LUXURY
A HEALTHY APPETITE

By Cyril Demaria

Is the disappearance of luxury in a given economic sector an early signal of its decline? If so, the emergence of luxury might be a proof of its further development. Luxury would be an early indicator of a healthy economic sector.

When Doctor Bernard created Prégermain in 1875 to provide French women with orthopaedic corsets, he probably did not plan that his company would be selling luxury underwear a century later. Indeed, what has become since then Aubade is the story of an innovative company which launched the first strapless bra in 1972, while France was hit by a massive wave of delocalisation in its textile industry.

The «Lesson of seduction», as its advertisements put it, has become also a management lesson: luxury and innovation can indeed reverse an economic trend, or carve a new niche on the market. Since then, Switzerland-based Calida bought the company and Aubade has been demonstrating an impressive profitability. Though there is no production in France anymore, Aubade remains a major innovator in the sector, having for example launched in 2008 the equivalent of the wonderbra for panties (branded «Petite Coquine»).

Measuring consumers' hunger

Luxury can hence appear (and disappear) in any economic sector, and in many respects it is an advanced indicator of health. What could be the reasons? At the core of the consumption mechanism lies a phenomenon called emulation. Customers are competing to demonstrate their economic wealth; physical health and beauty; and their level of intelligence. Products and services support them in this demonstration, but paradoxically the more customers get access to these products and services, the more their value decrease.

This is the equivalent of the phenomenon described by Harvard Professor Clayton Christensen in «the Innovator's Dilemma». When innovators launch new products, they create opportunities for low cost providers to capture the bottom of their markets. Innovators have hence the choice to leave the entry and low margin business to the competition, or to fight for it. However, their cost structure is making them vulnerable to a price war initiated by low cost competitors. If they focus on the upper part of the market, they end up focusing on a niche and are marginalized.

In luxury, as soon as emulation fades, social competition and hunger for goods and services decrease. Mass consumption of a product or a service in a given economic sector signals a certain «commoditisation» and eventually its fall out of favour for consumers. This has recently happened to air travels (even though traditional airline companies are fighting the advent of low cost carriers), and books and music (electronic versions are used to support the sales of gadgets and are considered as a commodity). These industries are attempting to reinvent themselves («business class only» airlines, time share operators of private planes) or to develop higher margin side products (luxury editions of books, premium concerts for music).

Appetite comes with eating

To address the risk of becoming a commodity, companies such as Aubade have started to innovate and hence to invest. To recoup these investments, a higher marginal price is required. Luxury goods and services are driving profits, and hence innovation, even in «old» industries such as leather goods, mobile phones or stereos. Luxury can re-emerge: the car industry is a clear example. It has been built on a sense of luxury (diesel engines replacing horses), and then grew on its democratisation and affordability by the mass of consumers.

Even though some features attached to cars (speed, comfort, security, status) have been promoted by manufacturers to generate repeat sales, its image became the equivalent of a transport utility. However, some manufacturers started to carve new niches around specific needs – one of them having been «cocooning» in the 1980s. By introducing new materials and new experiences, for example by fine tuning engine noises or door slams, a new sense of luxury emerged and signalled a new boom in the upper part of the market. The main difficulty for manufacturers is to combine their image of luxury while generate massive sales.

Food for thoughts

Luxury is not only a proof of concept for new services and products. It can also be used as an early signal of shifting consumption habits. Having a car used to be a luxury. Then having a specific car was a luxury. Today, it's having a specific car supporting a life statement (ecology, comfort, wealth, lifestyle...) which is a luxury. Tomorrow, it might be to travel without the hassle of refuelling, with a totally ecological vehicle running on hydrogen fuel cells.

Mobile phones have also had an early signal with the Vertu line of products launched early by Nokia. Interestingly enough, Vertu focused on services (concierge, maps, applications) when consumers focused on the gadget itself. The success of Motorola first, then of Apple, demonstrates that luxury is not limited to the material of the phone but of its touch and feel. The fact that no-name manufacturers built their brand (HTC and Samsung, for example) by growing from the bottom of the market to the top illustrates that the sense of luxury attached to the use of a product or service is paramount.

The fall of Nokia and even more of Research in Motion (manufacturer of the Blackberry) illustrates that a pure technical offering does not address the aspirations of consumers. Forgetting or resisting the evolution of luxury consumption hence implies taking the risk to fall back and never recover. Embracing luxury means that aiming at an equal access to goods and services is doomed. Luxury is a proof of economic health, but is fed by social and economic inequalities. Its challenge is to feed cycles, that current luxury goods and services will become commodities; and to fuel the constant appetite of consumers for quality and higher standards of living.