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Co-creating value for luxury brands

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ABSTRACT

The global market for luxury brands has witnessed dramatic growth over the last two decades but the current challenging economic environment contributes to the difficulty brand owners experience in ensuring that customers perceive sufficient value in their luxury brands to compensate for the high prices. According to recent service-oriented research, customers and suppliers co-create value as a result of a shift from a firm- and product-centric view of value creation to one that focuses on personalized brand experiences. In this paper, the authors develop a theoretical framework of types of value for luxury brands, and use case study research to identify processes of value creation in this particular setting. The findings highlight the variety of interactions taking place between luxury brand owners, their customers and members of their respective networks, which help to differentiate luxury brands and co-create a superior value proposition.

1. Introduction

The global market for luxury brands has grown rapidly over the past two decades. Estimated to be worth $263 billion in 2007 which represents a 31% increase over the past five years, predictions indicate a 71% growth over the next five years, largely fueled by high demand from emerging economies (Verdict, 2007). In Britain, consumer expenditure on luxury goods increased by 50% between 1994 and 2004 compared to a 7% increase for non-luxuries (Keane and McMillan, 2004) whereas in France the luxury fashion sector alone is the fourth largest revenue generator (Okonkwo, 2007, p.1). This phenomenal rate of growth and challenges inherent in marketing luxury brands ensure that practitioners and recently academics regularly examine and analyse the marketplace. Although luxury consumer demand in the West appears to be waning due to the credit crunch, property crash and a slowing world economy (Teather, 2008), the appetite for luxury brands is growing elsewhere in the emerging economies of China, India, Asia, the Middle East and Latin America (Verdict, 2007; Chadha and Husband, 2006).

The marketing of luxury goods requires a fine balancing act to satisfy the increasing demand in the global marketplace, while safeguarding the brands' cachet and exclusivity in the face of challenges from the rise of counterfeiting (Bian and Veloutsou, 2007), parallel imports, brand overextensions, and adoption by members of inappropriate subcultures (Bothwell, 2005). Luxury goods marketing is complex and frequently counter-intuitive to the extent that Bastien and Kapferer (2009, p.2) state that “classical marketing is the surest way to fail in the luxury business”. Successful luxury goods marketing requires the customer to perceive sufficient value in the luxury good to compensate for the high price charged, particularly in times of recession. Therefore, understanding the types of value sought and the processes of value co-creation is important.

In light of the above, this paper addresses the nature of value for luxury brands and the ways in which value co-creation takes place. The authors seek to explore conceptually the meaning of value for luxury brands, and empirically investigate how firms and consumers co-create value in the luxury market. The paper proceeds first by reviewing the conceptualization of brands in general and luxury brands specifically, then developing a theoretical framework of types of customer value for the luxury market. Next, the authors outline the research methodology employed and discuss key findings from the empirical analysis of types of value for luxury brands, the nature of the value creation network and processes of value co-creation. Finally, the paper draws conclusions, considers managerial implications and offers suggestions to enable luxury brand owners to keep in tune with their customer base and differentiate themselves more effectively.

2. Conceptualizing the brand

Although the academic and practitioner branding literature is extensive, finding a universally accepted definition of the term ‘brand’ remains elusive. As a result of the multifaceted nature of the concept a multiplicity of definitions and contextualized understandings of its operationalization exist (Gabbott and Jevons, 2009; Jevons, 2007; Brodie et al., 2006). The recent developments of two classification schemes for brand conceptualization using historical analyses (Jevons, 2007; Stern, 2006) form the basis of further work (Buchanan-Oliver et al., 2008). By applying the historical-analysis method to multiple

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meanings of the term ‘brand’, Stern (2006) proposes a quadripartite classification scheme which categorizes the construct according to nature (literal and metaphoric), function (entity and process), locus (world and mind) and valence (positive and negative). Jevons (2007) alternatively traces the development of ‘brand’ definitions through a historical meta-analysis and identifies six key components of brand definitions in his review (i.e. identity, functionality, symbol(ism), sustainability, differentiation, and value creation/delivery). He incorporates them into the following integrated definition: “A brand is a tangible or intangible concept that uniquely identifies an offering, providing symbolic communication of functionality and differentiation, and in doing so sustainably influences the value offered.” According to Buchanan-Oliver et al. (2008), having so many key components renders this classification unnecessarily complicated and therefore they conflate the classification to three components (i.e. symbolic, functional and psychological). They also argue that Jevons' (2007) classification does not satisfactorily capture the experiential component of de Chernatony's (2002) brand definition. After applying a combined classification scheme for brand conceptualization based on conflated Jevons (2007) and Stern (2006) to their own analysis of contemporary brand perspectives, they conclude the need to address the experiential dimension of the brand as well.

