayuda al alumno a entender la creación de valor en procesos de diversificación y sus límites. Por este motivo para su utilización pedagógica el caso de estudio tiene asociada una nota técnica para profesorado (“Teaching note”) accesible únicamente para profesores (Millán 2013-C).

Por último cabe señalar además que el caso de estudio ha sido galardonado con la mención de honor en el concurso de caso de IE Business School de 2013.

9.3.2 Caso de estudio. Posicionamiento y Crecimiento en automoción de lujo.

La escritura del caso “Porsche AG. Beyond the limits of luxury” se ha concebido como caso de estudio para evaluar el crecimiento orgánico y sus limitaciones en una empresa de lujo. Al igual que en el caso de estudio anterior también se trata de un caso de estudio explicativo para encontrar la relación causa-efecto entre dos variables con múltiples fuentes de evidencia (Yin 2003-b).

En este caso al situación causa identificada es el crecimiento orgánico de la empresa con nuevos productos en segmentos nuevos para la empresa y el efecto sigue siendo la generación o destrucción de valor a través del cambio de posicionamiento.

Al igual que en el caso anterior, dada el numero limitado de empresas de lujo representativas para estudiar esta situación el método del caso parece la metodología de estudio adecuada.

La situación de partida es el lanzamiento al mercado por parte del fabricante de automóviles alemán Porsche de dos nuevos modelos en Septiembre de 2013. El interés de estos dos lanzamientos reside en el hecho de que ambos coches potencialmente

están llamados a convertirse en los modelos de Porsche más costosos, con el modelo 918, y más económico, con el modelo Macan. Esta situación pone de manifiesto un aspecto estratégico de relevancia para una empresa de lujo: ¿Dónde están, si es que los hay, los límites del crecimiento para una empresa de lujo?

En el caso de estudio se encuentran las evidencias encontradas en fuentes públicas (ver sección bibliografía caso de estudio Porsche AG. Beyond the limits of luxury), así como las evidencias encontradas con las entrevistas a quince profesionales del sector. Entrevistas que por motivos de confidencialidad no han podido ser grabadas.

Con el caso de estudio se ha evaluado la industria de la automoción de lujo y sus tendencias de futuro. Las características de esta industria residen en una gran concentración de competidores. Esto es debido a las altas necesidades de capital, las infraestructuras necesarias, los costes de desarrollo y las necesidades en I+D.

El mercado también se caracteriza por el efecto de las economías emergentes. Un claro ejemplo es el desarrollo de los vehículos con aptitudes todo terreno (SUV), vehículos con un alta demanda en estas localizaciones.

Las implicaciones competitivas para las empresas de este segmento del mercado de la automoción son diversas. Por un lado se tiene un alto coste derivado de las necesidades productivas anteriormente citadas, pero además de las necesidades específicas de un marketing más personal (como por ejemplo concesionarios en localizaciones más exclusivas) y de los servicios más cuidados (como por ejemplo en taller y reparación).

De esta forma, el caso de estudio pone de relieve como el potencial de Porsche Macan responde a tres tipos de incentivos. En primer lugar la creciente demanda de los SUV. En segundo lugar la demanda de los países emergentes de SUV de lujo. Y por último la superior rentabilidad que ofrecen los SUV frente a otros segmentos de automóviles.

Sin embargo, el lanzamiento del Porsche Macan también plantea retos estratégicos para la empresa. Al crecer en nuevos segmentos con nuevos modelos de automóvil, Porsche está desarrollando su modelo, pero también está modificando su estrategia.

Para comprender bien la estrategia de la empresa es necesario entender la anterior adquisición por parte del Grupo Volkswagen y su Plan 2018 con el pretender producir 200.000 automóviles por año en 2018. Este es un objetivo ambicioso pues la facturación de Porsche tradicionalmente ha sido inferior a las 100.000 unidades.

De hecho el Porsche Macan, con una estimación de 60.000 ventas anuales es parte esencial para lograr estos objetivos. Si se tiene en cuenta que el Porsche Cayenne, modelo superior, ya alcanza ese nivel de venta, no es extraño suponer que el modelo inferior tienen capacidad para superarlas.

Esto tiene implicaciones operativas importantes. Como se ha identificado con el caso de estudio, Porsche va a evolucionar su estructura productiva con 1000 empleados más, 200 ingenieros más, 250 nuevos concesionarios y aprovechando las economías de

escala produciendo en plantas del Grupo Volkswagen. Además gracias a esto último se construirán por primera vez en su historia algunos modelos Porsche completamente fuera de Alemania.

También implicaciones desde el punto de vista de la imagen. La exclusividad que tienen los modelos de Porsche se puede ver disminuida con el incremento en número de ventas de modelos más accesibles desde el punto de vista del precio. El caso de estudio permite observar como otros modelos introducidos por Porsche no han causado un impacto negativo sobre el desarrollo de la empresa. Esto poder llevar a pensar que la conclusión es que tampoco lo tendrá el modelo Macan.

Sin embargo el caso de estudio ha identificado aspectos novedosos en la introducción del modelo Macan que si pueden llevar a conclusiones distintas. Por un lado, el Porsche Macan es un modelo dirigido un mercado objetivo con un poder adquisitivo claramente más bajo que el resto de modelos. Sólo existe un salvedad y es el modelo Boxster/Cayman. Al igual que el Macan el modelo Boxster/Macan va dirigido a un público objetivo de poder adquisitivo más bajo. Sin embargo existen diferencias, dado que el Boxster/Macan apenas representa unas 10.000 unidades años, mientras que el Macan representa potencialmente más de seis veces más. Esto hace que el impacto sobre la imagen sea más considerable. Para llegar a esta conclusión el caso de estudio analiza el histórico de ventas de Porsche, los precios de cada modelo y la representatividad de la marca en los último veinte años.

En definitiva el caso de estudio muestra como en la gestión del crecimiento y la exclusividad en la industria de lujo es esencial.

- 1.- Entender las implicaciones del crecimiento desde un punto de vista global de la empresa.
- 2.- Como el posicionamiento se ve puede ver afectado potencialmente con la introducción de nuevos modelos. Sobre todo entendiendo la dimensión que representa el modelo para la empresa y el publico objetivo al que va destinado.

Además el caso de estudio tiene un objetivo pedagógico claro para los estudiantes de escuelas de negocio. Así el caso de estudio "Porsche AG. Beyond the limits of luxury" ayuda al alumno a entender el proceso de crecimiento de la empresa y su influencia en el posicionamiento de la misma, particularmente cuando se realiza con nuevos productos. Por este motivo para su utilización pedagógica el caso de estudio tiene asociada una nota técnica para profesorado ("Teaching note") accesible únicamente para profesores (Millán 2014-B).

Por último cabe señalar además que el caso de estudio ha sido galardonado con el premio al mejor "caso executive" en el concurso de caso de IE Business School de 2014.

9.3.3 Conclusions of the case method based research

The two case studies have been designed as series of experiments to test an hypothesis (Yin 1984). The hypothesis, as described before, is to what extent external factor does influence value creation. As described in the earlier section for each case, we observe that industry factors have an influence in value creation and hence the hypothesis is confirmed.

We describe the findings following Eisenhart (Eisenhart 1989) where the relationship and the strength of the relationship are displayed. In this way we can consider whether the hypothesis is confirmed or not.

Case Study	Cause	Consequence	Does external factors influence value creation ?	Strength relationship Cause-Consequence	Is the Hypothesis confirmed?
LVMH & Bulgari	Diversification	Value Creation	YES	High when strategic fit exist	YES
Porsche AG	Business Growth	Value Creation	YES	High when strategic fit exist	YES

As a conclusion of the table above, we observe that taking into consideration industry factors is relevant for the strategic formulation of a luxury firm.

10 Results and Conclusions of the field research (English summary)

The field research has advanced the knowledge in the field of study. After the research stage several lessons have been gained. These lessons have provided not only first hand data with which to evaluate the hypothesis, but have also added some additional knowledge to further develop the Three Pillars Framework (TPF).

The results of the field research have confirmed some of the foundations of the hypothesis. In that regard, the concept of luxury and the need for a new managerial perspective seem to be confirmed with the research. Perhaps even more importantly, the field research has identified some additional key elements to further develop the TPF with some essential variables.

In this section we will first analyze the results obtained in each of the three different parts of the research, this is the questionnaire or qualitative phase, interviews or quantitative phase, and case method. Then the manner by which the research has shaped and modified the initial hypothesis will be described.

10.1 Analysis of the Quantitative Research - Questionnaire

As introduced in the previous section, the quantitative research with a questionnaire has not proven to be a valuable source of knowledge given the limited information and experience of MBA students (the population surveyed).

Additionally, there is another issue. Some of the results obtained at this stage do not seem to be consistent with the results obtained with interviews in the qualitative research. One aspect that seems very relevant and should be pointed out is the relevancy of the variable control, and that for the population surveyed in the quantitative research, it does not seem to be the most relevant aspect. As seen in the previous section, scarce distribution, scarce know-how and global presence are the less relevant aspects identified. On the other hand, executives have identified scarce distribution and control as one of the most relevant topics. This is just an example of how the different profiles in terms of experience end up conveying a different set of main variables.

Nevertheless, the previous does not mean that we cannot gain some lessons with the qualitative study. If we consider one of the aspects previously identified it might be possible to further evaluate the results of the quantitative phase. To do so we will return to the state of the art to consider that the concept of luxury is not static, but dynamic. This means that luxury is defined by society at any point in time. As seen before, luxury existed in the Roman Empire, but is certainly not the luxury we knew in the nineteenth century, for instance. While the concept of luxury existed in both situations, the luxury was not the same.

Therefore, we could consider that the results obtained from this research might be relevant to understand what the future consumer will think of luxury. This will eventually shape the future concept of luxury.

Of course here we are making some assumptions. One of them is that MBA students are not luxury consumers yet, but that they will be in the years to come. While this might be open to debate, a yearly expense of 50.000 Euros for one year of a master programme aiming at an executive or entrepreneurial career certainly places those students as likely future luxury consumers.

In order to draw conclusions from the quantitative research we also need to consider another assumption. We are observing a population before they become luxury consumers. This means that they might change their behavior or perceptions until they finally become true consumers of luxury. However, it is also true that digital consumption and the role of the so-called millennial generation is gaining interest. Therefore, the lessons from this questionnaire can be seen as a very valuable source of relevant knowledge for that matter. In any case the next lessons, while interesting, are beyond the scope of this dissertation, as they deal with future consumer patterns and not with current strategic analysis. Furthermore, as it will argue in the following chapters, consumer perceptions, current or future, are a relevant source for strategic analysis, but not the main one.

The main lessons that the qualitative research conveys about future consumer trends can be summarized into three main topics.

Potential of the emerging competitors. Traditionally emerging countries have been evaluated from the perspective of their consumers. Unlike this common perspective, the research has shown a positive reaction towards luxury firms from emerging countries and not only from their consumers. This is an interesting aspect as luxury firms normally based their value proposition on the (mainly European) origins and their heritage.

The research has clearly shown that younger generations consider the appearance of emerging players and that they do not seem to have an issue becoming a client of those firms.

The role of quality still key. The variable of quality seems to clearly be an essential aspect. The fact that quality is selected above other variables is perhaps not surprising. Nevertheless, one should take into account that, as we are dealing with future consumers, it might be worth noticing their positive view on this matter.

This variable is related to the positive perception towards owning the actual manufacturing capabilities. Hence companies with their own production capabilities are seen more positively. This seems to convey a message towards authenticity in regards to quality. This might be an issue to explore for luxury firms, particularly as companies continue to grow and increase their international reach. Since it has traditionally been one of the aspects that has led some companies to outsource part of their manufacturing capabilities.

Digital threat. The questionnaire has also shown how relevant the online aspect is for younger generations. In addition to being a point of sale, it is also has a very important

role in the research and comparison process. This will obviously have a direct impact in the future development of luxury firms.

This aspect is consistent with other recent studies showing the role that the digital aspect has for younger generations, particularly the so-called millennial generation (Observatorio IE, 2012-B).

10.2 Analysis of the Qualitative Research – Interviews

The interview results do not show relevant knowledge regarding the variables assumed in the hypothesis which are rare pleasure, state of mind and desire. However, we also defined luxury as dynamic and relative to the society. This is actually one of the aspects identified with change and innovation. Therefore, this variable seems to play a dominant role.

With the help of the research we will therefore redefine the concept of luxury and the main pillar, the essence, based not on a foundation of variables but on a relationship with change and innovation. Again the dynamic role appears as a fundamental aspect to understanding luxury.

The other two aspects identified in the concept of luxury are creativity and control. We will continue analyzing the role of creativity, as this variable does also seem to be a fundamental aspect.

It is important to notice that the role of creativity is not only related to organizational issues and human resources issues. This will be covered when dealing with the complexity of luxury. When we deal with creativity we want to understand the role of creativity in the value proposition of the firm.

Instead of pointing out how relevant creativity is for a firm, we could also redefine the nature of luxury to say that is driven by creativity. What the experts have said in the interviews is that luxury firms more than only foster creativity, that luxury firms are creativity driven. To properly understand creativity we will also consider some of the related variables identified, the role of valuable partners and the anti-economic logic.

Traditionally an industrial environment would be evaluated with the Porter five forces framework. However, luxury firms do not seem to be properly evaluated with this tool. On the one hand, these firms seem to put more value on the role of suppliers. Viewing them not only as a provider of raw materials, but as a collaborator. In fact, some of the most successful examples, Hermès, Chanel or Louis Vuitton are vertically organized in métiers or department with specific skills.

If a traditional company wants to be successful it needs to be efficient in the supply chain and in the configuration of their activities. Actually, the close relationship with key suppliers and the organization based on métiers does support much more a perspective where creativity is key rather than efficiency. This would also challenge the more traditional ways of analyzing industrial environments.

For this reason, understanding a luxury firm as a creative environment with specific organizational needs allows for a better analysis of their reality. While the examples

given are based on the fashion and accessories industries, the same rationale applies to the rest of personal luxury industries.

Therefore, in the industrial environment of luxury, it would be better understood if creativity was considered as the cornerstone instead of efficiency.

On top of that, the way to understand creativity also plays a leading role. As creativity is linked with the concept of innovation, this allows an additional interpretation. A creative-based firm is one that is able to provide their own creative. While this aspect is not empirically proved in the research, it is certainly a very interesting path to follow. Therefore, one future step to follow would be to understand the role that creativity plays, not only in the design and creation of new products, but also as a way of defining the environment.

Another relevant aspect is that if creativity is a fundamental aspect needed to understand the luxury environment, then asking the client is not as relevant as in other industries. It empirical evidence has been found in the qualitative research that shows that executives do not need customer needs to be satisfied. On the contrary, on most occasions executives have shown how the company should propose their value proposition.

This is an aspect that is consistent with the understanding of luxury as a creative environment. But this is also an aspect that diminished the value of quantitative analysis based on luxury clients. As executives do not try to satisfy their client's need but to surprise them with the unexpected, asking what the client wants or perceives about luxury is not the main source of knowledge.

Here we have a potential contradiction. On the one hand it has been postulated that luxury is defined by society. On the other hand it has been said that the luxury consumer is not the main source of valuable knowledge. This, however, is not necessarily a contradiction. While, in a broad sense, it is society who defines luxury, luxury companies do not define their strategies by asking consumers what products they want. In order to surprise consumers, luxury firms need to understand the concept of luxury for given time and then based on that knowledge, create products that go beyond consumers specific or known needs and desires.

The research has shown how creativity is not a means to identify what the market wants but quite the opposite, it is a means to propose what the consumer does not yet expect. As has been seen before, this is not a contradiction with the dynamic view of the concept of luxury. Executives have identified how innovation does not deal only with designing new products, but it has to do with offering people what they do not expect. This is why asking the consumer what he wants does not seem like a valid way for a luxury firm to create value. Furthermore, this is also consistent with some perspectives of design-based creativity versus client-based creativity (Verganti 2008).

Therefore, it seems consistent to consider creativity as one of the fundamental aspects to understand luxury firms. This result can be further developed based on the additional variables found in the research. Not only does creativity appear to be the cornerstone, but creativity also seems to be interconnected with other strategic aspects of the firm. The interviewed executives have shown an important connection with valuable partners. Some of them have actually express how this is so relevant that has led to vertical integration.

This opens an interesting aspect to be further evaluated, which is how creativity not only needs individual talent, but a network of players. As a consequence of these results the author and PhD. Frederic Godart, from INSEAD, has presented the early stages of a model to understand luxury creativity as the results of an interrelated system of company and valuable partners, either integrated or not (Millán, Godart 2014). Therefore, creativity is not an independent variable nor a single capability, such as personal talent. Quite contrary creativity does seem to appear when a different set of interrelated aspects does work together. This is why creativity is considered to be a value system instead of linear based set of manufacturing activities like a value chain.

It also seems relevant to state that the European association of luxury firms is called European Cultural and Creative Industries Alliance (ECCIA). This association is the result of the alliance between the country-based luxury firms' associations from France (The Comité Colbert), England (Walpole British Luxury), Germany (Meisterkereich), Italy (Altagamma) and Spain (Círculo Fortuny). The fact that this association is actually named after cultural and creative values is also consistent with the findings of the results and suggests that the luxury executives and firms generally conceive their industrial environment being one that is based on creativity.

In summary, the qualitative research interviews with luxury executives have proven to be a valuable source of primary knowledge. On the one hand, it has confirmed that the complexity of luxury firms revolves around the management of growth, the dilemma between art and creativity from the organizational perspective, and the temporal dilemma to understand the evolution of luxury. On top of that, it has helped to refine the hypothesis, identifying the need of control as being an additional key aspect.

The research has not only helped to confirm some the hypothesis established, more importantly it has helped to improve the understanding of luxury as a field where creativity is essential. Understanding luxury as a creativity-based market allows for a better understanding of the managerial considerations needed for luxury. One of those is that creativity is not single-based variable nor an individual talent. A wider perspective of creativity allows us to see the interrelation of strategic partners in the value creation of a firm where creativity is essential. This may be the most significant finding of the whole research phase.

As a result, we can also conclude that the problems identified as the complexity (growth, art vs. management, time and control) are only the consequence of such a creative environment. Therefore, it seems valuable to consider that the essential aspect to the nature of luxury, also described as the environment, is creativity.

10.3 Analysis of the Case Method.

To complement the research phase, more than two additional specific situations have been studied. As previously justified, the case method is a relevant research method as it deals with a current event, using a "why" type of research question (Yin 2003-a). Given the characteristics of luxury, there is an additional aspect that makes the case method suitable; luxury firms tend not to disclose information, which makes them very hard to evaluate on a quantitative basis. Likewise, it is also difficult to find

enough similar examples to undertake quantitative research. For these reasons the case method does seem like a valuable research methodology.

10.3.1 Lessons of the case study: “LVMH & Bulgari. Time for luxury”

The objective of the case study “LVMH & Bulgari. Time for luxury” (Millán 2013 A y B), has been conceived as explicative research to find the cause-consequence relationship between two variables with multiple sources of evidence (Yin 2003-b).

In this case, the cause and effect relationship studied has been in whether or not diversification creates value. Therefore, the research question can be defined as: “Why does diversification (cause) create value (consequence) for luxury firms?”

An alternative method could have been to identify a set of companies under the same situation and evaluate the results after a given period of time. The success could have been measured in several ways, such as share price evolution, evolution of the return on the investment, or to what extent the diversification move is kept over the years without disinvestment. This has been proven to be doable in other industries (Porter 1988, Collis et al. 1998). However, both Porter (1988) and (Collis et al. 1998) rely on a wide list of companies from different industries. As seen before, it is thought to be unlikely to find such a set of companies for the luxury market. For this additional reason the study of a specific, real situation does seem to be a valuable source of knowledge.

The case study evaluates the intention of LVMH, a successful luxury conglomerate, to improve their position in the watch and jewelry market. Traditionally LVMH has been very successful in the fashion and accessories industries. However, this is not the case in the other business division, particularly in the mechanical watch market. The case explores how the acquisition of Bulgari might serve as a good means of diversification, and to what extent LVMH can achieve a successful diversification strategy in the mechanical watch market. The case is based on public resources and more than ten confidential interviews with executives of leading players in the industr.

The case provides an in-depth evaluation of the key success factor in the mechanical watch market. Therefore, it can identify the fundamental competitive aspects to be considered when entering this industry. Among other aspects, a high supplier concentration, particularly The Swatch Group, a low economies of scale, and a scarcity of human capital are examples. Not only does the case describe the competitive landscape of this industry, it also helps to reach a fundamental strategic decision, as to why conglomerates and traditional players dependent of Swatch supplies follow a trend to produce their own manufacturing movement.

This knowledge also serves as the basis to understand how, and to what extent an incumbent like LVMH could compete in this industry. The discussion allows for an accurate identification of the aspects needed for a proper diversification strategy and how to generate synergies. Additionally, the case serves to demystify some of the typical synergies, such as marketing communications.

In short the case study shows how diversification in the luxury industry is based upon the following guidelines:

- 1.- Value creation through diversification needs a proper understanding of the main characteristics of the destination industry.
- 2.- An incumbent cannot become a good player if it does not understand what constitutes a good player in the destination industry. This is key since it helps in the analysis of what constitute real synergies and what are imagined synergies (Porter 1988).
- 2.- As a result, synergies would vary from industry to industry. So a diversification move needs to be evaluated always on a one by one basis.

