

# SML essentials

## 02 The Business of Luxury

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## Sample Solution from the Authors

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## **götti SWITZERLAND (p. 21)**

### **1. *Why do you think does it make sense for Götti to keep skills like marketing, communication, design, or photography in-house?***

On its website, the company says that in addition to their basic training, all Götti Switzerland employees have also developed other skills in areas such as marketing, communication, design, or photography. This enables the company to produce nearly everything internally, from designing frames to layout, exhibition stands, and even the programming of the company's website.

As the company does not produce a mass product that can be found on every street corner, the broad creative skill set allows Götti to create its brand with all the communication material in-house and no need for external agencies (cost and time saving). Moreover, as the company's founder and creative head, Sven Götti, himself went from being optician to eyewear designer, the "keep it in-house" approach corresponds with the company's history and brand philosophy.

Many luxury brands like to keep skills that are seen as a vital part of their identity and cachet in-house. The reasoning behind this has not so much to do with cost and efficiency, although this always plays a role of course, as with authenticity and control over the product quality since brand experience is a major feature of luxury brands.

### **2. *How does Götti use its distribution strategy to ensure the exclusive appeal of its products? What are potential risks or downsides of this strategy?***

Götti eyewear is only available in selected, specialist shops. These are, as is the brand itself, oriented towards exclusive, high-quality products. According to the company opticians who choose Götti for their product range, they are among the best in their respective cities. Around 1,500 specialty shops are serviced locally by a team of 30 customer representatives.

With this selective approach to distribution, Götti ensures its products do not become ubiquitous and that presentation, sales experience, and service by local opticians correspond to the brand's values and quality standards. In this way, the brand maintains its luxury appeal and an attractive price bracket at the upper end of the market.

The downside of a restricted distribution network is, of course, a potentially lower brand presence, lower sales volumes, and greater dependence on fewer, but more important, retailers. However, for a luxury brand like Götti, the advantages of limited distribution seem to outweigh the disadvantages provided the company wants to keep its position at the exclusive end of the market.

## **Hermès (p. 22)**

### **1. In your opinion, why has Hermès resisted a takeover by LVMH and not become part of a successful luxury conglomerate?**

Hermès is still controlled by the founding family, who wants to keep the company independent and to pursue rigorously its strategy of “quality at all costs”. In the opinion of the owners, this does not fit well with the strategy of LVMH. Axel Dumas, who took over as CEO of Hermès International in February 2014, is a great-great-great-grandson of the founder, Thierry Hermès. Dumas is one of dozens of heirs with a controlling stake in the company. However, LVMH, controlled by Bernard Arnault, has aggressively acquired publicly-listed shares of the company in the past, leading the current owners to take legal action to consolidate the family’s control of Hermès in the future.

### **2. How do brand values, as expressed by the CEO, correspond with today’s consumption trends in luxury?**

The Hermès approach is one of quality at all costs. As W magazine wrote in 2014 (<http://wmag.co/1v5cedr>): “In an era dominated by fashion conglomerates whose “luxury” products are often manufactured at the lowest possible cost, Hermès remains committed to centuries-old techniques. Each Kelly bag is still assembled by a single craftsman over the course of several days in a roomy, light-filled workshop.” This costly approach corresponds well with the tendency of consumers in many markets who increasingly seek out authenticity, longevity of products, true value, and craftsmanship. This is in stark contrast to mass-produced and highly advertised “masstige” products.

## **Risch (p. 23)**

### **1. What are the features of the Risch business model that have made the young company successful in a competitive market?**

Risch combines quality, design, craftsmanship, and convenience. This is a combination that caters to the modern consumer who seeks unique, authentic products, a high-quality service experience, and all of this in a reasonable time span and at a reasonable price. Risch uses the latest technology to deliver a first-class product at a competitive price. The concept is based on a clear view of the target group they have identified and professionalism combined with the personal touch. Together, these features may well contribute to the success of the company.