3. Conceptualizing the luxury brand

Traditionally, much of the academic literature on luxury goods comes from a variety of disciplines such as history (e.g. Berry, 1994), economics (e.g. Leibenstein, 1950; Veblen, 1899) and sociology (e.g. Bourdieu, 1984). However, a growing level of interest in the marketing literature exists (Truong et al., 2008) across a variety of areas: the nature and definition of luxury goods (Vigneron and Johnson, 1999, 2004; Catry 2003; Vickers and Renand, 2003; Dubois and Czellar, 2002; Nueno and Quelch, 1998; Kapferer, 1997; Dubois and Duquesne, 1993; Veblen 1899); competitive structure of luxury markets (Chadha and Husband, 2006; Dubois and Duquesne, 1993); issues relating to the democratization of luxury (Luxury Institute 2007; Twitchell 2002) such as extending the market while retaining the luxury cachet (e.g. Giacalone, 2006; Catry, 2003; Silverstein and Fiske, 2003; Dubois and Czellar, 2002; Nueno and Quelch, 1998) and trading up for luxury goods (Silverstein and Fiske, 2003, 2007); market segmentation (Dubois et al., 2005; Dubois and Duquesne, 1993); conspicuous consumption (Truong et al., 2008; O'Cass and McEwen, 2004) as opposed to prestige-seeking consumer behavior (Vigneron and Johnson, 1999); online presence for luxury brand marketing (Dall'Olmo Riley and Lacroix, 2003; Kapferer, 1997, 2000); counterfeiting (Bian and Veloutsou, 2007; Giacalone, 2006), and the meaning of luxury goods. However, in spite of this broad literature on the luxury market, researchers have yet to address the meaning of value and the value creation process for luxury brands.

Understanding the nature of value for luxury goods requires consideration of what constitutes a luxury brand. Defining luxury goods or brands is difficult (Vigneron and Johnson, 1999; Dubois and Duquesne, 1993). Luxury goods exist at one end of a continuum with ordinary goods, so where the ordinary ends and luxury starts is a matter of degree as judged by consumers. Sekora defines luxury as “anything unneeded” (1977, p. 23), which is set in the context of what society considers necessary and is thus a relative and dynamic term (Berry, 1994). The roots of the word ‘luxury’ derive luxury from ‘luxus’, which according to the Oxford Latin Dictionary (1992) means ‘soft or extravagant living, (over)-indulgence’ and ‘sumptuousness, luxuriousness, opulence’, but the term ‘luxury’ is currently and commonly used by marketers in most product or service categories to communicate to consumers a particular tier of offer (Dubois et al., 2005) in order to persuade them to ‘trade up’. In addition, new terms are emerging in the practitioner literature such as ‘old luxury’ being about the good itself and defined by the company and ‘new luxury’ being experiential and defined by the consumer (Florin et al., 2007).

Marketing academics are using ‘luxury’ in different ways: for example, Vigneron and Johnson (1999) use ‘luxury’ to describe the very top category of prestige brands, whereas Dubois and Czellar (2002) view ‘prestige’ to stem from a unique accomplishment in the brand and ‘luxury’ to merely concern self-indulgence. Economists define luxury goods as goods for which demand rises either in proportion with income or in greater proportion than income (i.e. where the income elasticity of demand is equal to or greater than 1), but clearly the purchase of luxury goods is not governed simply by economic factors (Dubois and Duquesne, 1993), as income is a necessary but not sufficient condition to explain purchase. By examining the motivation for consumers to purchase luxury goods within a socio-economic context, Veblen's seminal work (1899, 1994) proposes that individuals from the wealthy ‘leisure class’ engage in ‘conspicuous consumption’ when purchasing high priced items in order to ostentatiously communicate wealth and achieve social status (Bagwell and Bernheim, 1996). This view is consistent with Leibenstein (1950), whose examination of this phenomenon identifies the ‘Veblen’ effect whereby demand for a good rises because its price is higher rather than lower, plus two forms of interpersonal effects of conspicuous consumption: the ‘snob’ effect, where the demand for a good falls as the number of buyers increases, since snobs desire to be different and exclusive and therefore disassociate themselves from the masses; and the ‘bandwagon’ effect, where demand for a good increases because consumers follow others in their reference groups who have already bought the good. O'Cass and McEwen (2004) however voice concerns over the interchangeable use in the literature of the terms ‘conspicuous consumption’ and ‘status consumption’. According to them, the former relates to the desires of consumers to gain prestige by purchasing status-laden products and brands of public or private display, whereas the latter refers to the visual public display or overt usage of products.

As a result of Belk's (1988) work on the extended self, which highlights the importance of possessions in contemporary consumption and consumers' feelings about them as a key contributor and reflection of their identities, luxury goods researchers (such as Vigneron and Johnson (1999)) recognise that consumers can derive subjective intangible benefits from these goods beyond their functional utility, while additional motivations to purchase them include their higher levels of quality (Garfein, 1989) and authenticity (Beverland, 2006).

In Vigneron and Johnson's (1999) review of prestige-seeking consumer behavior they separate interpersonal effects on prestige consumption from personal effects, and conceptualize five types of perceived value for prestige goods: namely three types of interpersonal effects (i.e. the Veblen effect for perceived conspicuous value; the snob effect for perceived unique value; and the bandwagon effect for perceived social value) and two types of personal effects (i.e. the hedonic effect for perceived emotional value and the perfectionism effect for perceived quality value). Following further work, they revise this classification by switching around the bandwagon effect to a personal effect and the perfectionism effect to an interpersonal effect (Vigneron and Johnson, 2004). The authors can see arguments for both of these positions, especially in considering the behavior of global consumers.

Catry (2003) argues for the possible replacement of actual scarcity, once considered essential to the existence of a luxury good, by the notion of perceived rarity maintained through rare ingredients or components in the short term, or sustainably through strategies of techno-rarity enabled by innovation, limited editions or information based rarity.

An alternative approach to conceptualising consumer perceptions of luxury goods from Vickers and Renand (2003) considers luxury goods as symbols of personal and social identity and seems to fulfill calls from Jevons (2007) and Buchanan-Oliver et al. (2008) to take an