Likewise, this case study has been designed for business school education. As such, it allows for a discussion about diversification strategy in the luxury market. For such purpose it has also been written a case study teaching note, only accessible to teachers (Millán 2013-C). Finally, the author would like to mention that this case study has been awarded with the honor distinction at the IE Business School 2013 case study completion.

10.3.2 Lessons of the case study: "Porsche AG. Beyond the limits of luxury?"

The "Porsche AG. Beyond the limits of luxury?" (Millán 2014) case study has also been conceived as explicative research with the objective of finding the cause and consequence relationship between two variables with multiple sources of evidence (Yin 2003-b). In this situation the goal of the case is to study organic growth and its limitations, particularly when a company enjoys success in a given market segment or category.

In this case the cause effect relationship studied has been whether or not organic growth can be achieved with new products in new segments. Therefore, the research question can be defined as: "Why does organic growth (cause) create value (consequence) for luxury firms?". Of particular interest in this case is the impact that growth has on the overall strategy of the company and its positioning.

As in the previous examples with LVMH and Bulgari, here the case study methodology is considered a valid one as there is a limited number of luxury firms in this situation to undertake a quantitative approach. Therefore, the same rationale applied in the previous examples to justify the relevancy of the case study methodology also applies to this example.

The situation here describes a very successful player, Porsche trying to define a strategy to foster growth. For the German player it is likely difficult to increase sales with its current product portfolio, given that it has reached a leading position where only a small growth rate can be achieved. To do so, Porsche continues increasing its

product portfolio, something that is not new and seems to have been successful thus far with new models such as the Boxster, Cayman, Panamera and specially the Cayenne. However, the new models, Macan and 918, could perhaps introduce some additional aspect to be evaluated and pose an interesting strategic dilemma for a luxury firm where growth potential is limited. The case is based on public resources and more than ten confidential interviews with executives of leading industry players.

The case describes the growth incentives behind the launch of the Macan. The study shows how while there is plenty of potential from a market perspective, consideration must still be given to the internal capabilities. However, being a little more affordable, the characteristics of the Macan, establishes a luxury dilemma, one between mass and exclusivity.

The reasons behind this tension have been widely evaluated and include different perspectives: Porsche incentives, image impact, company development. With expected sales beyond 60.000 is intended to be the most sold Porsche and a key driver of the 2018 Strategy Plans which aims sales beyond 200.000 units.

Given the brand recognition and the likely reduced price point, Porsche will surely sell this amount of cars. However, the case study has shown that this is not only an image issue. Perhaps more importantly Porsche is changing as a company. A clear example is that it will significantly increase manufacturing, but also distribution and service. The case study shows how this is not a minor change and needs to be properly understood. Otherwise the company not only risks their image, but also their reason for being.

To research the image impact, the case study has shown how the concept of strategic positioning can help to understand this situation. While the consumer reaction might be a complex variable to measure, and even more to anticipate. What the company can do to evaluate the impact is to compare the positioning impact from previous models and the expected impact with the new model. By comparing the models, the target market and the advantage they provide, the analysis of the image issue is clearly depicted as a variation of the previous positioning. As such, the likely impact can be better understood.

For instance, the Boxster model serves as an entry-level car from the 911 model. And it has been a successful model over the past decade. Using this rationale one could think that the Macan will also be successful given that it is an entry-level car to the Cayenne. However, a closer look at the positioning will reveal that the impact of the change will not be equal. On the one hand the Boxster is a much nicer model, with sales up 10.00 units. The Macan, on the other hand, has expected sales in its first year of 60.000 units. The impact and scale are not the same and therefore we cannot anticipate image impact using the Boxster as an example.

The case study has shown how fundamental strategic variables such as strategic positioning and strategic implications help a company to identify the complex limits between growth and exclusivity. This is an element of paramount importance for luxury firms. In short, the case study shows:

1.- The limits and implications of growth from a comprehensive managerial perspective, not only limited to client perception. This also helps to understand why growth should not be the cause, but rather the consequence of a meaningful strategy.

2.- How, if consequences are not properly identified, positioning can be potentially affected with the introduction of new models. The case shows how the image impact is but only one of the consequences to be evaluated.

Furthermore, the case study has a clear pedagogical objective for business school students. The case teaching note (Millán 2014-B) serves as a basis to guide class discussion.

As a finally note, the author would like to mention that this case study has been awarded as the best executive Education case study at the 2014 IE Business School case competition.

10.3.3 Conclusions of the case method based research

The two case study have been designed as series of experiments to test an hypothesis (Yin 1984). The hypothesis, as described before, is to what extent external factor does influence value creation. As described in the earlier section for each case, we observe that industry factors have an influence in value creation and hence the hypothesis is confirmed.

We describe the findings following Eisenhart (Eisenhart 1989) where the relationship and the strength of the relationship are displayed. In this way we can consider whether the hypothesis is confirmed or not.

Case Study	Cause	Consequence	Does external factors influence value creation ?	Strength relationship Cause-Consequence	Is the Hypothesis confirmed?
LVMH & Bulgari	Diversification	Value Creation	YES	High when strategic fit exist	YES
Porsche AG	Business Growth	Value Creation	YES	High when strategic fit exist	YES

As a conclusion of the table above, we observe that taking into consideration industry factors is relevant for the strategic formulation of a luxury firm.

Part III. Proposal of a framework for luxury firms:

“The 3 pillars of luxury framework”

Parte III. Propuesta de modelo de gestión para empresas de lujo:

“El modelo de los 3 pilares del lujo”

11 El modelo de los 3 pilares del lujo.

11.1 Definición del modelo propuesto inicialmente.

En la presente Tesis Doctoral se presenta una aproximación a la gestión estratégica de empresas de lujo. Para ello se ha optado por definir un modelo conceptual a modo de hipótesis. Este modelo pretende ser una herramienta de reflexión y de ayuda a la toma de decisión estratégicas para empresa que compiten en el mercado del lujo.

La definición del modelo conceptual se ha basado en dos aspectos fundamentales, el concepto de lujo y la teoría estratégica. Considerando estos dos aspectos la intención de esta Tesis Doctoral reside en la eventual necesidad de considerar herramientas de análisis que permitan analizar la realidad competitiva de una empresa de lujo.

En primer lugar se ha realizado una investigación del estado del arte sobre el concepto y el mercado del lujo. Como resultado se ha obtenido el conocimiento académico publicado hasta la fecha. Con ello se ha podido comprobar la no existencia de un modelo de gestión estratégica en empresas de lujo.

La realización del estado del arte ha permitido un acercamiento a la evolución antropológica e histórica del mismo concepto de lujo. Con este estudio se ha comprobado la componente dinámica de cambio y evolutiva del propio concepto de lujo. De este fase se deduce un conocimiento de relevancia. Y es que al entender el lujo como la unión de un fenómeno social y un fenómeno económico, se deduce que un definición estática, o ligada a un momento socio-económico puntual, no recoge la comprensión completa del concepto.

Esto en parte contradice gran parte del conocimiento académico publicado, dado que existe un frecuente corriente por definir el concepto del lujo en base a atributos o en base a las percepciones del cliente. Si bien esta corriente no es equívoca, si obvia la importante componente dinámica del concepto de lujo, por lo que es incompleta.

En segundo lugar se ha considerado la teoría de dirección estratégica y su posible idoneidad a la hora de entender y gestionar la complejidad real de una empresa de lujo. Así se han considerado las tres niveles básicos de gestión, esto es el entorno industrial, la competitividad de la empresa y la creación de valor al cliente.

La unión de la comprensión del concepto de lujo y de la teoría general de estrategia llevó a la definición del modelo de los tres pilares del lujo (TPF). De hecho la referencia de los tres pilares se basa precisamente en la identificación de los aspectos estratégicos necesarios para gestionar una empresa. En base a todo ello se definió el primer modelo del TPF, como se aprecia en la Figure 15 y que se muestra de nuevo a continuación en Figure 42.

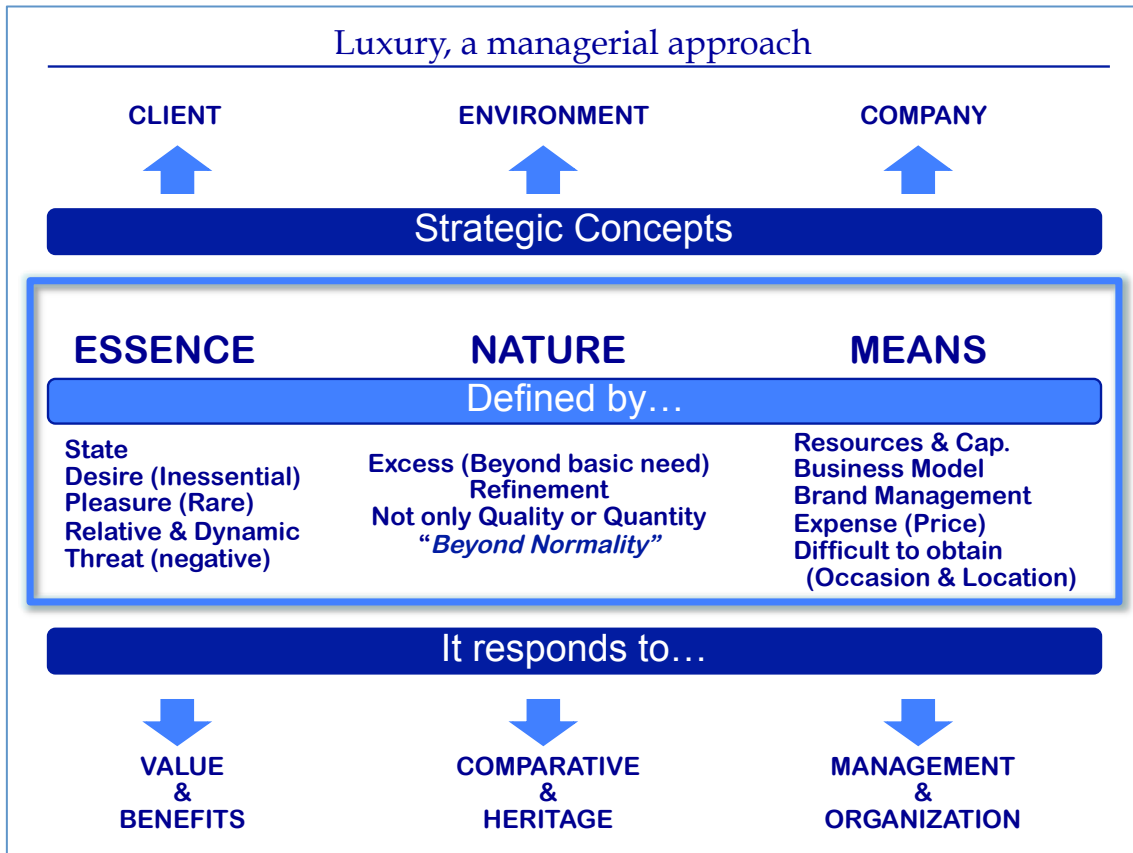


Figure 23.- Definición del modelo propuesto: Los tres pilares del lujo

11.2 Modificaciones al modelo en base a la fase de investigación

Una vez definidos los criterios que llevaron a la definición de la hipótesis de trabajo de este Tesis Doctoral se llevó a cabo una fase de investigación para evaluar la idoneidad del modelo TPF propuesto.

Cada parte o pilar del modelo se ha estudiado utilizando la metodología más adecuada. Para evaluar la Esencia, o lo que es lo mismo la creación de valor al cliente se ha utilizado un encuesta cuantitativa a clientes potenciales de lujo. Para evaluar la Naturaleza, es decir el entorno industrial, se ha utilizado una encuesta a ejecutivos de empresas de lujo. Y por último para los Medios, esto es la competitividad de las empresas de lujo, se ha optado por el método del caso para explorar en profundidad ejemplos concretos.

La fase de estudio ha resultado decisiva en el desarrollo del modelo. Por un lado la fase de investigación ha validado la necesidad del modelo y su concepción estratégica. Además el estudio se ha mostrado igualmente relevante para modificar algunas de las premisas establecidas en la hipótesis inicial y ha modificado el modelo. Por ello el modelo que se propone en el presente capítulo de definición final del modelo recoge las modificaciones fruto de la fase de estudio.

En primer lugar, en el estudio de la esencia se ha comprobado como los estudios cuantitativos tienen una relevancia muy limitada dada la necesidad de acceder a base representativa de clientes de lujo. Siguiendo estudios similares publicados, se ha realizado un estudio en base a clientes potenciales, en este caso estudiantes de MBA. Así se ha comprobado su bajo nivel de conocimiento y experiencia como clientes de lujo, lo que cuestiona la validez de los resultados obtenidos.

No obstante, este estudio si puede mostrar información relevante para el conocimiento de los consumidores de próximas generaciones. En este caso dado la relevancia que en nuestros días ha alcanzado los consumidores "Millenials", el estudio se muestra como fuente de conocimiento primario de sus actitudes hacia el concepto de lujo y sobre su forma de consumo.

De esta forma el estudio si muestra una aproximación empírica al hecho de que las nuevas generaciones de lujo tendrán asociaciones distintas sobre el concepto de lujo y sobre la forma de consumo. Esto corrobora el aspecto evolutivo respecto de la sociedad del lujo, uno de los puntos identificados en el estudio del arte.

En segundo lugar, el estudio de la naturaleza del lujo con entrevistas a ejecutivos de lujo ha mostrado un conocimiento primario y relevante. De hecho esta fase cualitativa es la que se ha mostrado como la fuente de conocimiento más importante de toda la fase de investigación.

Las encuestas personales se han organizado en base a dos preguntas principales. La primera sobre el concepto de lujo y la segunda sobre la complejidad de gestionar una empresa de lujo. El carácter abierto y de discusión de estas preguntas, sin proporcionar respuestas predeterminadas, ha permitido identificar aquellos aspectos que se repiten con mayor frecuencia. Por ello se considera que el estudio cualitativo valida y proporciona relevancia a las variables crecimiento, creatividad.

Con respecto al concepto del lujo se ha identificado el control como la variable repetida. Esto es un aspecto importante a la hora de considerar la competitividad de la empresa por la que se la encuadra dentro de los Medios del lujo. Las variables como hipótesis se han validado con el estudio, resultando la gestión del crecimiento y la gestión de la creatividad como las dos variables con más frecuencia repetida.

Se puede asumir razonablemente que las variables de innovación y cambio están también relacionadas con el aspecto dinámico del lujo. Este toma una importancia mayor al relacionarse con la definición lujo. Es estudio cualitativo, si bien no es concluyente, pero parece mostrar una importancia de las variables dinámicas. Ante esta situación parece razonable asumir que el cambio es un aspecto fundamental para entender el lujo. Por ello se toma la variable cambio como la referencia en la esencia del lujo. Es importante puntualizar que por cambio se está resumiendo una complejidad más amplia que incluye innovación y la componente dinámica del lujo.

Para comprender mejor la variable de gestión de la creatividad se llevó a cabo un estudio comparativo entre España y Francia. En el estudio (Millán 214-C) se comprueba como la constitución de la industria en torno a la creatividad diferencian a Francia respecto de España, lo que constituye un de las razones que explican el contraste entre el éxito global de las empresas franceses y el escaso desarrollo global de las españolas.

Este aspecto es de vital importancia por dos motivos. El primer motivo es que la concepción de la creatividad debe incluir también el análisis de la industria. Esto transforma a la creatividad en una variable de la naturaleza del lujo. De este modo para entender una industria de lujo se debe evaluar el impacto de la gestión de creatividad a nivel industrial. Este es un aspecto de gran relevancia para la concepción del lujo. Por ello se considera que es la creatividad la variable esencial de la naturaleza del lujo.

Esta consideración de la creatividad como aspecto industrial tiene una lectura adicional. Con esta concepción la creatividad no solo consiste en una serie de talentos o habilidades personales, sino que es una herramienta de creación de valor que incluye no solo el talento personal. Por este motivo las variables de partners/gremios adquiere una mayor relevancia las ser coherente con esta concepción de la creatividad.

Por último se ha realizado un estudio de la competitividad de empresas de lujo mediante el método del caso. Los casos de estudio se han centrado en diferentes industria como son la relojería y la automoción. Una de las lecciones que arroja el evaluar la competitividad de empresas en distintas industrias es que su competitividad depende de un conocimiento detallado de la realidad industrial.

Esto puede ser percibido como una contradicción con respecto al modelo TPF que trata de buscar coherencia a través del concepto de lujo. Lo que conviene es destacar que el TPF no pretende evitar el conocimiento de cada industria por separado. Pero adicionalmente el aspecto del cambio, la creatividad o el control si parece homogéneos.

Además los casos concretos de Bulgari y Porsche han arrojado como la gestión del crecimiento y la evolución temporal de la competitividad se muestran como elementos esenciales en la tarea estrategia de una empresa de lujo. Esto no hace más que corroborar los elementos esenciales en los que se base el TPF.

En definitiva la fase de estudio ha sido un elemento esencial en la definición del modelo TPF. Por un lado ha confirmado su validez y la estructura del modelo. Y por otro lado ha modificado algunas de las variables principales para entender cada pilar estratégico. Por ello la fase de estudio ha mejorado la definición del modelo TPF.

Como se ha apuntado el modelo TPF no pretende obviar el conocimiento específico de cada sector industrial, sino complementarlo en base a conocimiento más profundo del concepto de lujo y su complejidad competitiva y de gestión. Además la fase de estudio apunta líneas de investigación de gran interés como la concepción industrial de la creatividad.

Así el modelo TPF ha sido redefinido en base a la identificación de variables de referencia para cada pilar estratégico, tal y como se describe en el siguiente capítulo.

11.3 The definitive framework: The 3 pillars framework for luxury firms.

As described in the previous section, the research phase has helped to identify the fundamental variables to re-define the TPF framework. In this section we will finally explain every pillar and its relationship towards its fundamental variable. Then the final definition of the TPF framework it will be provided.

We will start with the pillar named Essence. This pillar is the aspect that provides the understanding of how luxury creates value. Therefore here it is convenient to understand how companies create value, but also how consumers perceive value. Only in this way we will have a comprehensive perspective on luxury as a value creation activity. Therefore when we talk about the essence of luxury we are talking at the very fundamental aspects of this value creation process.

11.3.1 Essence

What the research has found is that Essence is better described when talking about change. Unlike common wisdom associated to traditional or immutable values is actually the contrary, the ability to change what shows a better understanding of the ability for luxury firms to create value.

We need to pay a careful attention to what change means, since it could be perceived that changing aspects will qualify any luxury firm to create value, and this is not the case. Many companies can define their value proposition based on what the source of their competitive advantage might be (access to an scarce resource, their brand values, their heritage, ect). However it is very unlike that luxury firms can sustainable competing without understanding their need to change over time to create value. This is what executives of successful firms seem to convey as major competitive issue.

Therefore the TPF framework is not giving an answer to a firm on what their competitive advantage might be. The TPF model is helping a CEO to a company to understand when a competitive advantage will be consistent with the Essence of luxury. Therefore the need to change and innovate should be at the heart of every luxury firm guiding their process to define or enhance their competitive advantage. If not the company will not consider the dynamic factor of the luxury market and then can risk loosing or damaging their competitiveness in the market. Of course not every change or innovation does make sense. In this way change is related to the core aspects enabling a company to sustain a competitive advantage. Therefore this knowledge is very relevant since it help companies to avoid defining their value creation process based on standardized attributes, such as tradition, heritage or exclusivity.

11.3.2 Nature

The research has found that there are some specific aspects to understand the environment of a luxury firm. It is clear that the industrial environment will be different based on the characteristics of each industry (i.e. automatic watch, fashion, etc.). However there are some commonalities that are worth to treat similarly, this is the nature of luxury.

The variable that clearly defines the luxury environment is creativity, or better said a creative environment. Unlike traditional systems where efficiency is fundamental, in luxury creativity requires of an environment of several pieces that work together as a system. This knowledge is very relevant since it helps to put into perspective some of the classical frameworks such as the value chain analysis.

The pieces that define a creative value system are a matter of further research. Initially it has been identified how the role of valuable suppliers, valuable partners with specific skills, access to media and location seem to be pieces of such creative system.

11.3.3 Means

The research has confirmed how the competitiveness of a luxury firm does also follow some commonalities. Particularly the one aspect that clearly stands above the rest of the variables is the need for control.

Control is needed since it is the aspect that helps a luxury firm to sustain their competitiveness in the addressed market. However control does not mean to vertically integrate all aspects. As seen introduced with the creative environment some aspects of the companies could be in the hand of valuable partners. In this case what it should be controlled is the relationship.

The competitiveness of a luxury firm is not only defined by control. Of course there are some additional aspects and marketing tactics that are valuable. However based in the research it is control what clearly defines the ability of a luxury firm to sustain their competitiveness. Therefore the means of a luxury firm should be always analyzed in term of their ability to control their drivers of competitiveness.

As the research has also shown rivalry is also defined by understanding some of the core aspects of luxury, which challenge the traditional competitive paradigm. Particularly three aspects should be considered when defining a company's competitive position.

Once we have introduced the main variables that define the TPF framework we finally propose a final version of the framework in Figure 24.