### **2. Risch Shoes generally figure below the “luxury price range” in comparison to custom-made, or bespoke, shoes. Referring to our earlier definition of the term “luxury”, what makes Risch Shoes luxurious despite the lower price tag?**

We have learned that luxury is not only defined by price. Risch conveys a form of luxury that is basically defined by the combination of Italian craftsmanship and design, a highly personalized service, and the personal oversight of the founder and his family. The

combination of these factors creates a brand which might represent a form of luxury dating back to its origins. It is in fact reminiscent of how the founders of many big brands sought to satisfy their discerning customers' needs, combining passion, personal involvement, high quality, distinctive design, and the use of the latest technology.

## **Not Just A Label (p. 24)**

### **1. *The global designer platform Not Just A Label has seen significant growth and enjoys increasing relevance in the global fashion industry. What are the consumption trends that have led to this success?***

Consumers in developed countries and saturated markets worldwide are increasingly looking beyond mass-produced fashion items with big logos. Besides the trend towards immaterial, experience-focused luxury, there is also a trend towards the individual, small, authentic, vanguard, and personal. Not Just A Label seeks out the best young designers worldwide and gives them a platform to display their craft. At the same time, through its online shop, it links customers directly with designers and thereby challenges the traditional value chain of the fashion industry.

### **2. *Could this model be transferred to luxury segments other than the fashion industry? If yes, how could this be achieved, and what would be factors in its success?***

The luxury industry has been reluctant to use the Internet as a sales channel for obvious reasons. Traditionally, supply is limited and the shopping experience incorporating the typical brand atmosphere, haptics etc. is almost as important as the product itself. Moreover, the Internet is still a place where counterfeit luxury products are sold and where consumers have difficulty distinguishing between the original and the copy. So it does not come as a surprise that luxury goods producers still shy away from online sales platforms.

However, for small producers in niche markets with limited access to distribution channels and who want to keep the margins for themselves, the NJAL model could also work. Of course, success factors are the professional promotion of the platform online and offline to target groups, efficient and functional shopping, billing, and shipping processes, and an online user experience that despite the two-dimensional environment succeeds in conveying, among other things, an exclusive feeling to the customer.

## **Eva Kyburz (p. 24)**

- 1. *Eva Kyburz stopped following the two-collection rhythm of the fashion industry years ago. Instead she carries a core collection of traditional items which is complemented at irregular intervals by new styles. What do you think are the reasons for this policy? What are the advantages for the company and its customers?***

An obvious advantage for Eva Kyburz' customers is the ongoing availability of their favorite products, with many of her pieces becoming classics among her clientele. However, her new items provide the opportunity to keep track of changing styles without denying the basics of the brand. For the company, this means that it does not depend on the fast pace of the fashion business but is able to maintain its own rhythm. In line with this, it has also adjusted its distribution policy by maintaining its own boutiques and cooperating with a few selected retailers.

- 2. *The materials are sourced only from established European companies with a proven track record in quality. Her pieces are manufactured from start to finish in Zurich, one of the most expensive cities in the world with comparatively high labor costs. Nevertheless, the retail prices are considerably lower than those commanded by designer labels. Taking into account the total cost structure of a fashion brand, what might Eva Kyburz's secret to success be?***

Eva Kyburz maintains long term relationships with suppliers, retailers, and staff. She does not work with highly expensive raw materials; instead these are refined in-house. The brand does not conduct expensive marketing campaigns, there are no big overheads, and since it has limited its distribution largely within Switzerland, there are no excessive transport costs, customs fees, etc. Moreover, Eva Kyburz runs an extremely efficient manufacturing facility next to her own creative space and processes, tasks etc. are all clearly defined. A combination of all these factors contributes to the brand's competitive cost structure.

## **Beyer (p. 27)**

- 1. *Earlier we have seen that there is a trend towards higher vertical integration for watch brands. This also entails forward integration, meaning that luxury watch brands would open their own mono-brand boutiques. What might the consequences be for a watch dealer like Beyer?***

Multi-brand watch boutiques like Beyer feel the competitive pressure from mono-brand boutiques. However, the established ones still seem to succeed with a distinctive customer service approach, personal connections with clients (sometimes over generations), extensive technical and brand knowledge, and repair facilities allowing quick solutions with trained staff on site so that customers do not have to wait.