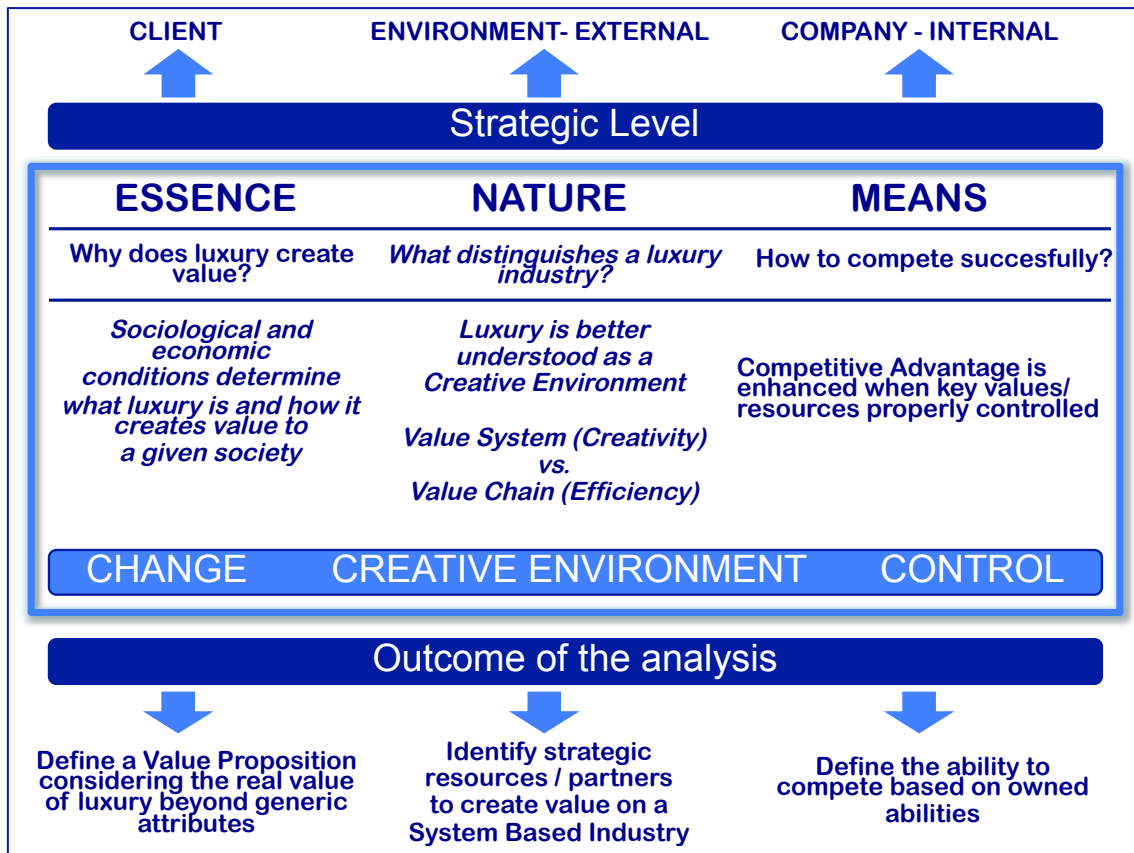


Figure 24.- The Three Pillars Framework for luxury firms.

11.4 Scope of the framework and limitations.

The TPF framework is intended to provide luxury executives with knowledge to identify and enhance the ability of a firm to compete in the market. In doing so, the framework helps to understand the different aspects, or pillar, where the ability to compete should be based. It also provides an in-depth overview so the typical issues or problem can be identified.

The framework is not intended to define the competitive advantage of a company. It should become a guideline to understand the requirements and boundaries in doing so.

As the Figure 24 clearly shows, an analysis with the TPF framework provides three fundamental lessons. The first one would be to serve as a help to define a firm's value proposition.

In this way a company taking into account the aspects of the TPF would clearly understand how luxury creates value and how change is a critical variable to include in

the analysis. Unlike common wisdom suggest, a luxury value proposition is not only based on number of luxury-based static attributes.

The second lesson would be to identify the strategic assets or resources that a luxury firm needs to secure to compete successfully on a creative environment. Unlike common wisdom suggest to become a player in the market one needs to secure the access to certain key components to foster creativity, and not only to rely on a creativity approach based on individual talent. And the third lesson would be to define the abilities or assets that are needed to be properly controlled to sustain a competitive advantage.

12 Thesis conclusions.

12.1 Lessons on the concept of luxury, the state of the art and the anthropologic analysis.

The concept of luxury has accompanied the evolution of mankind from its early stages.

The first approach undertaken in this study was to perform an analysis of the evolution of the concept of luxury. The conclusions of this analysis are the following:

1. Luxury is relative and dynamic. Luxury cannot be understood only in absolute terms but also in relative terms. The dynamic component is significant, so we cannot always consider something as a luxury since it might change over time.
2. A permanent aspect to understand luxury is the idea of going beyond the basic needs.
3. Luxury has been over a long time perceived a threat and some of their current negative perspective could be inherited from that age.
4. Luxury could be related to refinement and excellence in both qualitative and quantitative terms. Luxury does not mean only ostentation or wealth (quantitative), but also mean a refinement of the basic needs of man (qualitative).
5. Luxury has always been connected to culture. Luxury is a means of demonstrating being elite as well as refinement in the arts.
6. Luxury is not only a sociological issue, but also an economic factor, especially since the eighteenth century. As such we can talk about the luxury market.

This analysis of the evolution of luxury helps us understand how luxury is not only a sociological concept but also an industry.

The second aspect on the state of the art is the understanding of the luxury market as we know it today. To understand the drivers of the luxury industry we need to consider three main drivers: the client, the companies, and the industries.

Starting with the client, this study provides an approximation to the different categorization of luxury clients. While there are different categories, it is interesting to realize that most of them fall into two main categories: luxury client based on their income power, and luxury clients based on their needs (or also consumption pattern).

The state of the art also provides an overview of the main leading companies of the market. Here the main findings are that companies in this market fall into two main categories, independent companies and conglomerates. Therefore, we observe a market with a certain degree of concentration.

The understanding of the industry is given by the main characteristic of every industry. To focus this work, this study has considered personal luxury; personal luxury being fashion, accessories, watches and jewelry, and perfumes and cosmetics. While the luxury concept might entail certain common aspects, we need to consider that every industry has specific drivers of profitability.

One key conclusion from the state of the art is gap on research and academic publications existing in the focus on luxury firms from a management perspective. Among other aspects, research suggest that fundamental managerial topics are not covered in depth. Therefore there is a high potential for further research. Some fundamental managerial topics that are not covered in depth in academic publications are:

- Distinguishing luxury issues from profit issues
- Evaluating the dynamics and the environment of the industry
- Identifying the main challenges of companies competing in the luxury market
- Defining the strategic management of a luxury company
- Maximizing the ability to compete in the marketplace (which is not exactly the same as maximizing profits).
- Responding to a specific business situation, for instance responding to the problem of counterfeits (Wilcox 2009).

12.2 Luxury and the need of a managerial approach. The reasons why there is managerial need on business strategy formulation.

As this work suggests, one fundamental aspect to evaluate luxury from the managerial perspective is to consider the main problems an executive faces when formulating the business strategy of a luxury firm. This will provide a tool to executives to help them identify their main sources of complexity and properly formulate their strategy.

Most of the academic work related to luxury relies on one main consideration, a marketing perspective. This is to understand the values of luxury from the consumer perspective and to define the meaning of a luxury brand. However as argued before there is evidence of additional, relevant aspects from which to understand the dynamics of the luxury market when considering strategic considerations.

This work provides a first look at luxury from a business strategy perspective. This means to understand the problems that a luxury firm faces and how it can formulate its business strategy accordingly. It is a justification of the need for a managerial approach to luxury.

Considering the managerial approach, this work is also a first attempt to define a business strategy framework. The first hypothesis of this model is to consider the business strategy theory. In this sense, the main aspects have been considered to define a business strategy. This is external analysis (or industry analysis) and company

analysis. This is the way though which classical strategic management defines the formulation of the business strategy of a firm. The hypothesis is also based on the lessons of the state of the art. Therefore, the main aspects that define luxury are also introduced, and a framework based on three main aspects has been defined. It has been named as the three pillars framework (TPF).

12.3 The TPF as an answer to the managerial need identified. A framework based on qualitative research.

The TPF defines the essence as the way a luxury firm can create value, the nature as the way to understand the industry dynamics, and the means as the way to compete in the marketplace. By focusing on the main strategic aspects of business formulation and the main lessons of the concept of luxury, the TPF is an attempt to help managers to formulate the business strategy of a luxury firm. The research phase of this work has actually been designed to identify how the model defined answers this issue. The research question has been defined as: "How should the business strategy of a luxury firm be formulated?"

Mixed research was used to test how the model would actually be a meaningful way for executives to answer this question. Under these circumstances, and given necessity to test different sources of evidence, this is a sound approach. A quantitative approach was needed to validate whether or not MBA students are a valid source of evidence. However, research suggests that this sources is questionable when trying to understand current managerial situations.

The qualitative phase of the mixed methods applied was needed to validate another source of evidence luxury executives. The qualitative approach is sound in this case for two main reasons. First, it is difficult to access a large pool of executives given the complexity and scarcity of this type of executive (in comparison with other industries), and second, the question at hand is more suitable for discussion based research where the task is identifying the fundamental challenges of a luxury firm.

The results of the field research have confirmed some of the foundations of the hypothesis. In that regard, the concept of luxury and the need of a new managerial perspective seem to be confirmed with the research. Perhaps even more importantly, the field research has also identified some additional key aspects to further develop the TPF with some essential variables.

The research based in a survey has not proven to be a valuable source of knowledge given the limited information and experience of MBA students (the population surveyed). Some of the results obtained at this stage do not appear to be consistent with the results obtained in the qualitative research with interviews. One aspect that seems very relevant and should be pointed out is the relevancy of the variable control. For the population surveyed in the quantitative research it does not seem to be a top priority, while executives have identified it as one of the most relevant topics.

Nevertheless, we can gain some lessons with the qualitative study. To do so we will go back to the state of the art and consider that the concept of luxury is not static but dynamic. Therefore, we could consider that the results obtained in this research might

be relevant to understand what the future consumer will think of luxury. These opinions will eventually shape the future concept of luxury.

We also need to consider another assumption. We are observing a population (master students) before it becomes a luxury consumer. This means that the members of the population could change their behavior or perceptions until they finally become true consumers of luxury. However, it is also true that digital consumption and the role of the so-called millennial generation is gaining interest. Therefore, the lessons from this questionnaire are likely a very valuable source of relevant knowledge for that matter.

The following lessons, while interesting, are beyond the scope of this dissertation as they deal with future consumer patterns and not with current strategic analysis. The main lessons that the qualitative research convey about future consumer trends can be summarized into three main topics.

- Potential of the emerging competitors. The research has shown clearly that younger generations consider the appearance of emerging players and they do not seem to have an issue becoming a client of these new firms.
- The role of quality still key. The variable of quality seems to clearly be an essential aspect. Companies with their own production capabilities are seen more positively as it seems to convey a message towards quality in terms of authenticity. This might be an issue to explore for luxury firms, particularly as companies continue to grow and increase their international reach, as it has traditionally been one of the aspects that have led some companies to outsource part of their manufacturing capabilities.
- Digital threat. The questionnaire has also shown how relevant the online component is for younger generations. Not only is it important as a point of sale, but also for the role it plays in researching and comparing goods. This will obviously have a direct impact on the future development of luxury firms.

The results of the qualitative interviews have shaped the hypothesis made about the concept of luxury and the complexity of a luxury firm. About the first topic, the research does not provide relevant knowledge regarding some of the variables assumed in the hypothesis: rare pleasure, state of mind, and desire. However, we also defined luxury as dynamic and relative to the society in which it exists. This is actually one of the aspects identified with change and innovation. Therefore, this variable seems to play a dominant role.

As a result, the research helps to redefine the concept of luxury and the main pillar, the essence, based not on a foundation of variables, but on a relationship with change and innovation.

The other main aspect identified in the research is the importance of creativity. The research helps us redefine the nature of luxury as something that is driven by creativity. What the experts have said in the interviews is that a luxury firm should not only foster creativity, but that luxury firms are creativity driven. To understand creativity properly we will also consider some of the related variables that were identified, the role of valuable partners, and the anti-economic logic.

Traditionally, an industrial environment would be evaluated with the Porter five forces framework. However, luxury firms do not seem to be properly evaluated with this

tool. On the one hand, these firms seem to place greater value on the role of suppliers. Not only as a provider of raw materials, but as a collaborator.

For this reason, understanding a luxury firm as a creative environment with specific organizational needs allows for a better analysis of their reality. On top of that, the way creativity is conceived also plays a leading role. The link between creativity and the concept of innovation allows for additional interpretation. A creatively based firm is one that is able to provide their own creative. While this aspect is not empirically proved in the research, it is certainly a very interesting path to follow. Therefore, a future step would be to understand the role that creativity plays, not only to design and development of new products, but as a way to define the environment.

Another relevant conclusion is that if creativity is a fundamental aspect for understanding the luxury environment, asking the client is not as relevant as in other industries. In the qualitative research empirical evidence has been found that executives do not seek to satisfy customer needs. On the contrary, in most occasions executives have shown how the company should propose their value proposition.

This is an aspect that is consistent with the understanding of luxury as a creative environment. But also this is an aspect that diminished the value of quantitative analysis based of luxury clients. As executives do not try to satisfy their need but to surprise them with the unexpected, asking the client what they want or how they perceive luxury is not the main source of knowledge.

Here we have a potential contradiction. On the one hand it has been postulated that luxury is defined by society. While in the other hand it has been said that the luxury consumer is not the main source of valuable knowledge. However, this is not necessarily a contradiction. While luxury is defined by society in a broad sense, for companies to define their strategy and products is not the main aspect to ask consumer what products do they want. In order to surprise the consumer, luxury firms need to understand the concept of luxury for given point in time, and then based on that knowledge create products that go beyond the consumers' specific or known needs and desires.

The research has shown how creativity is not a means to identify what the market wants but quite the opposite—it is a means to propose what the consumer does not yet expect. As previously seen, this is not a contradiction with the dynamic view of the concept of luxury. Executives have identified how innovation does not only deal with designing new products, but also with offering people what they do not expect.

Therefore it seems consistent to consider creativity as one of the fundamental aspects to understand luxury firms. This result can be further developed based on the additional variables found in the research. Not only does creativity does appear to be the cornerstone, but it is interconnected with other strategic aspects of the firm. The interviewed executives have shown an important connection with valuable partners. Some of them have actually express how this is of such great relevance that it has led to vertical integration.

In summary, using interviews with luxury executives, the qualitative research has proven to be a valuable source of primary knowledge. On the one hand it has confirmed the complexity of luxury firms does in fact revolve around the management of growth, the dilemma between art and creativity from the organizational perspective,

and the temporal dilemma to understand the evolution of luxury. On top of that, it has helped to refine the hypothesis by identifying the need of control as an additional key aspect.

Not only has the research phase helped to confirm some the hypothesis established, it has also helped to improve the understanding of luxury as a field where creativity is essential. Understanding luxury as a creativity-based market allows for a better understanding of the managerial considerations needed for luxury. One of these considerations is that creativity is not a single-based variable nor an individual talent. A wider perspective about creativity allows us to see the interrelation of strategic partners in the value creation of a firm where creativity is essential. This may be the most significant finding of the whole research phase.

We could also conclude that the problems identified as the complexity (growth, art vs. management, time and control) are no more than the consequence of a creative environment. As such, it seems valuable to consider that the essential aspect of the nature of luxury, also described as the environment, is creativity.

The research phase has been complemented with two additional and more specific questions. Why does diversification create value for luxury firms? And why does organic growth create value for a luxury firm? These topics have been researched using that case method, since it deals with a “why” type of research question about a current event.

The LVMH case provides an in-depth evaluation of the key success factor in the mechanical watch market. This knowledge also serves as the basis to understand how, and to what extent an incumbent like LVMH could compete in this industry. The discussion allows a proper identification of the aspects needed for a proper diversification strategy and how to generate synergies. The case also serves to demystified some of the typical synergies like marketing communications.

In short the case study shows how diversification in the luxury industry is based upon the following guidelines:

- 1.- Value creation through diversification needs a proper understanding of the main characteristics of the destination industry.
- 2.- An incumbent cannot become a good player if it does not understand what constitutes a good player in the destination industry. This is key since it helps in the analysis of what constitute real synergies and what are imagined synergies (Porter 1988).
- 2.- As a result, synergies would vary from industry to industry. So a diversification move needs to be evaluated always on a one by one basis.

The second case study “Porsche AG. Beyond the limits of luxury?”, describes a very successful player, Porsche trying to define an strategy to foster growth. The case describes the growth incentives behind the launch of the Macan. Here the study shows how there is plenty of potential from the market perspective but also considering the internal capabilities. However the characteristics of the Macan, a little more affordable, also places a luxury dilemma between mass and exclusivity.

The case study has shown how fundamental strategic variables such as strategic positioning and strategic implications help a company to identify the complex limits between growth and exclusivity. This is an aspect of paramount importance for luxury firms. In short the case study shows:

- 1.- The limits and implications of growth from a comprehensive managerial perspective, not only limited to client perception. This also helps to understand why growth should not be the cause, but rather the consequence of a meaningful strategy.
- 2.- How, if consequences are not properly identified, positioning can be potentially affected with the introduction of new models. The case shows how the image impact is but only one of the consequences to be evaluated.

12.4 The reasons why the TPF actually provides an in-depth analysis to formulate the business strategy of a luxury firm.

As a consequence of the research phase the TPF has been redefined. The lessons obtained about the concept of luxury and the complexity of managing a luxury firm have been included in the redefining of the model.

Essence

What the research has found is that Essence is better described when talking about change. Unlike common wisdom associated with traditional or immutable values, this is actually the opposite, the ability to change is what shows a better understanding of the ability for luxury firms to create value.

The TPF framework does not provide a firm with an answer to as to what their competitive advantage might be. Rather, the TPF model helps a CEO of a company to understand when a competitive advantage will be consistent with the Essence of luxury. Therefore, the need to change and innovate should be at the heart of every luxury firm, guiding their process to define or enhance their competitive advantage. If not the company will not consider the dynamic factor of the luxury market and can risk losing or damaging their competitiveness in the market.

Nature

The research has found that there are some specific aspects to understand the environment of a luxury firm. It is clear that the industrial environment will be different based on the characteristics of each industry (i.e. automatic watch, fashion, etc.). However, there are some commonalities that are worth treating similarly, this is the nature of luxury.

The variable that clearly defines the luxury environment is creativity, or better said, a creative environment. Unlike traditional systems where efficiency is fundamental, in creativity in luxury requires of an environment where several pieces work together as a system. This knowledge is very relevant as it helps to put some of the classical frameworks such as the value chain analysis into perspective.

The pieces that define a creative value system are a matter of further research. Initially work has identified the role of valuable suppliers, valuable partners with specific skills, access to media, and location as pieces of such creative system.

Means

The research has shown how the competitiveness of a luxury firms also follows some commonalities. The one aspect that clearly stands above the rest of the variables is the need for control.

Control is needed as it is the aspect that helps a luxury firm to sustain their competitiveness in the market . However, control does not necessarily mean the need to vertically integrate all aspects. As introduced with the creative environment, some of the valuable aspects of the companies may actually be in the hand of valuable partners. In such cases what should be controlled is the relationship.

Once we have introduced the main variables that define the TPF framework we can propose a final version of the framework in Figure 44.

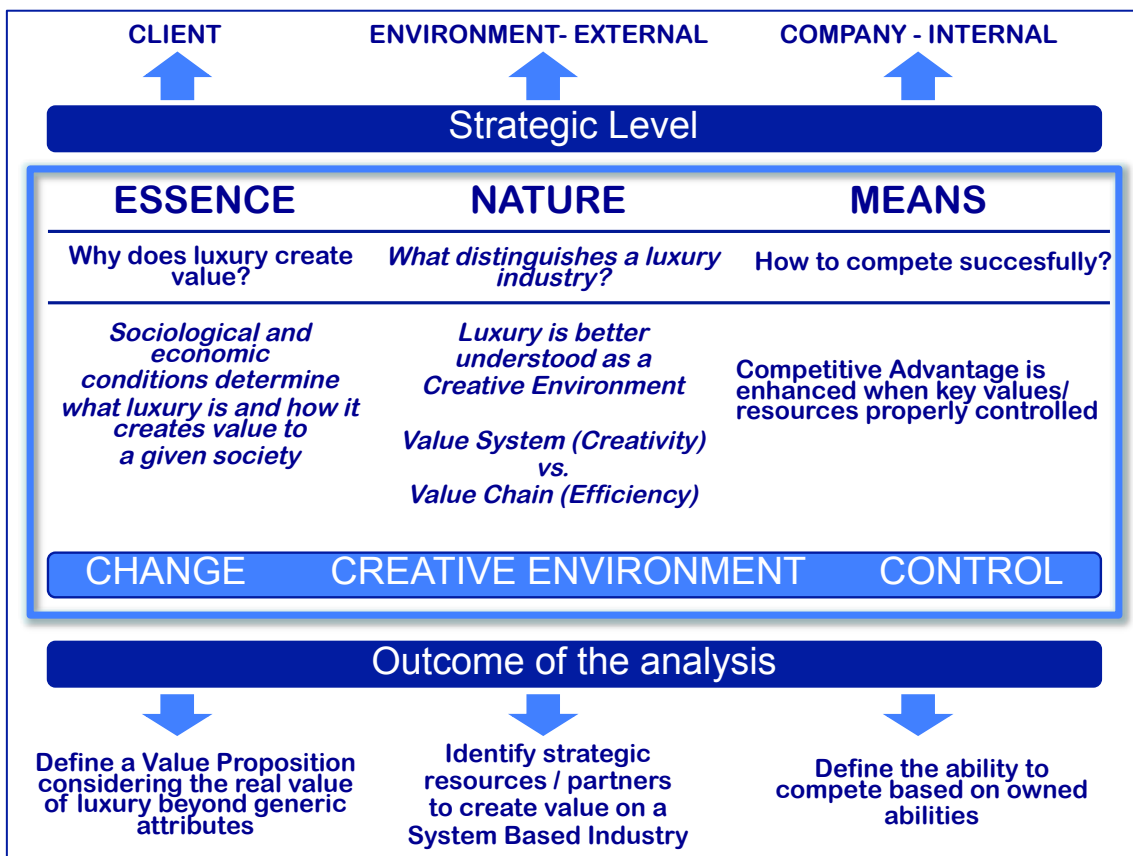


Figure 25.- The Three Pillars Framework for luxury firm.

An analysis with the TPF framework provides three fundamental lessons. The first lesson serves to help define a firm’s value proposition. In this way, a company taking

into account the aspects of the TPF would clearly understand how luxury creates value and how change is a critical variable to include in the analysis. Unlike common wisdom suggest, a luxury value proposition is not only based on a number of luxury-based static attributes.

The second lesson is to identify the strategic assets or resources that a firm needs to secure to successfully compete in a creative environment. Unlike common wisdom suggests, to become a player in the market one needs to secure access to certain key components to foster creativity, and not only rely on an individual talent creativity approach. Finally, the third lesson is to define the abilities or assets that are needed to be properly controlled to sustain a competitive advantage.

13 Future research and next steps.

One of the main findings of this work is the role of creativity for luxury firms. Contrary to common wisdom, the research has shown how creativity is not only at the heart of the firm, but also a fundamental aspect to understand the industry dynamics of luxury firms.

However, this work has only provided some initial On top of that, the way to conceive creativity also plays a leading role. As creativity is linked with the concept of innovation, this allows for additional interpretation. A creative based firm is that one that is able to provide their own creative. While this aspect is not empirically proven in the research, it is certainly a very interesting path to follow. A future step to pursue would be to understand the role that creativity plays, not only to design and develop new products, but as a way to define the environment.

If a traditional company wants to be successful it needs to be efficient in the supply chain and in the configuration of their activities. Actually the close relationship with key suppliers and the organization based on métiers does support much more a perspective where creativity is key rather than efficiency. This would also challenge more traditional ways of analyzing industrial environments.

This opens an interesting aspect to be further evaluated, which is how creativity not only needs individual talent, but a network of players. As a consequence of these results the author and PhD. Frederic Godart, from INSEAD, has presented the early stages of a model to understand luxury creativity as the results of an interrelated system of company and valuable partners, either integrated or not (Millán, Godart 2014). Therefore, creativity is not an independent variable nor a single capability, such as personal talent. Quite contrary creativity does seem to appear when a different set of interrelated aspects does work together. This is why creativity is considered to be a value system instead of linear based set of manufacturing activities like a value chain.

The TPF framework is intended to provide luxury executives with the knowledge to identify and enhance the ability of a firm to compete in the market. In doing so, the framework helps to understand the different aspects, or pillars, where the ability to compete should be based. It also provides an in-depth overview so that the typical issues or problem can be identified.

This work has been focused on the personal luxury industries (fashion, accessories, watches and jewelry, and perfumes and cosmetics). Therefore, another suitable path for further research is to understand the potential and limitations of the TPF when considering other luxury industries.

Exhibits

Anexos

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16 Exhibit 2. Quantitative questionnaire.

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Do you have professional experience in any of the luxury industries? *

- More than 10 years
- Between 5 and 10 years
- Between 2 and 5 years
- Less than 2 years
- No

In which industry do you have the most expertise? *
Please, select only one.

- Fashion
- Leather goods and accessories
- Watches
- Jewelry
- Cosmetics
- Fragrances
- Hotel & Spa
- Residential & Real State
- Wine, Champaign & Spirits
- Table and Gourmet products
- Automobile
- Yacht
- None

Have you purchased a luxury product/service (value below 600 Euros) in the past 3 months? *

- Yes
- No

Have you purchased a luxury product/service (value above 600 Euros) in the past 3 months? *

- Yes
- No

Which are the aspects that define a luxury company? *
Please select only 3.

- Superior price
- Superior quality
- Superior functionality or performance of their Products/Services

Refinement in terms of art and creativity

Status icon

Prestige through brand image

Global presence

An scarce know-how

An scarce distribution

Heritage

Craftsmanship

Luxury companies do not truly offer distinctive products but capitalize on the demand of rich consumers

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Would you be willing to purchase a luxury item from a luxury firm which is originally from an emerging country? *

Yes, I do not care about the origin of the company as long as the product/service satisfies me

No, I do care about the origin of the company, even if the product/service satisfies me

Luxury firms have been traditionally perceived to be European (and to some extent North-American). Do you think the development of emerging countries will also bring new luxury firms from such regions in the short term? *

Yes, new luxury firms are likely to emerge.

No, luxury firms will remain being predominantly European.

And in the long term?, Do you think that the current situation will be modified with new luxury firms from emerging countries? *

Yes, new luxury firms are likely to emerge.

No, luxury firms will remain being predominantly European.

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How relevant is for you that a Luxury brand is actually manufacturing the product?

1 2 3 4 5

Not

important

Very

important

You are about to purchase a luxury item. Would it change your decision if you suddenly know that the product is being sub-contracted to a third company?

1 2 3 4 5

It will not change at all	It will change completely
Add item	

Page 4 of 6 - The Concept of Luxury - 4

How relevant do you think is "Personal Fulfillment" for consumers when acquiring a luxury product/service? *

	1	2	3	4	5	
Not important at all						Very Important

How relevant is "Personal Fulfillment" when you buy or plan to buy luxury? *

	1	2	3	4	5	
Not important at all						Very Important

How relevant do you think is "Superior Functionality or Quality" for consumers when acquiring a luxury product/service? *

	1	2	3	4	5	
Not important at all						Very Important

How relevant is "Superior Functionality or Quality" when you buy or plan to buy luxury? *

	1	2	3	4	5	
Not important at all						Very Important

How relevant do you think is "Social Recognition" for consumers when acquiring a luxury product/service? *

	1	2	3	4	5	
Not important at all						Very Important

How relevant is "Social Recognition" when you buy or plan to buy luxury? *

	1	2	3	4	5	
Not important at all						Very Important

**What do you think when you think of luxury? *
(Please select a maximum of 2 choices)**

Personal fulfillment / satisfaction
Social maker (helps to convey status)
Access to rare / craftsman products ("personal exclusivity")
Get what others can not ("social exclusivity")
Get the best (in terms of functionality, quality, performance...)

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Do you think that you will consider luxury in the same way as today in 10 years? *

(Please do not consider the natural effect that in 10 years you will have a superior consumer power)

Yes I will perceive the same, since I do not think that the values of luxury evolve over time

No, most likely what we perceive to be as luxury today will evolve over time

Page 6 of 6 - The Concept of Luxury - 6

How relevant is for you that a luxury item is normally only sold on specific and limited locations? *

It does not affect my decision, it is actually better since this enhances the experience

It is clearly inconvenient

How do you value the possibility of buying luxury on-line? *

On-line is good for research and comparison, but I prefer to buy in-store because of the experience

On-line is good for research and comparison, but I prefer to buy in-store because I understand better the produce (features, usage, maintenance...)

On-line is certainly better in most occasions.

Luxury companies have increased significantly their reach over the past decade and now they are appealing to a wider consumer base. Do you consider this is an issue that hurt luxury buyers perception of their brands? *

Yes

No, it does not affect

Maybe, it could an issue to consider

Luxury companies have increased significantly their reach over the past decade and now they are appealing to a wider consumer base. Does this hurt your personal perception of luxury firms? *

Yes

No, it does not affect
Maybe, it could an issue to consider

17 Exhibit 3. Qualitative Research. List of executives interviewed.

NAME	POSITION	SECTOR	LOCATION	DATE
Informant 1	CFO Global	Fashion / Leather G.	Madrid	24/03/15
Informant 2	CEO Country	Technology	Madrid	25/04/13
Informant 3	CMO Global	Fashion / Leather G.	Madrid	18/02/15
Informant 4	CEO Country	Fashion / Leather G.	Madrid	24/02/15
Informant 5	CEO Europe	Watches / Jewellery	Madrid	10/02/15
Informant 6	CEO Global	Fashion / Leather G.	Madrid	13/03/13
Informant 7	CEO Global	Gourmet / Wine	Madrid	18/09/13
Informant 8	CMO Europe	Selective Distr. / Wine	Madrid	25/09/13
Informant 9	CEO Country	Fashion / Technology	Madrid	13/02/13
Informant 10	CEO Country	Multiple	Madrid	15/05/13
Informant 11	CEO Country	Fashion / Leather G.	Madrid	27/06/13
Informant 12	CEO Europe	Fashion / Leather G.	Paris	26/07/13
Informant 13	CEO Country	Watches / Jewellery	Madrid	27/06/13
Informant 14	CEO Country	Fashion / Leather G.	Madrid	16/10/13
Informant 15	CEO Country	Multiple	Madrid	25/07/13
Informant 16	CEO Country	Fashion / Leather G.	Madrid	18/09/13
Informant 17	CEO Country	Watches / Jewellery	Madrid	12/11/13
Informant 18	CMO Country	Fashion / Leather G.	Zurich (On-line)	14/01/14
Informant 19	CEO Global	Fashion / Leather G.	Paris	05/02/14
Informant 20	CEO Global	Watches / Jewellery	Geneva (on-line)	17/02/14
Informant 21	CMO Europe	Fashion / Leather G.	Paris	21/03/14
Informant 22	CEO Europe	Multiple	Paris	06/03/14
Informant 23	CMO Global	Multiple	Paris	21/03/14
Informant 24	CMO Europe	Multiple	London (On-line)	15/03/14
Informant 25	CMO Europe	Perfumes / Cosmetics	Madrid	03/05/13
Informant 26	CEO Country	Perfumes / Cosmetics	Madrid	03/05/13

Note: Given the secrecy of the sector, the interviews have been held under the requirement of anonymity. Not only the person, but also the company should not be able to be identified. Therefore names are not disclosed and companies are not linked to the positions in the table.

Companies include: LVMH, Kering, Richemont, Jimmy Choo, Omega, Blancpain, Patek Philippe, Cartier, Hermès, Bang&Olufsen, Louis Vuitton, Chanel, Gucci, Bottega Venetta, Loewe, Luxury Head Hunters, Vente Privee, Tiffany, Porsche, BMW, Sysley, La Prairie, Suarez and Luxury Society

18 Exhibit 4. Case study: Porsche Beyond the limits of luxury?

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The end of 2013 was a very exciting period in the long and successful history of Dr. Ing. Ferdinand Porsche AG (Porsche), the German luxury carmaker. In September of that year the Porsche 918 was presented, an extreme sports car with a hybrid engine of more than 800 horse power (HP) and a price of more than €750,000. In November, Porsche introduced the new Macan that, with an expected entry price of €48,000^g, became the most affordable Porsche to date (**Exhibit 1**).

The new models showed the wide product offering Porsche had achieved in just a decade. In the late '90s Porsche mainly manufactured the iconic 911, but by 2014 the German manufacturer had six different models on offer: Boxster/Cayman, 911, Panamera, Cayenne, Macan and 918 (**Exhibits 2 & 3**).

Porsche had already achieved extraordinary success with its latest launches, such as the Porsche Cayenne and the Porsche Panamera. By continuously adding new models, Porsche had also showed its capacity to access a wider client base. However, the two new models could also bring additional complexity. Was Porsche ready to capitalize on its previous success? Was there any limit to Porsche's successful expansion? Was Porsche going beyond the limits of luxury?

The automobile industry

The economic downturn generated a shrinking demand in the car industry (**Exhibit 4**), although the outlook was slightly different from 2013. Some countries, such as the US and particularly India and China, were expected to experience an increase in car sales, whereas other regions would face a tougher situation. In the European Union car sales were at the same level as the '90s^h.

The management of installed capacity was one of the keys, especially in Europe, where many argued that production volumes were simply excessive. It was estimated that from a total capacity of 25.5 million cars, only 20 million were produced in 2012ⁱ. Cutting volume by closing manufacturing plants was an option, but not an easy one and certainly expensive (closing down a plant of 40,000

^g Autobild.de. Porsche Macan. <http://www.autobild.de/marken-modelle/porsche/macan/1/>

^h The Economist. "The global car industry. Wheels of mixed fortune." December 2012.

ⁱ The Economist: "European carmakers. Too many cars, too few buyers." February 2012.

workers was estimated to cost €8 billion)^j. Likewise, big automobile plants were often seen as iconic national symbols. Consequently, political turmoil ensued every time closing an automobile plant was considered.

This situation led to fierce commercial competition based on price-cutting, promotions and special offers, which ultimately damaged the financial position of some players. However, there were some exceptions, such as the more effective global players including Toyota and the Volkswagen Group (VWG), which were less affected^k. In general terms, players faced a complicated landscape generated by a decline in sales, associated rising manufacturing costs and intense commercial competition.

This was expected to lead to further industry concentration, which was significant as up until that point, the world's top ten carmakers accounted for 80% of global production and 90% of US sales^l. In addition, clients in emerging markets were not satisfied with "pretty-good" cars^m, but showed a growing tendency towards upscale cars. This also widened the gap between global players. While capacity for some declined from 79% to 70%, others, such as Germany's leading manufacturers, opened new production linesⁿ.

The luxury automobile industry

The high-end of the industry seemed to play in a different league and projections for luxury cars were spectacular (**Exhibit 5**). China was estimated to become the main luxury car market by 2020, overtaking the US. The 2013 government change in China was expected to have a negative impact on the consumption of luxury goods. However, that was not the case for luxury cars, as the gift effect was not so important as in other luxury industries and only a tenth of the luxury cars sold in China were government related^o.

Among the different segments of the market, sport utility vehicles (SUVs) seemed to be the new star with SUV sales expected to grow more than any other segment (**Exhibit 6**). Furthermore, it was not only a matter of sales, SUVs were also one of the most profitable segments^p.

Consequently, most luxury manufacturers planned to enter the category. Bentley, a VWG company, had plans to launch an SUV in 2016, which was expected to

^j The Economist: "European carmakers. Too many cars, too few buyers." February 2012.

^k The Economist. "The future of cars. Gloom and boom." April 2013.

^l <http://www.nasdaq.com/article/auto-industry-outlook-and-review-feb-2013-industry-outlook-cm216470>

^m The Economist. "The future of cars. Gloom and boom." April 2013.

ⁿ The Economist: "European carmakers. Too many cars, too few buyers." February 2012.

^o The Economist. "Cars in China. Still racing ahead." March 2013.

^p The Financial Times. "Bentley SUV gives £800m boost to car sector." July 2013.

represent 30% of their total sales^q. Lamborghini, also a VWG company, confirmed it would launch the Urus model, an SUV priced at around €150,000, in 2017^r. Maserati would launch its Levante SUV in 2015. The Italian brand, owned by the Fiat Group, planned to launch other lower range models (such as the Maserati Ghibli) and boost total sales up to 70,000 units, ten times more than sales for 2012^s. Jaguar, now owned by the Indian Tata Group, was also scheduled to launch an SUV in 2015, among other new models^t.

Luxury cars were not only different due to their beautiful designs, powerful engines or high quality finishing. They also represented a different competitive model in the industry. In some aspects one could say that the luxury car manufacturers had more similarities to other luxury industries than to the automobile industry itself.

The concept of exclusivity was paramount to these companies, with some players even opting to limit sales to below demand level. Despite its growth potential, Ferrari announced in 2012 that it intended to produce less than 7,000 cars per year to protect its brand image^u.

Marketing and brand building activities had more in common with other luxury firms where a more personal and exclusive approach was often used. For instance, specific locations and additional control over the buying experience was needed. This forced dealers to meet additional requirements in order to ensure a common experience, which was not an easy task to achieve.

The relationship between the client and the manufacturer was also different from that of the lower car segments, particularly in maintenance and post-sales. Many luxury car manufacturers tried to provide exquisite customer service both at the point of sale and during maintenance and there was evidence that this significantly increased both customer loyalty and future sales.

Being able to provide the latest technologies and performance also implied a high R&D investment. Car conglomerates were perceived to create synergies in manufacturing, R&D and, to a lesser extent, in marketing activities. Likewise, it was not considered that Chinese car manufacturers could pose a serious threat to this segment of the industry^v.

Porsche, a successful transformation

^q The Financial Times. "Bentley SUV gives £800m boost to car sector." July 2013.

^r Diario Motor. "Lamborghini Urus. Confirma su llegada, en 2017 estará con nosotros." October 2013.

^s The Financial Times. "Fiat chief Sergio Marchionne plays to Italy's strengths." September 2013.

^t The Financial Times. "Jaguar bets future on saloon Market." July 2013.

^u The Financial Times. "Ferrari limits car sales to boost exclusivity." May 2013.

^v The Economist. "Cars in China. Still racing ahead." March 2013.

Dr. Ferdinand Porsche founded the company in 1931. Porsche was very well known, particularly for its 911 model. The fact that the 911 celebrated its 50th anniversary in 2013 demonstrated Porsche's prestige. Porsche had remained an independent company with the majority stake (90%) controlled by the Piëch-Porsche family until 2008.

In the '90s, Porsche successfully diversified its product portfolio by adding the Porsche Boxster (1996) and thereafter continued to introduce new models with a high success rate: the Porsche Cayenne (2002); Porsche Cayman (2005); and the Porsche Panamera (2009) (**Exhibit 2 and Exhibit 3**).

This showed Porsche's ability to identify the specific needs of luxury car clients. The clearest example of this was the Porsche Cayenne, a model received with some doubts in 2002, which went on to become an extraordinary success and rapidly amounted to 50% of total Porsche sales. With the Porsche Cayenne, the German luxury carmaker not only provided additional choice for its clients, but also created a new category, the luxury SUV.

As a result, the company that was once believed to be a one-car-firm transformed itself in just one decade into a luxury automobile corporation with a wider portfolio.

Porsche and Volkswagen, old friends

Porsche and Volkswagen have always had a close relationship. For instance, Ferdinand Porsche himself designed the Beetle, one of the most successful Volkswagen cars ever. More recently, the corporations developed a chassis for the Porsche Cayenne and Volkswagen Touareg together.

However, their relationship experienced a major shift in 2008 when Porsche, under the leadership of Wolfgang Porsche, attempted a hostile takeover through a complex options strategy. VWG chairman Ferdinand Piëch, who was actually the cousin of Wolfgang Porsche and a member of the Piëch-Porsche family, was caught by surprise.

However, this turned into a nightmare for Porsche, as it was unable to achieve its objective and ended up heavily indebted. Furthermore, Porsche was the target of litigation proceedings by hedge funds as they considered that the lack of knowledge about this hostile takeover affected their investment in the company. As a result, it was actually VWG who came to the rescue and acquired 49.9% of Porsche for €3.9 billion in 2009. This deal also sparked a few additional changes in the management structure. Porsche's CEO and CFO departed in September 2009 and VWG's senior managers replaced their counterparts at Porsche, in addition to retaining their posts at VWG^w.

^w Reuters. "VW CEO says synergy plans for Porsche are realistic." August 2009.

The VWG-Porsche deal represented both the tensions among the Piëch-Porsche family and its different views regarding the relationship between VWG and Porsche. The family based turmoil ended in August 2012 when VWG acquired the remaining 51.9% stake in Porsche for €4.4 billion, paying 4 times earnings before interest and tax, which was considered to be a good deal for VWG^x.

In exchange, Porsche received 50.1% of VWG's voting rights, becoming the German carmaker's major shareholder (**Exhibit 7**). Porsche used the cash it received as part of this deal to pay its sizeable debt of around €2.5 billion and ended most of the litigation proceedings arising from its 2008 move^y. In many ways, Mr. Piëch was victorious as VWG ended up with full control over Porsche. By August 1, 2012, Porsche was fully integrated in VWG. That year Porsche became the third largest contributor to the German conglomerate behind Audi and Volkswagen^z, with profits of €1.2 billion.

In 2011^{aa}, VWG CEO Martin Winterkorn announced that the group was determined to lead the market by outperforming its traditional rivals General Motors and Toyota. VWG's goal was to reach annual sales of 10 million vehicles, a pretax profit margin of more than 8% and to have the most satisfied customers and employees. To this end, VWG continued investing heavily and in just two years was on the verge of investing €70 billion in ten new manufacturing plants (seven in China) while continuing to back R&D initiatives in new hybrid technologies and launch new models throughout its portfolio of brands^{bb}.