## **2. What are the strengths of such a business model? What are the weaknesses?**

As mentioned above, the strengths are broad knowledge of brands and products, experience in customer service, highly skilled and efficient staff, (often) family ownership with direct customer contact, as well as the choice of several brands. Disadvantages compared with mono-brand boutiques could be a narrower choice of models from one brand or a lack of brand experience.

### **LVMH (p. 29)**

#### **1. In your opinion, what are the reasons for forming large, luxury conglomerates like Richemont, LVMH, or Kering?**

Producing luxurious niche products at high prices does not always mean wide margins and huge profits, especially for small players. Conglomerates offer their affiliated brands some centralized services, professional advice, and financial backing. This can result in more efficient processes, lower administrative costs, as well as offering advantages when it comes to global distribution, implementation of growth strategies, etc.

#### **2. How can a brand benefit from belonging to a larger conglomerate? What are the potential risks?**

Again, as mentioned above, a brand can benefit from the reach, know-how, and financial power of a conglomerate. Potential risks are – depending on how the conglomerate likes to manage its brands – less independence and potential negative spillover effects if customers know about the affiliation with the conglomerate and this does not fit with the brand identity or authenticity. As the battle between LVMH and the independent Hermès shows, not all independent luxury houses are willing to be part of a conglomerate because they want to maintain full control of their brand and pursue their own strategy.

### **Mandarin Oriental (p. 32)**

#### **1. A major trend in the luxury business is a focus on service and experience rather than material goods. What can traditional luxury goods manufacturers learn from first-class hotels?**

Luxury hotel chains like Mandarin Oriental have decades of experience when it comes to hosting discerning guests and providing first class service. Now that service and experiential factors are gaining greater importance, even in the acquisition of a material product, it is obvious that manufacturers need to capitalize on know-how in dealing directly with customers and how to transform their brand's identity and values into adequate customer service and a consistent retail experience.

**2. *The Mandarin Oriental Hotel Group builds on its illustrious heritage and the Asian tradition of service excellence. What other attributes might describe the luxury hotel of the 21<sup>st</sup> Century?***

As mentioned by Cliff Atkinson of Mandarin Oriental Las Vegas, luxury to his hotel guests means time; time to relax, time to enjoy the hotels' amenities including fine dining, fitness facilities, wellness treatments, etc. This means that a luxury hotel in the 21<sup>st</sup> Century has to function like a time capsule that allows its guests to wind down and where staff can remain in the background yet still anticipate customers' wishes almost before they themselves know them. At the same time, it has to offer a range of indispensable technological amenities such as high speed Internet access etc.

**Gmund Büttenpapierfabrik (p. 33)**

**1. *Why do you think paper is becoming a luxury product in our digital age?***

Just like mechanical watches, paper has to a certain extent lost its functional value. In the age of computers and smartphones, we do not necessarily need to write on paper. But it is exactly this which makes paper rare and special. There is a huge difference between someone writing to you via Facebook while on vacation and sending you an old-fashioned postcard. Consider love letters. We still – indeed increasingly – like to commit important and meaningful words to paper.

Manufacturers such as Gmund have long known this and design quality writing paper that when you touch it, the difference can be immediately discerned. Today, it is the ultimate luxury to have your own stationery and write letters on exclusive paper. Some luxury hotels even provide personalized stationery in their more expensive suites.

**2. *Gmund Büttenpapierfabrik has been prospering for 180 years, seemingly untouched by the digital revolution. What do you think are the reasons for this success if you consider how their paper is produced and what it is used for?***

Meaningful messages are still frequently written on paper. The haptics, the act of handwriting, the opening of a letter – they all contribute somehow to increasing the significance of the content. Gmund is a niche player in the top segment of paper production and capitalizes on this emotional and sensual factor in written communication.