The Macan model was a clear example of the €1 billion cost synergies VWG expected to make after its acquisition of Porsche^{cc}. As VWG CFO Hans Dieter Poetsch explained: "accelerated integration will allow us to start implementing a joint strategy for Porsche's automotive business more quickly and to realize key joint projects more rapidly. It's a great deal for VWG, both financially and in operative terms"^{dd}.

Porsche would not only benefit from the manufacturing scale of VWG, but also from access to components and technologies. However, some analysts pointed out that this would reduce Porsche's traditional flexibility. For instance, Porsche had to cancel its Porsche Boxster manufacturing contract with Magna Sty in order to relocate production to VWG's Karmman plant^{ee}.

Strategy 2018

^x The Financial Times. "Volkswagen - family affairs." September 2012.

^y The Financial Times. "Volkswagen - family affairs." September 2012.

^z Bloomberg. "Porsche Plans 200,000 Car Sales by 2016." September 2013.

^{aa} Car & Driver. "Volkswagen's Big Game of Risk: The Ambitious Plan for World Domination." December 2011.

^{bb} Forbes. "How Volkswagen Will Rule The World." May 2013.

^{cc} Bloomberg. "Porsche Plans 200,000 Car Sales by 2016." September 2013.

^{dd} The Guardian. "Volkswagen swallows Porsche." July 2012.

^{ee} The Wall Street Journal. "How Will Volkswagen Ownership Affect Porsche?" July 2012.

Porsche's strategy 2018 plan (**Exhibit 8**) encapsulated the company's strategic goals, one of which was to achieve annual sales of 200,000 cars per year by 2018. Porsche sold 150,000 cars in 2012 and announced that it would reach its target before 2018^{ff}. The Macan was a major part of achieving this plan and was expected to account for 50,000 sales per year^{gg}. Porsche was planning to hire 1,000 plant workers and 200 engineers^{hh} solely to manufacture the SUV. Meanwhile, the 918 was considered more of a limited edition model with production levels of just 918 units expected.

The Porsche Macan was based on Audi's Q5 platformⁱⁱ (just as the Porsche Cayenne was based on the Volkswagen Tuareg platform). Porsche engineers are said to have worked extensively to provide a completely different experience from that of the Audi Q5^{jj}.

Dealerships were also expected to grow. Porsche invested €200 million each year to expand its existing dealer network^{kk}, which was expected to reach 1,000 dealers by 2018, up from the 750 it had in 2012^{ll}.

Future plans included additional models to join the Porsche family. While not yet confirmed, the most likely to be finally launched were a smaller version of the Panamera model (called Pajun - from Panamera Junior - in its development stages) and a sports car priced at around €200,000, which aimed to compete against the Ferrari 458 Italia^{mm}.

Growth, opportunity or risky move?

Porsche's new models showed the potential of expanding its current portfolio. The Macan would provide an entry-level car from which clients were able to "taste" the Porsche feeling and later move up towards the Cayenne, Panamera or 911. Initially, Porsche launched the Macan with the most powerful engine (**Exhibit 1**) in order to provide a more exclusive image^{jj}. This growth opportunity also seemed to address increased demand for luxury cars from clients in emerging markets.

Porsche had already been successful in doubling its size. However, doing it again was not a simple task and not only from a manufacturing perspective. Porsche was targeting new customers and as its portfolio of cars grew, some new issues came into play.

^{ff} Porsche annual report 2011.

^{gg} Bloomberg. "Porsche Plans 200,000 Car Sales by 2016." September 2013.

^{hh} Diario Motor. "Porsche Macan, los de Stuttgart contratan a 1000 nuevos trabajadores para su producción." March 2013.

ⁱⁱ Car and Driver. "Porsche's baby Cayenne continues its march towards moneymaker status." May 2012.

^{jj} Autobild.de "Neuer Macan, kein SUV fährt sportlicher!" October 2013.

^{kk} Porsche annual report 2012.

^{ll} Bloomberg. "Porsche Plans 200,000 Car Sales by 2016." September 2013.

^{mm} Autoblog.com. "Porsche confirms Ferrari 458-fighting 961 supercar." November 2012.

To date, all Porsche models represented a success story and the company had proved that it was able to fulfill the demand from luxury clients. However, some questions remained. Was Porsche able to capitalize on its previous successful launches? Was it risky to launch two models in such different segments of the market? What implications would it have for the company? And above all, what was the limit, if any, for a manufacturer of luxury cars?

EXHIBIT 1
PORSCHÉ 918 AND PORSCHÉ MACAN

Porsche 918
Price: €750,000

Engine: 887 HP

Top Speed:
343 km/h.

Acceleration:
0-100 km/h: 2.8 sec.



Source: Porsche.com (additional media on <http://www.porsche.com/microsite/918>)

Porsche Macan

Price:
From €48,000

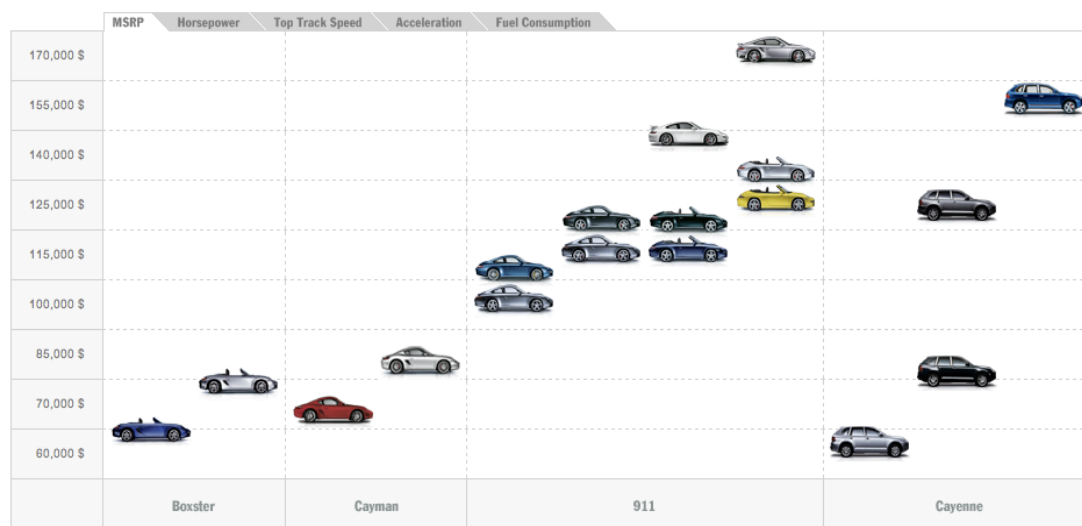
Diesel Engine: 245HP
(in 2015: Audi based 204 HP)

Gasoline Engine 300 to 400 HP
(in 2014: 233 HP)



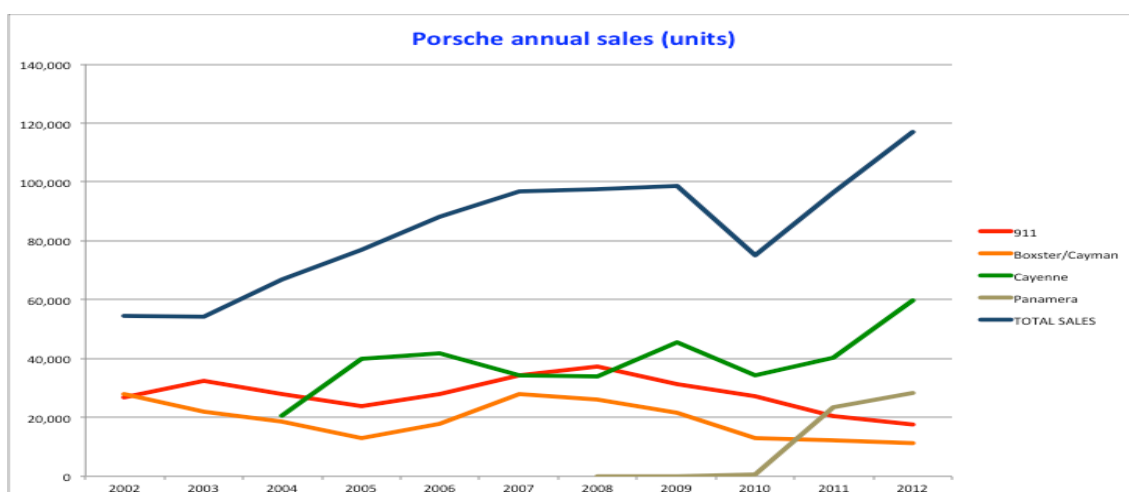
Source: Porsche.com (additional media on <http://www.porsche.com/microsite/macan>)

EXHIBIT 2
PORSCHÉ PRODUCT PORTFOLIO IN 2006



Source: Porsche Canada (prices in Canadian dollars in 2006)

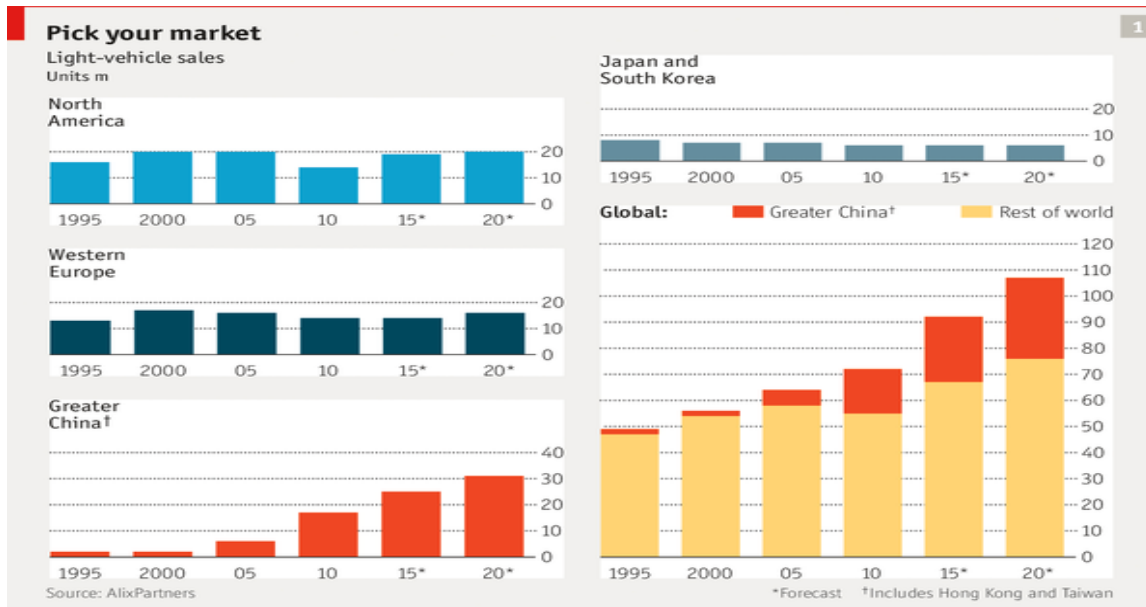
EXHIBIT 3
PORSCHÉ SALES AND FISCAL RESULTS



	FY 2012	FY 2011
Revenue	13.865 €	10.928 €
Changes in inventories and own work capitalized	1.016 €	1.095 €
Total operating performance	14.881 €	12.023 €
Other operating income	537 €	657 €
Cost of material	8.124 €	6.822 €
Personnel expenses	1.648 €	1.349 €
Amortization of intangible assets and depreciation of property, plant and equipment and leased assets	1.114 €	-871 €
Other operating expenses	2.093 €	1.593 €
Profit before financial result	2.439 €	2.045 €
financial result	209 €	63 €
Profit before tax	2.648 €	2.108 €
Income tax	-808 €	-648 €
Profit after tax	1.840 €	1.460 €

Source: Based on Porsche annual reports.

EXHIBIT 4
THE GLOBAL AUTOMOTIVE INDUSTRY



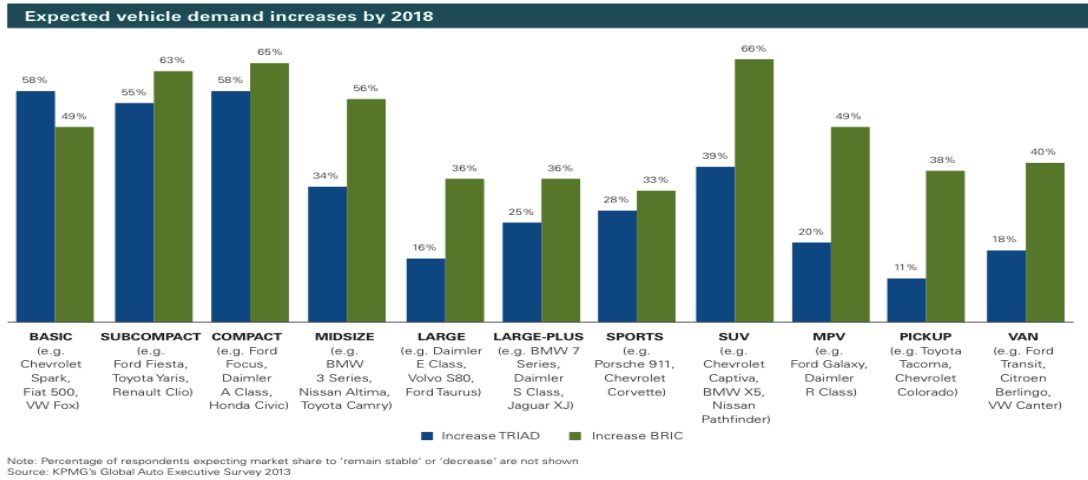
Source: The Economist. "The future of cars. Gloom and boom." April 2013.

EXHIBIT 5
SALES OF LUXURY CARS.



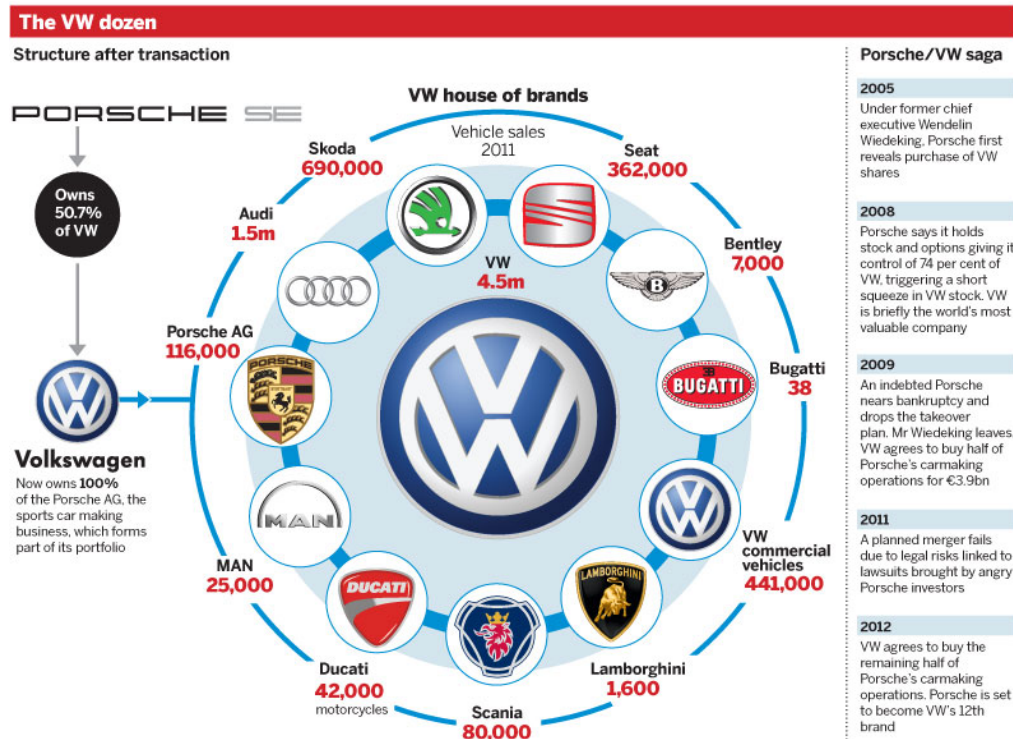
Source: The Economist. "Cars in China Still Racing Ahead." March 2013.

EXHIBIT 6
EXPECTED VEHICLE DEMAND BY TYPE



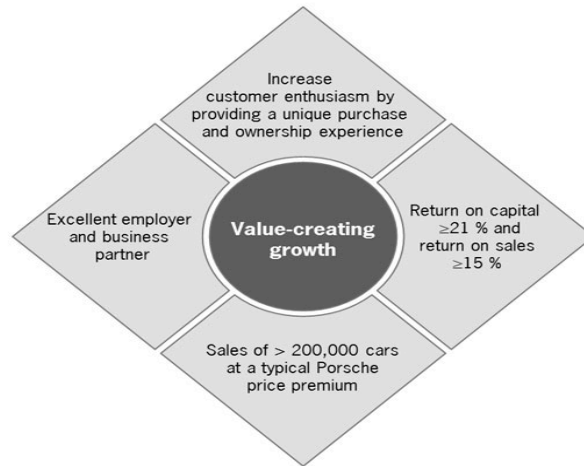
Source: KPMG. Global Automotive Executive Survey 2013.

EXHIBIT 7
THE VWG & PORSCHE RELATIONSHIP



Source: The Financial Times. "VW-Porsche merger ends years of wrangles." July 2012

EXHIBIT 8
PORSCHE STRATEGY 2018



Source: Porsche

19 Exhibit 5. Case study: LVMH and Bulgari: Luxury Time.

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2011 was, without doubt, a significant year for the renowned luxury retailer Bulgari after the company confirmed its partnership with the world's leading luxury goods conglomerate M et Hennessy Louis Vuitton (LVMH) in March. The deal enabled LVMH to gain control of one of the world's most celebrated jewelry and watch retailers and represented another star in the constellation of luxury brands owned by the French group. LVMH was also able to improve its position within the watch and jewelry market, which has long proved elusive for the group.

In December of the same year, LVMH demonstrated its commitment to Bulgari by naming Michael Burke CEO. Mr. Burke is a senior executive with a distinguished career within the luxury goods industry and is widely known to be a close associate of LVMH President Bernard Arnaultⁿⁿ. As Bulgari CEO, he then faced several challenges. To begin with, the Bulgari deal represented LVMH's largest acquisition to date, with many in the media questioning the amount paid for the Italian brand. Furthermore, LVMH now had to compete in an area of the luxury goods market where it did not hold a position of leadership, as it did in other areas. The group's announcement in March 2012 that it intended to compete in the prestigious "complication watches" sector suggested that the future was about to become even more complicated.

LVMH, a successful luxury conglomerate

LVMH's history mirrors the career of the group's president, Bernard Arnault^{oo}. In 1984, the successful and controversial French entrepreneur entered the luxury goods industry through the acquisition of Boussac, which owned the (at that point) loss-making Christian Dior. This was the first of many acquisitions that would eventually become a conglomerate comprising more than 50 brands (Appendix 1a); LVMH originated in Paris in 1987 following the merger of the Louis Vuitton luggage and leather goods brand (founded in 1854) with M et Hennessy, the celebrated champagne and cognac producer^{pp}.

LVMH's successes have been well documented as the group has presided over some of the luxury goods industry's greatest transformations including both Christian Dior and Louis Vuitton (the main symbol of the conglomerate). Both

ⁿⁿ "LVMH overhauls Rome management," The Financial Times, Elisabeth Paton, December 2011.

^{oo} See, for example: "LVMH.The empire of desire," The Economist, June 2012.

^{pp} Case Study "Louis Vuitton in Japan," Paul J. and Feroul C., Richard Ivey School of Business, 2010.

these companies managed to overcome a period of deficit results in the late 1980s to become two of the luxury goods market's most renowned and profitable brands.

In a way, LVMH's ability to improve the performance of its brands has impacted on recent developments within the luxury goods industry. In the words of Mr. Arnault himself, the group's success is based on three principles. First, the identity of each brand (its DNA) has to be understood, which means understanding its history and finding a designer capable of expressing it. Next, the quality of goods and their distribution has to be strictly controlled. And finally, a "masterful marketing buzz"^{qq} must be created.

LVMH's business is currently divided into the following five business lines (Appendix 2): wines and spirits; fashion and leather goods; perfumes and cosmetics; jewelry and watches; and select distribution. Fashion and leather goods is, without doubt, the group's leading division, representing 40% and 60% of total sales and profit, respectively. If you add to this the fact that the performance of LVMH's perfume and cosmetics business is often based on the strength of the original fashion brands, the importance of these fashion lines for the group could be even greater.

LVMH has obtained a wide array of brands that cover different industries and types of client. The group offers both entry level luxury goods such as perfume, as well as more inaccessible products and brands such as Fendi fashion goods and accessories. This gives some idea of the level of diversification achieved by the conglomerate.

Without doubt, Louis Vuitton (LV) stands out from all the other brands within LVMH's universe. Although no official data exists, several analysts have stated that LV represents more than 70% of sales and an even higher percentage of profits within the group's fashion and leather goods division^{rr}. In certain years, such as 2009, some sources estimate that LV returns exceeded returns for the entire fashion and accessories division due to the negative performance of many of the other brands^{ss}. The fact that the fashion and accessories division could generate up to 50% of the group's entire profits in some years, as it did in 2011^{tt}, demonstrates the impact and importance of the LV brand for the French conglomerate.

Furthermore, even though LVMH does not issue individual brand data, it is estimated that returns for the Louis Vuitton business line amount to 70% of the group's total returns, making it one of the industry's leading brands^{uu}. According to

^{qq} Interview with Bernard Arnault in Fortune Magazine, September 2004. Access via CNN Money (<http://money.cnn.com>).

^{rr} "European general retail & luxury goods. Quarterly." Bernstein Research, July 2009

^{ss} Ibid.

^{tt} LVMH 2011 annual report.

^{uu} Luxury conglomerate returns are difficult to evaluate as individual data is often not reported. However, several sources estimate that LV returns account for more than 70% of total returns. See: "How far can luxury brands travel? Avoiding

Mr. Arnault, “The luxury goods industry is the only one that provides luxury returns.”

The watchmaking industry

The watchmaking industry dates back to the first master clock and watchmakers who set up workshops in which to practice their craft several centuries ago. Jehan Jaques Blancpain is considered one of the first master watchmakers and his workshop, founded in 1735, was believed to be one of the world’s oldest^{vv}. The evolution of this industry has always been linked to developments in technology due to the fact that improvements in watchmaking techniques and the use of better materials have helped to make watches more precise.

There are currently two very different types of product on the market. The first of these are electronic watches, which are powered by a simple quartz mechanism and are often referred to as quartz or battery watches. These watches have a relatively low production cost and are highly precise. This sector of the industry is broader and has a greater number of competitors than the second type.

Mechanical (or automatic^{ww}) watches are the second type of product in this sector and are operated by the mechanical movement of their components (the technology used in the original watchmaking industry). Following the emergence and increased use of quartz in the 1980s (mainly due to competition from Japan), many in the industry thought that electronic watches would eventually replace mechanical watches due to their improved technology and production values.

The intervention of a man named Nicolás Hayek was one of the main reasons why the mechanical watch industry was able to withstand the onslaught from its quartz-operated rival. In the 1980s several Swiss banks sought advice from this renowned Swiss consultant on the sale of two groups that together constituted the majority of Switzerland’s declining timepiece industry, Société Suisse pour l’Industrie Horlogère (SSIH) and Allgemeine Gesellschaft der schweizerischen Uhrenindustrie AG (ASUAG). Both these groups owned timepiece manufacturers as well as industry suppliers.

Convinced of the industry’s potential and the effect its decline would have on Switzerland, Mr. Hayek persuaded the nation’s banks to merge these two groups and form a single federation; thus, the Société de Microélectronique et d’Horlogerie (SMH) was born. With Hayek at the helm, the companies within the new group pledged to employ ETA (which belonged to the ASUAG group) to manufacture watch movements. Due to the economies of scale achieved by

the pitfalls of luxury brand extension,” Reddy M., Terblanche N., Pitt L., Parent M. Kelley School of Business, Indiana University.

^{vv} Blancpain continues to use this fact in its advertising. See: www.blancpain.com/history.

^{ww} Hereafter, both “mechanical” and “automatic” may be used to the same effect.

suppliers and the manufacturers' decision to focus on product design and marketing, SMH brands began to make a comeback. Furthermore, Hayek also successfully launched "Swatch", a new quartz watch developed to fend off Japanese competition. In 1998, SMH became The Swatch Group.

The turn of the century marked the beginning of a period of sustained growth with the emergence of the automatic watch era. The industry had been facing ruin in the 1980s; in 2011, it generated 75% of Switzerland's total timepiece exports^{xx}. The "Swiss made" brand on a watch dial became a symbol of prestige and quality once more.

High-end watches

The high-end watch industry forms part of the personal luxury market (Appendix 4). Its appeal for luxury clients is based on the complex nature of the watches it produces, the beauty of their design and the value of the materials used. It is currently mainly based in Switzerland (Appendix 5) and in particular, the western French-speaking districts (Appendix 6).

High-end watches are those equipped with automatic parts, often finished off with exquisite materials. Some reports previously split the industry into four levels according to mechanical complexity and materials used^{yy}. However, given the recent changes and the individual aspirations of the industry's various competitors, in 2012 these same sources provided a simplified list comprising 40 high-end watch industry competitors^{zz}.

The decision to modify these reports was based on the fact that many competitors continue to increase their product range. For example, companies such as Cartier, Chopard and Bulgari, which were originally considered to be jewelry watch manufacturers, also now offer a broad portfolio of automatic watches. Meanwhile, companies that had previously sold more accessibly priced products are now

^{xx} Federation of the Swiss Watch Industry, Annual report 2011.

^{yy} The World Watch Report classification for 2011 is as follows: Luxury timepieces: Audemars Piguet, Blancpain, Breguet, Franck Müller, Girard-Perregaux, IWC, Jaeger-LeCoultre, Patek Philippe, Vacheron Constantin and Zenith. Prestige timepieces: Breitling, Hublot, Omega, Rolex, Tag Heuer. High-end timepieces: Ebel, Longines, Montblanc, Rado, Raymond Weil. Jewelry watches: Bulgari, Cartier, Chopard, Piaget

^{zz} The 40 companies included in the World Watch Report 2012 are as follows: A.Lange & Söhne, Breguet, Chopard, Jaquet Droz, Omega, Bulgari, Vacheron Constantin, Dior, Zenith, Van Cleef & Arpels, Tudor, Rado, Blancpain, Montblanc, Jaeger-LeCoultre, Hermès, Breitling, Audemars Piguet, Louis Vuitton, Franck Müller, Ebel, Frederique Constant, Longines, Cartier, Patek Philippe, Rolex, Girard-Perregaux, Panerai, Maurice Lacroix, Ulysse Nardin, Chanel, Raymond Weil, Tag Heuer, Piaget, Roger Dubuis, Richard Mille, Hublot, Baume & Mercier, IWC, Harry Winston.

offering a more luxurious range of goods. Thus, growing competition has made it more difficult to compartmentalize the industry.

There are two main reasons why high-end watches are notoriously difficult to manufacture. First, manufacturing processes are highly technical; and second; it takes a workforce of sufficient expertise and qualifications to install components correctly.

The master watchmaker (an essential individual within the industry) is responsible for watch assembly, which, for high-end watches, requires extensive knowledge and experience. The process is complex as the watch must be repeatedly assembled and dismantled to check the machinery is working perfectly. For the most complex watches, a master watchmaker could take up to a year to complete this process. In some cases, a master watchmaker might be employed to assemble a single watch. Likewise, the watch will be returned to the individual that built it should it need any adjustments or repairs once purchased.

Training a master watchmaker is no simple matter. Companies generally employ few master watchmakers as it can take up to ten years to fully train them. In fact, there was a significant decline in practicing watchmakers during the era when the industry was crippled by competition from quartz watches. When interviewed, several executives noted that a whole generation of watchmakers has been lost due to this situation, and that substantial time and investment will be needed to redress the balance.

The second reason why manufacturing automatic watches is so complex is due to the design and manufacture of the different mechanical components involved in the machinery of a watch. This machinery is usually called either “movement” or “calibre” (Appendix 7). Devising and designing a movement is a complex engineering task. Furthermore, many of the components used are made out of precious stones such as rubies to provide optimum mechanical performance and wear and tear, making the end product even more expensive.

The attributes most highly valued by clients in these watches are its “complications” (the different functions offered by high-end watches). The most obvious of these processes is the ability to indicate time. The most accessible complication watches are automatic watches that indicate both the time and date. However, such devices are not usually referred to as complication watches.

A complication watch is one that includes additional attributes that make the device significantly more complex to manufacture. To date, there is no official list of complications; however, an exhaustive list of possible complications does exist. The most common complications cited include a perpetual calendar (which indicates the date in full), chronograph, double chronograph (which, once started, can be reset by pressing just one button - this is also known as a flyback chronograph), power reserve indicator, equation of time (which measures the differences in solar time arising from the fact that the Earth’s orbit of the Sun is elliptical and therefore, not all days of the year are precisely 24 hours long) and the moon-phase calendar, among others (Appendix 7).

The tourbillon is one of the most coveted complications, it is also the most technically complex to manufacture. Essentially, it enables a mechanism to compensate for the effects of gravity, thus improving a watch's accuracy. Extraordinary expertise is needed to assemble the mechanism as a single tourbillon can require up to 100 individual components. Manufacturing the mechanism with industrial or automated machinery is not a viable option. Equipping a watch with a tourbillon complication will increase the price of the device considerably. Such watches can sell for well over €30,000.

Complications form part of the movement mechanism and, therefore, all movements must be designed to house the specific complications to be included. In other words, the movement used to run a watch equipped with tourbillon and perpetual calendar will not be the same as a movement designed to run a chronograph watch. Although it is possible, in some cases, to use the same movement to achieve different end results, in general, watches equipped with different complications will need different movement mechanisms. Consequently, mechanism design is not only a technically complex process, but also a small-scale operation, as there are limits to the number of times a single design can be used.

Movements can be designed to include several complications. When a movement includes three or more complications the mechanism is known as “grande complication”.

Own manufacture vs. supplier manufacture

Manufacturing high-end watches is a complex technical process. As a result, few companies have either the technical capacity to design and manufacture the required movements or the master watchmakers needed to assemble the devices.

However, an alternative option is available to those companies lacking the technical expertise needed to manufacture high-end watches, which is to acquire movements from third parties. In turn, this increases the importance of suppliers within the industry.

This option has been widely used by numerous entities that realized they would be much better equipped to compete within the industry by simplifying the manufacturing process through outsourcing. Thus, watch brands with low manufacturing capacity have become more numerous both at the high-end section of the complication market and within the automatic watch sector (where devices traditionally display just the time and date).

This alternative enables companies to acquire fully assembled movements, which can then be housed in watch casings much more easily. Thus, automatic watches have become more common as more companies have been able to sell them without having to address the complexities of movement design and manufacture. In general, consumers are not aware of this fact.

Over time, this practice has generated a degree of anxiety within the industry, especially where movement suppliers and manufacturers are concerned.

The “Swatch” conflict

Another of the industry’s characteristics is the relative centralization of its component and movement suppliers. It is estimated that the Swatch Group’s manufacturing division (Appendix 3a) controls between 70% and 80% of all production of watchmaking movements^{aaa}. Furthermore, the group also controls some of the industry’s leading component providers such as ETA and Nivarox. It is estimated that ETA produces two thirds of all mechanical movements on the entire Swiss market.

Nivarox is even stronger as the firm manufactures one of the most important movement parts, the regulating mechanism. These mechanisms are an essential part of the machinery that harnesses the energy generated by the motion of the watch wearer’s wrist in order to transmit it to the cogs. For this reason, they are sometimes referred to as a watch’s engine. It is estimated that Nivarox’s share of the regulating mechanism market could be as high as 90%^{bbb}.

Since the beginning of the 21st century, the Swatch Group has repeatedly stated that it intends to reduce its supply of components to other watchmakers for various reasons. First, some clients order watch movements in boom eras only to cancel contracts suddenly if market conditions decline during the long production periods required by the industry, as was the case in 2009. The Swatch Group argues that, at present, its clients do not have to make the initial investments the group itself does. According to Swatch Group President Nicolas Hayek, a ruling in favor of the group would help to ensure it does not become a supermarket for competitors^{ccc}.

Secondly, the Swatch Group states that many of its clients manage to avoid manufacturing costs by acquiring parts from them, yet still, after a few small modifications, market their products as crafted by themselves. Companies such as Sellita acquire thousands of movements from ETA, which they then customize and sell on to third parties as bespoke pieces. The group also argues that Sellita manufacturers “cloned” versions of movements patented by ETA^{ccc}.

Furthermore, under current conditions, the Swatch Group must maintain supplies to clients regardless of demand from its own companies. In years when demand is high, such as in 2011, the group may have to ignore requests from its own brands in order to supply movements to external clients.

^{aaa} Sanford C. Bernstein & Co. report. For access, go to: The Wall Street Journal. “Swatch Wins Round in Court” September 2011.

^{bbb} “Swatch May Be Allowed to Reduce Supplies, Business Montres Says.” Bloomberg News, July 2012

^{ccc} “Movement war: Swatch hopes to call time on supply of components.” The Financial Times, Haig Simonian, November 2011.

The Swatch Group also maintains that some of the movements it supplies to clients are not adequately controlled and are ending up in fake watches^{bbb}. In addition, the group states that some competitors are using simple ETA movements, which cost around 100 Euros^{ddd}, in automatic watches which they then sell for up to 20 times more^{eee}.

Switzerland's competition commission (COMCO) had to decide if the Swatch Group monopolized the sector and if cutting the supply of components to other companies within the industry could cause some to disappear entirely. Their ruling was expected to be the final stage of a legal battle begun more than a decade ago.

An interim ruling was delivered in June 2011, which would remain in place until COMCO reached a final verdict. The Swatch Group was to supply 15% fewer finished movements to watchmaking companies than it had in 2010 and 5% fewer regulating mechanisms^{fff}. The group would also cut sales to suppliers (entities acquiring and then selling movements to watchmakers) by 30%. This ruling was to remain in effect until COMCO reached a definitive verdict.

By 2012, several companies had withdrawn from the lawsuit filed to try to prevent the Swatch Group from reducing supplies, with around 8 remaining. COMCO is expected to reach its final decision towards the end of 2012. Several sources are already suggesting that the ruling will favor the Swatch Group and that supplies will be cut yet further.

Economies of scale are an important consideration for movement clients. It is estimated that companies with substantial manufacturing capacity such as ETA and Nivarox can sell some components at prices up to 8 times lower than competitors^{ggg}.

Some industry executives say these changes to cost structure will lead to an increase in the price of automatic watches. These sources state that it will be almost impossible for companies offering entry-level high-end watches to maintain prices at between \$750 and \$2,500 per unit^{hhh}.

In recent years, the current situation within the industry has led some companies to seek alternatives to the Swatch Group and to try to establish links with new

^{ddd} Complication watches require highly technical movements that cost much more than less complex versions. This example illustrates a low complexity movement with economies of scale in the manufacturing process intended for use in lower priced watches.

^{eee} Based on interviews carried out by the author and on "Delay sought on parts policy." The Financial Times, March 2012.

^{fff} "Delay sought on parts policy." The Financial Times, March 2012.

^{ggg} Based on interviews carried out by the author and on "Swatch case: Extended ruling is latest twist in movement war." The Financial Times, Haig Simonian, June 2012

^{hhh} "Reduced deliveries from Swatch: the situation becomes clearer." Magazine de la Haute Horlogerie, July 2012.

suppliers. Others have opted for vertical integration either by acquiring suppliers or by investing in developing in-house manufacturing facilities. Whichever option companies within the industry have chosen to take, it is evident that cost pressures have forced at least some to increase pricesⁱⁱⁱ.

Traditional and new competitors

The luxury watch industry has attracted attention due to a high demand for products and its ability to generate rather generous gross margins (thought to be in the region of 60%^{jjj}). Previous estimates suggested that the industry would not be able to respond to the demand generated in recent years, such as 2011, for example^{kkk}.

Independent companies continue to operate within the industry, although competition from conglomerates has increased slightly. The two other leading luxury watch groups besides LVMH are the Swatch Group and Richemont (Appendix 3a). All three groups own a wide portfolio of watch brands (Appendix 1b). At the other end of the scale, independent watchmakers continue to enjoy a solid performance. Examples of such companies are Patek Philippe, Audemars Piguet and Rolex (which sells no complication watches except chronograph watches). The Swatch Group and Richemont lead the industry both globally and in Asia, one of the markets to have registered significant growth recently (Appendix 3b).

Data shows that competition increased within the complication watches market during the first decade of the 21st century. This was due to the effect of efforts made by major luxury goods groups to promote their watch brands, attempts by watchmakers to provide more luxury products and the arrival of new watchmakers. Many of these competitors benefited from the fact that they could sell automatic watches without needing to set up their own manufacturing facilities.

The following five brands are well known within the industry for their grande complication products and established watchmaking traditions: Breguet, Patek Philippe, Vacheron Constantin, Blancpain and Audemars Piguet. These companies continue to set the industry standard for both technology and innovation, including the use of new materials such as silicon in escapement mechanisms.

The success achieved by the automatic watch industry has attracted other companies who have decided that they too wish to compete in the upper echelons of the market. This includes both traditional watchmakers and luxury brands interested in gaining a foothold in the industry.

iii Author's conclusion based on individual interviews.

jjj Author's conclusion based on individual interviews.

kkk Author's conclusion based on individual interviews. For additional information go to: "Groups struggle to meet demand." The Financial Times, March 2012.

Many companies began to invest in their own manufacturing facilities as a means both to confront the current situation within the industry and improve their status with clients. By the beginning of 2011, several companies reported such investments. Richemont's flagship brand Cartier announced its plans to expand its headquarters at La Chaux-de-Fonds with the introduction of a new building and said that it intended to increase its 1,000 strong workforce by 300. Another of Richemont's brands, IWC, announced similar industrial capacity and workforce expansion plans. Meanwhile, the independent firm Chopard said it had invested SFr 25 million in in-house automatic watchmaking facilities^{lll}. However, although such companies have now begun to manufacture their own complication watches, on the whole, their more basic products are still manufactured using third party movements.

In addition, the industry's main competitors were not only extending their own capacity, but had also begun to acquire external suppliers. LVMH bought three such companies, one of which was a cases specialist, while Hermès acquired a majority stake in Joseph Erard, another important supplier^{mmm}. Furthermore, Hermès also had access to complication movements via its 25% stake in Vaucher Manufacture Fleurier^{lll}. Predictably, the decision to allow the Swatch Group to reduce its supplies to third parties has caused significant change within the industry.

Select distribution

Controlling the experience, presentation and all other elements that are part of this complex sales process is vital for many competitors. According to a senior executive of one of the industry's main conglomerates, "This is a highly select sales process for which sales personnel must have substantial expertise and training. To this end, the quality of sales points is more important than the quantity."

The impact of online sales is another major challenge for companies operating within the sector. Watchmakers have traditionally been reluctant to sell products via the internet or even allow exclusive distributors to list prices on the web. However, an increasing number of companies (especially towards the lower end of the market) are now not only defining digital communication strategies but also opening their first online stores. It is not yet certain what impact internet sales will have on the industry.

To date, companies have tended to operate own brand stores as a means to enable clients to gain a better experience of the brand image and improve their understanding of complex products. This is common among companies owned by conglomerates due to the economies of scale available in localization, marketing, property acquisition and back office administration. According to some sources, LVMH saves as much as 30% in operating synergies (purchasing, advertising, commercial property rental, etc.,) each time it doubles in sizeⁿⁿⁿ. By way of an

^{lll} "Industrial production may threaten Swatch Group's hold." The Financial Times, March 2012.

^{mmm} "Groups struggle to meet demand." The Financial Times, March 2012.

ⁿⁿⁿ Study by The Boston Consulting Group. Access via: "The empire of desire," The Economist, June 2012.

example, Breguet currently owns 31 own brand stores (13 of which are in Asia), while Vacheron Constantin runs 32 (22 of which are in Asia).

Independent stores also operate in much the same way, albeit on a much smaller scale. For example, Patek Philippe owns just three stores in total, in Geneva, Paris and London.

The “complication” client

Two important criteria for clients considering a complication watch purchase are a brand’s history and its manufacturing capacity. However, they are not the only criteria such decisions are made on and in fact no unique client profile currently exists.

Some clients are knowledgeable about watch complications and tend to understand the complexity of the product and value a company’s expertise, while others are less interested in a watch’s mechanics and more concerned with what the watch communicates either as a status symbol or luxury product. There are many examples of clients that seek out the most expensive watch on the market and do not think twice about purchasing it. This is most apparent in the “nouveau riche” and in countries where demonstrating one’s new status is considered important. Clients with this type of profile are more plentiful in emerging nations.

However, no data has been compiled to date to demonstrate which type of client is more numerous or important and it is therefore best not to make generalizations. As one industry executive notes, “Not all emerging nation clients view watches as status symbols. Some seek out specific products and brands based on expertise.”

A view widely held within the industry (although not corroborated) is that the manufacturing process is valued more by clients who have had greater exposure to complication watches than those who haven’t. Thus, clients who first purchased complication watches without giving a great deal of thought to the expertise involved in making them would gradually come to value this aspect of a product more. This process has been experienced by other luxury industries. In time, clients become connoisseurs of the product and begin to value its other attributes, apart from its appeal as a status symbol. Some sources state this has already happened within the watch industry in China.

Reaching clients who can spend 100,000 euros on a watch (the price of a gold tourbillon watch, for example) is not easy. Therefore, companies designate substantial resources to designing appropriate marketing strategies and tend to advertise in luxury and specialist magazines.

Companies within this sector also communicate by identifying their brand with certain objects and individuals in order to gain recognition and deliver their message to clients. Golfers and tennis players have traditionally been used as brand ambassadors within the luxury watch industry, and this relationship continues to be widely used by many companies today. However, the five leading

complication watchmakers tend to shun this type of marketing strategy in favor of organizing events and public relations campaigns where they can communicate with clients on a more personal level. Patek Philippe, for example, arranged a number of private visits to its installations in Geneva for groups of no more than 15 in conjunction with distributors. It is estimated that sales generated by these visits amounted to between 5-10% of the firm's total revenue^{ooo}.

LVMH and the watchmaking industry

LVMH's watchmaking division generates less income than most of the conglomerate's other businesses. Thus far, the group's leadership of the "soft luxury" industry (fashion, accessories, leather goods and accessories) has not been replicated by its watches and jewelry division. Improving the performance of this particular business line is a strategic challenge for the group (and for Mr. Arnault in particular)^{ppp}.

LVMH joined the watch industry in Q4 1999 when it acquired TAG-Heuer, Ebel and Zenith in quick succession (September, October and November, respectively). The move was carried out in conjunction with several jewelry acquisitions such as Chaumet. In 2012, the group acquired Bulgari, watchmakers Hublot and Montres Dior and jewellers De Beers and Fred.

LVMH's director of acquisitions from 1998 to 2004 Pierre Mallevays supervised the French group's entry into the watch and jewelry industry. As he recalls, the conglomerate found it difficult to develop a luxury brand at the top end of the market as this is where both the Swatch Group and Richemont were well established. Thus, the French group decided to acquire brands that would complement their existing offer^{qqq}.

Over the years, these brands have helped LVMH strengthen its position within the watch industry. TAG-Heuer enabled the group to offer products at accessible prices, while Zenith's reputation as a more prestigious watchmaker allowed the conglomerate to compete with brands towards the upper end of the market.

The group's experience with Ebel was less successful. The Swatch Group had pulled out of the lengthy battle for control of the Swiss watchmaker after deciding that the asking price was too high. InvestCorp had acquired Ebel from its founding family in 1994 following a failed attempt to diversify into non-watch related industries such as property and ski equipment. When it was sold to LVMH, Ebel's watch business was performing poorly, after having generated confusion among consumers^{rrr}. Thereafter, the company did not live up to expectations. Several Ebel executives recall that there was a certain lack of strategic leadership and

^{ooo} Author's conclusion based on individual interviews.

^{ppp} "LVMH: The empire of desire," *The Economist*, June 2012.

^{qqq} "LVMH in 2004: The challenges of strategic integration." Antoni F., Burgelman R.A., and Meza P., Stanford Graduate School of Business

^{rrr} The watch press: Ebel. Access via: <http://www.thewatchpress.com>

positioning while the firm was part of LVMH. According to a former executive at the firm, the French conglomerate never knew exactly what to do with the watchmaker. For these reasons, among others, Ebel was eventually sold to the Movado watchmaking group in 2004 for \$47.3 million. LVMH had paid \$167 million for the firm in 1994^{sss}.

LVMH acquired Hublot from founder Carlo Crocco in May 2008. The firm had been set up in 1980 and, despite its youth, had acquired a certain level of renown and prestige within the industry. However, at the beginning of 2000, Hublot's initial success began to wane and by 2004 the company registered a loss of SFr 2.6 million on sales of SFr 26 million.

That same year, one of the sector's well-known and experienced executives, Jean-Claude Biver, acquired 20% of Hublot from Mr. Crocco. Biver had a history of success within the watch industry; at the beginning of the 1980s he acquired Blancpain with a partner for just SFr 22,000. In 1992 he sold the firm to the Swatch Group for SFr 60 million. Biver later joined the Swatch Group, where he was responsible for reviving Omega, which had been performing poorly^{ttt}.

Under Biver, Hublot experienced unparalleled success, increasing its income five-fold in the period 2004 - 2007^{uuu}. Hublot's exceptional performance was, in part, based on the resounding success of the firm's new Big Bang model. However, it was a new focus rather than a new product that enabled the watchmaker to recover as Biver's main strategy is to control distribution and restrict supply. In his words, "You only desire what you cannot get... people want exclusivity, so you must always keep the customer hungry and frustrated."^{uuu}

Biver also focuses on a brand's identity. At Blancpain, he managed to turn the fact the company had been overwhelmed by competition from the quartz watch industry into an asset by launching the slogan "There has never been a quartz Blancpain watch. And there never will be." This policy is still in place today and has helped define Blancpain as a traditional watchmaker. At Hublot, Biver chose to promote the brand by highlighting the fact the company had always remained true to its identity of mixing materials. Hublot had been the first company to design watches incorporating both a gold case and a rubber strap. Thus, it seemed logical that the Big Bang collection would follow the same principles. In Hublot, Biver saw an opportunity to develop this particular identity within the sphere of traditional watchmaking.

Biver had intended to acquire 80% of the firm from Crocco and had even started to negotiate terms. However, when LVMH showed interest in the brand in 2008, Mr. Crocco's advisers told him that it would be in the company's best interests to

^{sss} "LVMH Leader Looks for the Right Match in His Fashion Empire." The New York Times, Tracie Rozhon, February 2004.

^{ttt} "Jean-Claude Biver: Boss at Hublot has secrets up his sleeve." The Financial Times, Haig Simonian, June 2011.

^{uuu} "Salesman of the irrational: Jean-Claude Biver, the saviour of several Swiss watchmakers, has a knack for selling luxury." The Economist, November 2009.

accept the group's offer. Although Biver did not succeed in acquiring Hublot, he remained at the firm thanks to the decentralized approach and freedom of expression LVMH grants its brands^{ttt}.

Hublot's first achievement as part of LVMH was to strengthen its manufacturing process. In 2009, the firm's tourbillon supplier, BNB Concept, went bankrupt. "BNB's bankruptcy allowed us to buy all their machinery, all their patents and hire a key group of 30 super people," says Mr. Biver. "It was a colossal accelerator."^{ttt} The first movement manufactured by Hublot, "Unico," was unveiled at Baselworld in 2010. Hublot no longer needed to acquire movements from Swatch Group subsidiary ETA now that it was manufacturing them in-house. According to Biver, "30,000 movements is a microscopic quantity for the Swatch Group.... it's not just about independent manufacturing, but also about independent creativity and brand credibility."^{uuu}

Hublot also plans to manufacture more complication watches in future. According to Biver, the firm has the potential to increase the number of complication watches it produces from 300 in 2011 to 3,000. However, it will be revenue, rather than production volumes, that will really start to grow. In June 2012, Biver announced his resignation as CEO of Hublot; his friend and colleague of 20 years, Ricardo Guadalupe, was set to take over the reins. Going forward, Mr. Biver intends to continue his association with Hublot and will remain chairman of the firm's board of directors^{vvv}.

Louis Vuitton has become the latest LVMH brand to enter the watch industry, with Hamdo Chatti employed to lead the firm's watch development project. The number of personnel employed by the company's watch-making division has doubled since Mr. Chatti took over the business in 2009, with around 60 individuals now engaged in the process. According to Chatti, Louis Vuitton's strategy with regard to timepieces needed tweaking, "The strategy was to rely on the best suppliers in Switzerland, which was a good strategy at the time. However, things have changed, because most of the movement suppliers no longer design specific movements for brands."^{www}

Louis Vuitton then performed a rapid vertical integration process acquiring, amongst others, the high-end movement manufacturer La Fabrique du Temps in 2011 for an unspecified price, widely believed to have been high.

The firm's intention was to become a serious player within the timepiece sector, which is why it has attended Baselworld, the industry's leading trade fair, since 2011^{xxx}. Mr. Chatti believes that training is important, which is why Louis Vuitton's Swiss installations are used not just for manufacturing products, but also for training sales personnel at a dedicated academy. Louis Vuitton will sell its watches solely through its own stores, as is the case with its other brands. By 2014, the

^{vvv} "Jean Claude Biver Resigns as Hublot CEO." Forbes, June 2012.

^{www} "Louis Vuitton: Expensive shopping list for building a big name." The Financial Times, June 2008

^{xxx} Interview with Hamdi Chatti. Access via: Worldtems.com

company expects to have completed its first in-house movements ready for series production.

LVMH continues to show strong growth, with organic growth (excluding acquisitions and interest rates) of 6% in Q3 2012^{yyy}. This figure has generated a certain amount of discussion. The company itself says the previous year's excellent growth would have been difficult to beat. Nonetheless, the figures released were still lower than forecast, leading some analysts to report that LVMH had posted its lowest growth in the past 12 years^{zzz}. Meanwhile, in the summer of 2012 the Chinese luxury goods market (the main source of growth for luxury conglomerates) started to show signs of decline. This trend was a concern for many companies within the industry. How could the Louis Vuitton timepiece division generate value for the LVMH group under such circumstances? What strategy should LVMH now adopt with regards to the watchmaking industry?

^{yyy} "LVMH Revenue Growth Slows." The Wall Street Journal, October 2012

^{zzz} According to JPMorgan analyst Melanie Flouquet. Access via: "LVMH faces dilemma of success." The Financial Times, October 2012.

APPENDIX 1A
BRAND PORTFOLIO. LVMH

LVMH Brands

16th Century	20th Century
<i>Château d'Yquem</i>	<i>Les Echos</i>
18th Century	<i>Acqua di Parma</i>
<i>Ruinart</i>	<i>Fendi</i>
<i>Möet & Chandon</i>	<i>Dom Perignon</i>
<i>Hennessy</i>	<i>Fred</i>
<i>Veuve Clicquot</i>	<i>Rossimoda</i>
<i>Chaumet</i>	<i>Céline</i>
19th Century	<i>Parfums Christian Dior</i>
<i>Ardbeg</i>	<i>Emilio Pucci</i>
<i>Guerlain</i>	<i>Wen Jun</i>
<i>Château Cheval Blanc</i>	<i>Givenchy</i>
<i>Krug</i>	<i>Connaissance des Arts</i>
<i>Glenmoragie</i>	<i>Parfums Givenchy</i>
<i>Loewe</i>	<i>DFS</i>
<i>Royal Van Lent</i>	<i>Domaine Chandon</i>
<i>Le Bon Marché</i>	<i>Miami Cruiseline</i>
<i>Louis Vuitton</i>	<i>Sephora</i>
<i>Mercier</i>	<i>Kenzo</i>
<i>TAG Heuer</i>	<i>Investir-Le Journal des Finances</i>
<i>Zenith</i>	<i>Benefit Cosmetics</i>
<i>La Samaritaine</i>	<i>Newton</i>
<i>Bulgari</i>	<i>Cape Mentelle</i>
<i>Berluti</i>	<i>Hublot</i>
	<i>Radio Classique</i>
	<i>Thomas Pink</i>
	<i>Marc Jacobs</i>
	<i>Donna Karan</i>
	<i>Make Up For Ever</i>
	<i>Cloudy Bay</i>
	<i>Kenzo Parfums</i>
	<i>Fresh</i>
	<i>Belvedere</i>
	<i>Numanthia Termes</i>
	<i>Terrazas de los Andes</i>
	<i>Cheval des Andes</i>
	21th Century
	<i>De Beers Diamond Jewellers</i>
	<i>10 Cane</i>

Source: Based on the LVMH 2011 annual report.

* All jewelry and watch division brands are highlighted in red. Montres Dior is part of the group's jewelry and watch division, but does not appear as an independent brand in this list, which is based on LVMH's 2011 annual report.

APPENDIX 1B
BRAND PORTFOLIO. SWATCH GROUP AND RICHEMONT

Swatch Group Watch and Jewelry Brands

Luxury

Breguet

Blancpain

Glashütte Original

Jaquet Droz

Tiffany & Co. (Watches)

León Hatot

Omega

Upper Range

Longines

Rado

Union Glashütte

Mid Range

Tissot

Balmain

Certina

Mido

Hamilton

CK Watch & Jewelry

Basic Range

Swatch

Flik Flak

Richemont Brands

Jewelry Maison

Cartier

Van Cleef & Arpels

Specialty WatchMakers

IWC

Jaeger-LeCoultre

Vacheron Constantin

Officine Panerai

Baume & Mercier

A. Lange & Söhne

Roger Dubuis

Ralph Lauren Watches

Montblanc Maison

Montblanc

Others

Alfred Dunhill

Chloé

Lancel

Shanghai Tang

Azzedine Alaia

Purdey

Net-a-Porter.com

Source: Based on the Swatch Group's 2011 annual report and Richemont's 2012 annual report.

APPENDIX 2
PRINCIPAL FINANCIAL DATA FOR LVMH AND BULGARI.

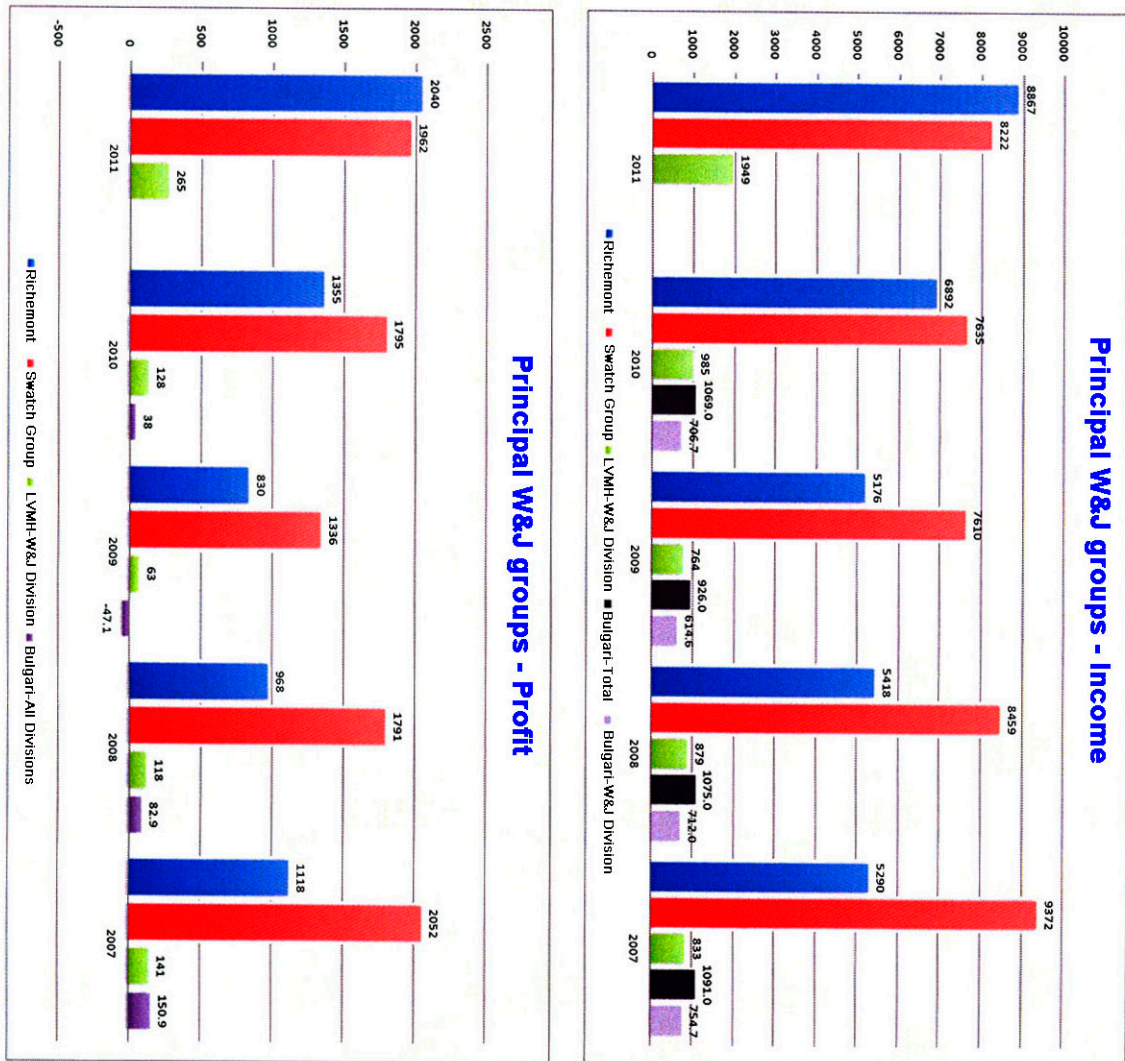
LVMH Consolidated Data (Millions of euros)					
	2011	2010	2009	2008	2007
Income	23659	20320	17053	17193	16481
Gross margin	5263	4321	3352	3628	3555
Net profit	3465	3319	1973	2318	2331
Net financial debt	4660	2678	2994	3869	3094
Income by division (Millions of euros)					
	2011	2010	2009	2008	2007
Wines & Spirits	3254	3261	2740	3126	3226
Fashion & Leather Goods	8712	7581	6302	6010	5628
Perfumes & Cosmetics	3195	3076	2741	2868	2731
Watches & Jewelry	1949	985	764	879	833
Select Distribution	6436	5378	4533	4376	4164
Other Activities	-157	39	-27	-66	-101
Total	23389	20320	17053	17193	16481
Profit by division (Millions of euros)					
	2011	2010	2009	2008	2007
Wines & Spirits	1101	930	760	1060	1058
Fashion & Leather Goods	3075	2555	1986	1927	1829
Perfumes & Cosmetics	348	332	291	290	256
Watches & Jewelry	265	128	63	118	141
Select Distribution	716	536	388	388	426
Other Activities	-242	-160	-136	-155	-155
Total	5263	4321	3352	3628	3555
Income by region					
	2011	2010	2009	2008	2007
France	12%	13%	14%	14%	14%
Europe (excluding France)	21%	21%	21%	24%	23%
US	22%	23%	23%	23%	25%
Japan	8%	9%	10%	10%	11%
Asia (excluding Japan)	27%	25%	23%	20%	19%
Rest	10%	9%	9%	9%	8%
Total	100%	100%	100%	100%	100%
Watch and Jewelry Division					
	2011	2010	2009	2008	2007
Income	1949	985	764	879	833
Profit	265	128	63	118	141
Operating margin	13.6%	13.0%	8.2%	13.4%	16.9%
Operating investments	117	36	23	39	28
Number of stores	327	122	114	4	90
BULGARI (Euros millions)					
	2011 (*)	2010	2009	2008	2007
Income		1069	926	1075	1091
Profit/Loss		38	-47.1	82.9	150.9
Income by division					
Jewelry		491.7	402.4	448.3	459.9
Watches		215.0	212.2	263.7	294.8
Perfumes & C.		245.9	219.1	248.9	221.9
Accessories		85.5	66.2	82.9	84.4
Hotels		16.0	14.7	17.4	13.6
Other		15.0	12.0	14.2	16.4
Total		1069.1	926.6	1075.4	1091.0

Source: Collated by the author from the annual accounts for both LVMH and Bulgari from 2008 to 2011.
 *Bulgari data for 2011 is consolidated with LVMH.

APPENDIX 3A
PRINCIPAL WATCH AND JEWELRY GROUPS (W&J)

Swatch Group Consolidated Data (Millions of SFr.)					
	2011	2010	2009	2008	2007
Income	6764	6108	5142	5677	5646
Operating profit	1614	1436	903	1202	1236
Income by Division (Millions of SFr.)					
	2011	2010	2009	2008	2007
Watches & Jewelry	5950	5221	4184	4545	4456
Production	500	467	576	624	591
Electronic Systems	306	412	377	501	594
Corporate	8	8	5	7	5
Total	6764	6108	5142	5677	5646
Profits by Division (Millions of SFr.)					
	2011	2010	2009	2008	2007
Watches & Jewelry	1352	1247	804	828	920
Production	322	196	94	281	253
Electronic Systems	13	61	24	104	99
Corporate	-73	-68	-19	-11	-18
Total	1614	1436	903	1202	1254
Richemont Consolidated Data (Millions of euros)					
	2011	2010	2009	2008	2007
Income	8867	6892	5176	5418	5290
Operating profit	2040	1355	830	968	1118
Income by Division (Millions of euros)					
	2011	2010	2009	2008	2007
Jewelry Maisons	4590	3479	2688	2762	2657
Specialist Watchmakers	2323	1774	1353	1437	1378
Montblanc Maison	723	672	551	587	625
Others	1231	967	584	632	630
Total	8867	6892	5176	5418	5290
Profits by Division (Euros Millions)					
	2011	2010	2009	2008	2007
Jewelry Maisons	1510	1062	742	777	765
Specialist Watchmakers	539	379	231	301	374
Montblanc Maison	119	109	79	69	126
Others	-35	-34	-36	-39	11
Total	2133	1516	1016	1108	1276
Corporate Cost	-93	-161	-186	-140	-158
Total	2040	1355	830	968	1118

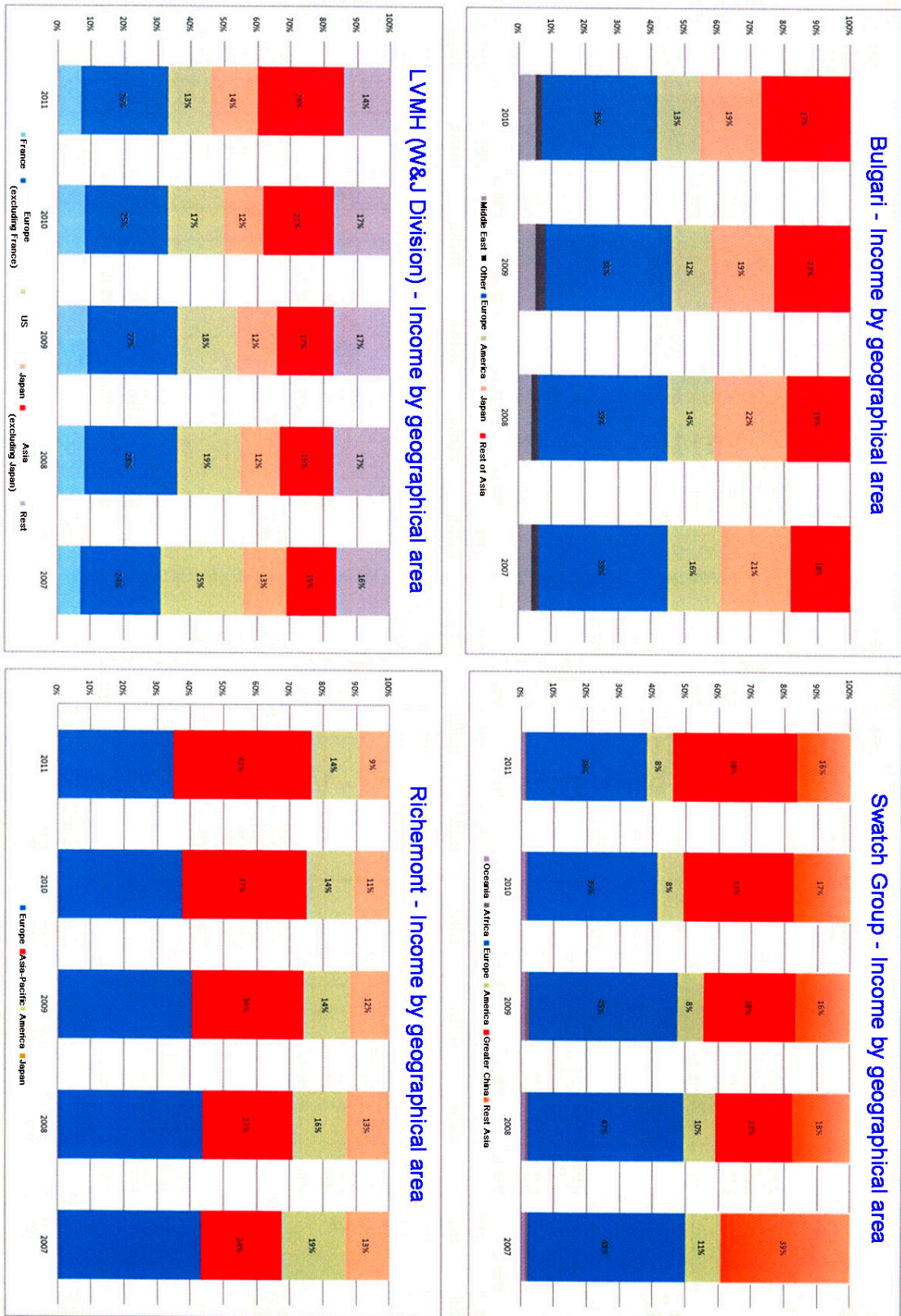
APPENDIX 3A (CONT.)



Source: Collated by the author from the annual accounts for all companies mentioned from 2008 to 2011. Richemont's year-end is on March 31. Year-end for all remaining groups is December 31. Annual comparisons are therefore estimates.

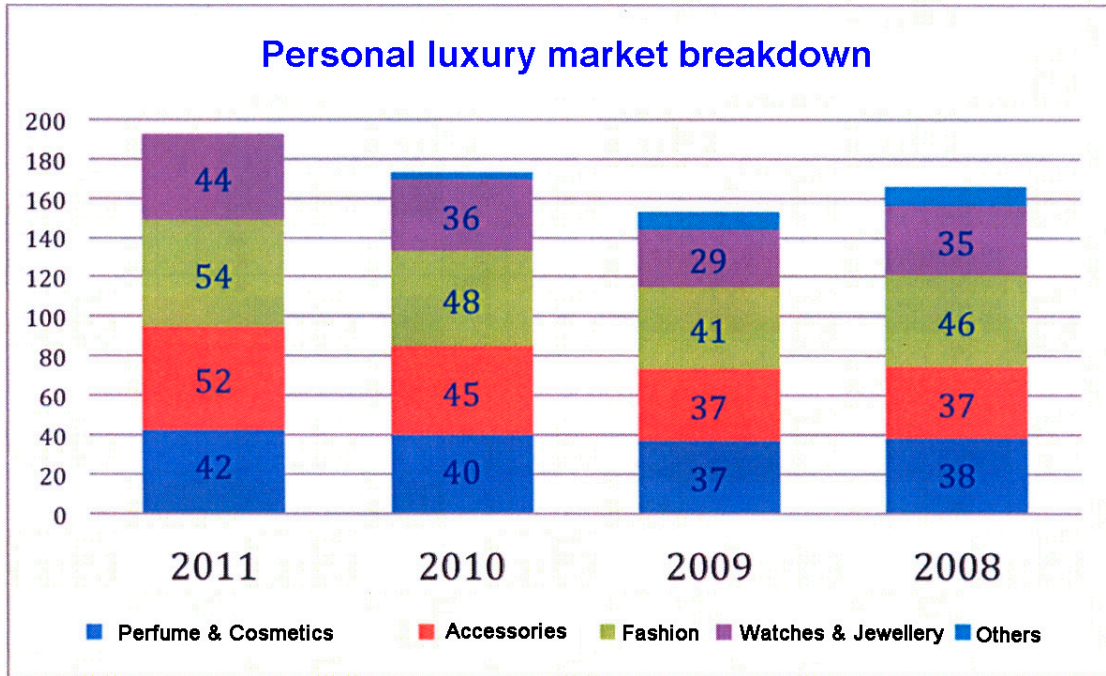
*Bulgari data for 2011 is consolidated with LVMH - W&J Division

APPENDIX 3B
W&J GROUPS. INCOME BY GEOGRAPHICAL REGION



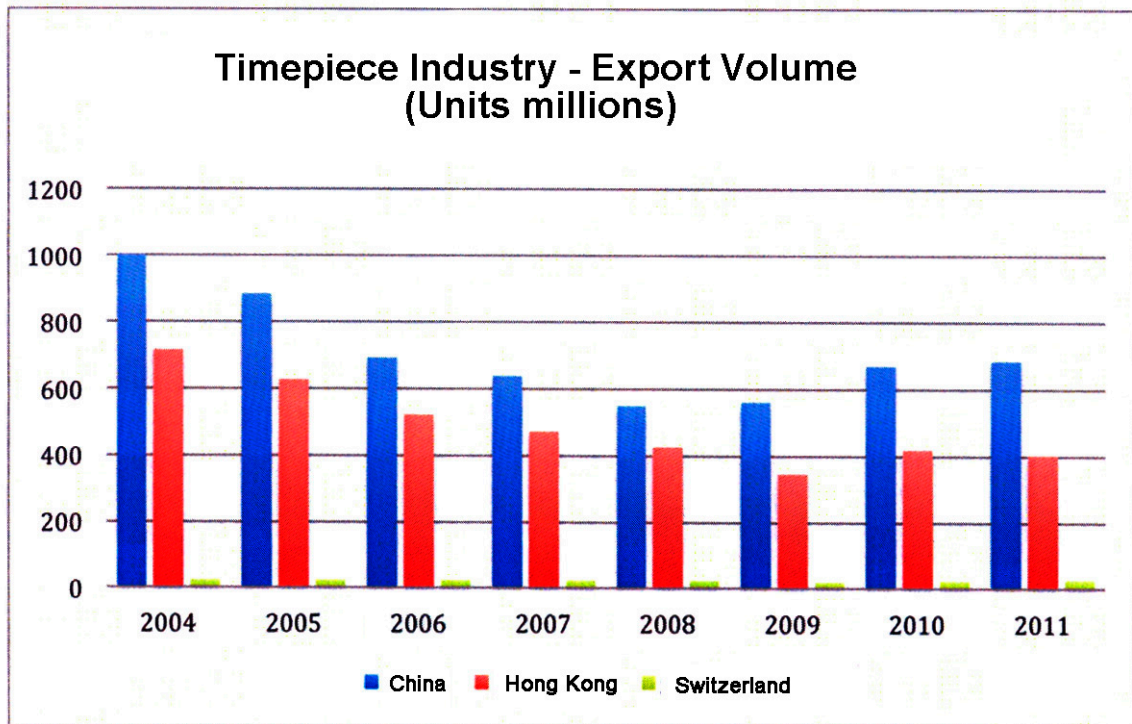
Source: Collated by the author from the annual accounts for all companies mentioned from 2008 to 2011.

APPENDIX 4
PERSONAL LUXURY MARKET

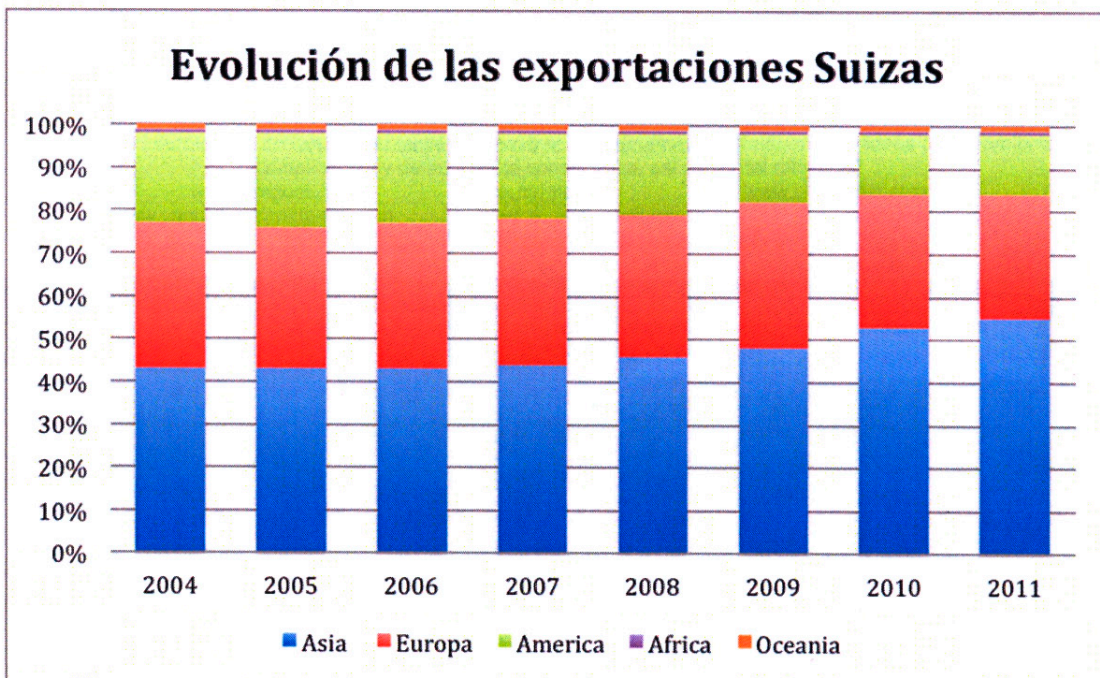
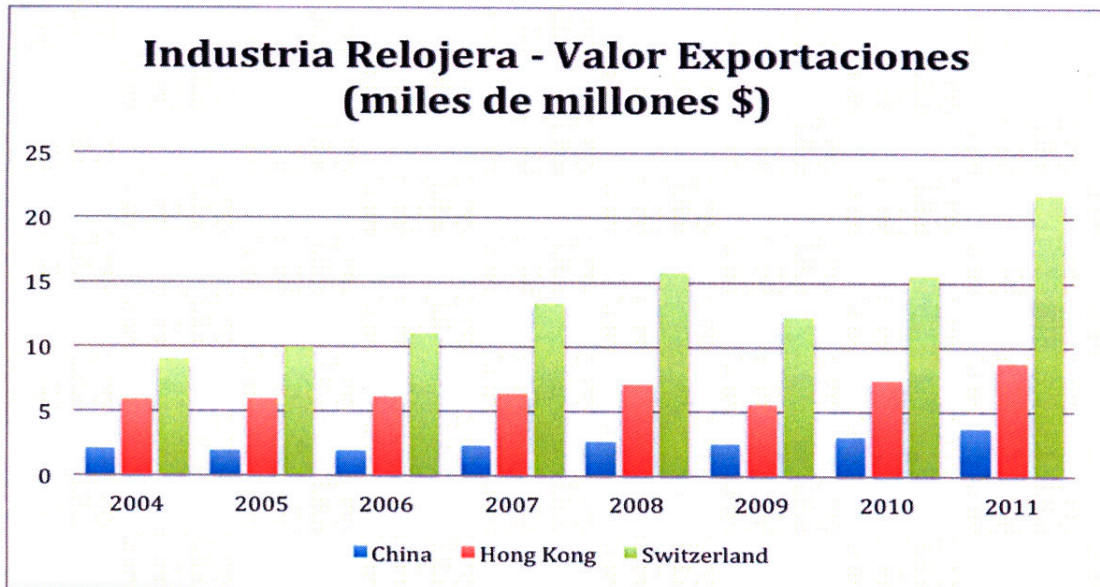


Source: Altgamma. Collated by the author from Altgamma reports 2009-2011.

APPENDIX 5
THE TIMEPIECE INDUSTRY. EXPORTING COUNTRIES



APPENDIX 5 (CONT.)



Source: Federation of the Swiss Watch Industry. Collated by the author using annual reports from 2004 to 2011.

APPENDIX 6
WATCHMAKING IN SWITZERLAND



Source: Federation of the Swiss Watch Industry.

APPENDIX 7
EXAMPLES OF “COMPLICATION” MOVEMENTS



Restored 1942 Patek Philippe Chronograph Ref. 130, Caliber 13”130

PATEK PHILIPPE
GENEVE
Begin your own tradition.

“As a family-owned watch company, we are committed to restoring and maintaining all our watches. Including those made in 1839.”

The master watchmakers in our International Customer Services are fully aware that the history of Patek Philippe is passing through their hands. And with it, the values and reputation of our company. Their objective is a simple one: that where possible the original condition of a timepiece is preserved and maintained, both technically and aesthetically.

To assist them in this somewhat daunting task, we take a number of measures.

All watchmakers in our global network undergo continuous training by Patek Philippe in Geneva. We strive to stock all original parts of movements and cases, as well as the original production tools and machinery. Timepieces over 30 years old are returned to Geneva to receive specialist attention, which is also true of Grand Complications.

This determination to protect the integrity of our watches is exemplified by the Patek Philippe Seal. This hallmark of horological excellence goes beyond any existing standards of the Swiss watch industry and applies to the completely assembled watch. So whether you are the owner of a Patek Philippe watch which needs restoring, or someone considering purchasing one for the first time, you are guaranteed our unwavering commitment to excellence.


Thierry Stern
President, Patek Philippe


Patek Philippe Seal
patek.com

Patek Philippe corporate advertising depicting a 13”130 calibre (movement).
Source. www.patek.com



NEWS | CONNOISSEURS | DOWNLOADS | FREQUENTLY ASKED QUESTIONS | FIND YOUR WATCH

THE TIMEPIECES | THE POINTS OF SALE | THE BRAND

NEW TIMEPIECES
BLANCPAIN COLLECTIONS
WATCH COMPLICATIONS
FIND YOUR WATCH
MOVEMENTS

MOVEMENTS PRESENTATION MAIN MOVEMENTS

66BF8



Calibre thickness: 7.5
Calibre diameter: 32
Power reserve in hours: 40
Jewels: 37
Components: 448

Source: www.blancpain.com. Blancpain 66BF8 movement. Complications: Flyback chronograph, full calendar, moon-phase, moon-phase calendar mechanism with security system.

*For more information, access the web pages below to find images and videos of complication movements and how they are constructed as well as information on finished watches:

www.breguet.com
www.vacheron-constantin.com

www.patek.com
www.audemarspiguette.com

www.blancpain.com
www.bulgari.com

APPENDIX 8
EXAMPLES OF BULGARI WATCHES



Bulgari advertisement ("Fuera de Serie" October 2012). The Octo model, which uses the Bvl193 automatic movement manufactured by Bulgari.
To see Bulgari's complication watches range, go to: www.bulgari.com

20 List of publications

Title	Authors	Type	Publication	Date
<i>El concepto de lujo. Un enfoque estratégico</i>	Millán Planelles, D.	Journal article	Harvard Deusto Business Review	Mar. 2013
<i>Creatividad en el lujo. Cadena o sistema de valor</i>	Millán Planelles, D., Godart, F.	Journal article	Harvard Deusto Business Review	Sept. 2014
<i>El lujo ante la encrucijada del crecimiento</i>	Millán Planelles, D.	Journal article	Harvard Deusto Business Review	Jul. 2016
<i>*LVMH & Bulgari. Luxury time</i>	Millán Planelles, D.	Case study	IE Business Publishing	Sep. 2013
<i>**Porsche AG. Beyond the limits of luxury?</i>	Millán Planelles, D.	Case study	IE Business Publishing	Oct. 2013
<i>IE Luxury Barometer 2014</i>	Girón, M.E., Millán Planelles, D.	Field Research	Observatorio del mercado premium	Jan. 2015
<i>IE Luxury Barometer 2015</i>	Girón, M.E., Millán Planelles, D.	Field Research	Observatorio del mercado premium	Jan. 2016

* Awarded distinction of honor at the 2014th IE Case Competition

** Awarded best executive case at the 2015th IE Case Competition

21 End notes.

- ¹ See for instance: <http://www.blancpain.com/histoire>
- ² See for instance: <http://us.moet.com/The-House/Discover>
- ³ See for instance: <http://www.moet.com/The-House/Discover/siglodisenadores-worth.php>
- ⁴ Based on the presentation of Loewe's CFO at the Observatorio del Lujo IE Business School, IE Business School, February 2012, Madrid.
- ⁵ <http://luxurysociety.com/articles/2010/11/sound-strategy-or-dumb-advice>
- ⁶ <http://luxurysociety.com/articles/2010/11/sound-strategy-or-dumb-advice>
- ⁷ Reuters. "LVMH raises Hermes stake above 20 percent". 21st December 2010.
- ⁸ The Financial Times. "Hermès family pledges to defend Brand". 14th December 2010.
- ⁹ Based on a personal interview of the author with Pascale Moulard (6th generation of the Hermès family and creator of the new division petiH). Interview held at the presentation of petiH at IE Business School, Madrid in March 2012.
- ¹⁰ Translation made by the author. Based on a business presentation of Pascale Moulard (6th generation of the Hermès family and creator of the new division petiH) held at IE Business School, Madrid in March 2012.
- ¹¹ Case Study "Louis Vuitton in Japan", Paul J. and Feroul C. Richard Ivey School of Business. 2010.
- ¹² See for instance "LVMH. The empire of desire". The Economist, 2nd June 2012.
- ¹³ El Mundo, La revista (1996). Reportaje: El rey del Lujo (<http://www.elmundo.es/larevista/num178/textos/reyl1.html>)
- ¹⁴ Bernard Arnault's business activity and controversy has occupied the business press over the past two decades. This is not the aim of this work, but additional information on the formation of LVMH and the legal fights with Hermès or Gucci (just to mention a few) can be easily found on business press.
- ¹⁵ This information serves as the basis of discussion of one popular business case. "Louis Vuitton in Japan" from Justin Paul and Charlotte Feroul of the Richard Ivey Business School, Ontario, Canada.
- ¹⁶ LVMH Annual report 2011
- ¹⁷ PPR Annual Report 2011
- ¹⁸ "PPR buys Brioni. Italian suits in French hands". The Economist. Nov 8th 2011
- ¹⁹ The Financial Times. "Swatch case: Extended ruling is latest twist in movement war". Haig Simonian. 8th June 2012.
- ²⁰ The Financial Times. "Groups struggle to meet demand". Haig Simonian. 8th June 2012.
- ²¹ The Financial Times. "This time it's personal". Nick Foulkes. 2012.
- ²² The Financial Times. "Fashion follows trend for hard luxury". Vanessa Friedman July 1, 2012.
- ²³ The Financial Times. "Luxury' shares prove resilient". Lucy Warwick-Ching . 16th December 2011.

²⁴ The Financial Times. "Internet channel: Digital use may have boosted sales by surprising amounts". Rachel Sanderson, 30th May 2012

²⁵ The Financial Times. "Qatari buyers acquire Italy luxury groups". Stanley Pignal. 12th July 2012.

²⁶ The Financial Times. "LVMH: be wary of stunning growth". Section: FT.com/lex. October 18, 2012.

²⁷ The Financial Times. "China's appetite for luxury unsated". James Boxell. July 19, 2012

²⁸ The Financial Times. "Luxury Goods, a loss of shine" Section: FT.com/lex. August 6, 2012.

²⁹ The Financial Times. "Luxury goods show signs of losing lustre". Sarah Gordon. August 10, 2012.

³⁰ The Financial Times. "Ferrari "concerned" about China slowdown" (video).

³¹ The Financial Times. "China slows, will the luxury goods sector follow?". Pan Kwan Yuk. July 12, 2012.

³² The Financial Times. "Versace quits Japan after 30 years". Michiyo Nakamoto. October 7, 2009.

³³ Even though this tension is self-explanatory, one can also check some sources referring to this situation, see for instance Berry (1994) and Lipovetsky (2004)

³⁴ See for instance the Business Case: "Gucci Group N.V. (A)". Mary Kwak and David B. Yoffie. Harvard Business School. May 2001.