Assessment of Luxury Brands in Emerging Markets: A focus on India

Faculty Contributor: N.B. Kanagal
Student Contributors: Anahita Agrawal, Ghazala

Abstract

This article throws light on the state of the luxury goods market in India with a focus on the Indian consumer. It strives to explain the factors that an Indian consumer keeps in mind before making a luxury purchase. Through this analysis the article makes recommendations for luxury goods companies and stores in order to help them cater to these consumers.

Introduction

The global luxury goods market is estimated to be $280B in 2013[1]. The penetration of the luxury goods in the emerging markets – Middle East, South America, Asia Pacific countries – China, India[2]; has been low and the growth in the luxury market is believed to come from these markets going forward. The markets have seen high levels of disposable income making them a significant force in the luxury retailing. The market for Luxury goods in India including both goods and services is estimated to be growing by more than US$255 million[3] a year in absolute terms[4].

A standard of quality and authenticity, which is guarded by a cover of exclusivity, are the features always related to luxury. Core competencies like craftsmanship, creativity, precision, high quality, innovation and premium quality are often related to luxury brands and products. These significant attributes give the owner the satisfaction of being able to afford expensive products in addition to the psychological pleasure derived from a sense of self-esteem, prestige and high status. It makes them feel that they belong to a separate class of people who can afford goods, which cannot find a place in everyone else's budget.

Research Methodology

The primary question to answer is what motivates a consumer to buy a luxury good. Through a three pronged approach we have tried to answer this question. The first part involves building a theoretical base in which we analyse the Maslow's hierarchy of needs and find that it is modified with respect to luxury goods. The second is to evaluate and understand all the stakeholders in the luxury goods purchase process. The third was to build upon our understanding and we conducted depth interviews with 30 respondents to understand the dimensions they consider when buying a luxury good, in particular, handbags. The underlying reason behind choosing handbags as the luxury good was that the luxury goods market in handbags is well established in India and has deep roots in the country.

---

[1] Claudia D'Arpizio, 2013, 'Luxury Goods Worldwide Market Study Fall 2013' Bain Study, October 28 2013. http://www.bain.com/publications/articles/luxury-goods-worldwide-market-study-fall-2013.aspx/ Last accessed on June 20, 2014

[2] JI YI, Meng Fang Yuan, Suresh Kumah, 2013, 'The Attitude, motivation influence people's buying Luxury goods: A survey of Chinese in China' IOSR Journal of Business and Management Volume 15, Issue 3 PP 15-24

[3] http://luxurysociety.com/articles/2014/07/inside-indias-challenging-high-growth-luxury-market
[4] PTI 2013, 'India's luxury market to cross $10 bn mark by 2014: Report' http://economictimes.indiatimes.com/indias-luxury-market-to-cross-10-bn-mark-by-2014-report/articleshow/26102095.cms Last accessed on Jun 25, 2014

Modification of the Maslow's Hierarchy of Needs

Maslow's Hierarchy of Needs explains the driving force behind consumption for majority of products and services. However, when it comes to luxury goods we notice some changes from the usual pyramid. The bottom two levels were the same for both luxury and other goods; modifications can be made for the upper levels where we see a replacement of belongingness with affiliation, prestige with admiration and self-actualization with status[5]. This has been detailed in Exhibit 1. These changes go very well the entire concept of luxury brand purchases. It is observed that people place their social status, affiliation to a particular brand community and admiration much above anything else. In fact this is the reason why many companies are trying to promote their brands as "expensive" and "costly" rather than "quality"[6][7]. They want to make luxury good owners feel the sense of pride in having something, which cannot be afforded by everyone and gives them some kind of exclusivity.

Luxury Market Stakeholders

Luxury goods have a niche marketing approach in which the brand and good is visible but at the same time is expensive and slightly out of reach for consumers. To create this kind of effect, we analyse the luxury goods market from 5 aspects:

1. **Manufacturer** – Luxury goods are uniquely positioned in the market due to the level of detail and craftsmanship lent to the particular product. However, in recent times, most companies have started outsourcing certain activities and concentrated on investing in aesthetics and the look and feel of the product. Manufacturing is important to ensure that the end product has minimal defect and is in line with the consumer's requirements and the on-going fashion trend.

2. **Retailer** - For most fashion and accessory brands, retailing –either direct or indirect is the number one priority. Store location is an important aspect for luxury goods; the store needs to be located in an accessible environment that is perceived to be fashionable. The in-store behaviour is essential to make the customer feel special and at ease in the store. Thus, it is essential that the staff is trained well and can build on the reputation of the brand. The consumer-response management is a critical aspect as building relationships with the consumers will result in greater purchase frequency and introduce consumers to accessories of the main product resulting in higher sales.

3. **Brand Manager** – Luxury brands have a strong name, the brand usually starts with an individual's name like a craftsman or a designer who created different things. The name usually embodies a heritage and a sense of exclusivity. Line extension in the case of luxury brands is a challenge as there is a fear of losing the consumer, as they need to get used to the shift for what the brand earlier stood for. The brand manager needs to ensure that design of the product is a priority in the luxury activity. Also, luxury brands need to be redesigned to the societal trends and the local community.

---

[5] Kelly Yang, 2013, 'From luxury brands to Maslow's Hierarchy of Needs for Asians', elitethinkegg.wordpress.com. http://elitethinkegg.wordpress.com/2013/08/28/from-luxury-brands-to-asian-hierarchy-of-needs/ Last accessed on August 28, 2013

[6] Mark Tungate, 2009, Luxury World: The past, present and future of luxury brands, Kogan Page Publications

[7] Michel Chevalier, Gerald Mazzalovo, 2012, Luxury Brand Management : A world of Privilege, Wiley Publications

4. **Consumer** – Consumers are not completely rational beings. They value intangible elements like an opportunity to meet famous people, the sophistication of the store and the perception of the brand. Another expectation relates to a need for beauty, shape, feel and aesthetic value of the advertising.

5. **Purchase Process** –Luxury goods marketing differs from traditional marketing since experience and perception are more important than utility of the product. It is essential for luxury brands to cut out the middlemen and reach customers directly so that they can make them aware, educated and then cross-sell.

The final part of the analysis involved in-depth interviews in which we attempted to rank the factors that consumers consider while making a purchase of a luxury good. The recommendations and insights are summarised below.

1. **Reputation** – It is essential that a brand communicate its reputation to the end consumer. When all things are at par with competitors, a luxury brand should ensure that their reputation is intact and ensures that consumers are aware of their brand. Reputation is a behavioural component of a consumer's buying attitude. It is essential that companies keep this in mind while designing their strategy.

2. **Brand equity** – The luxury brand needs to communicate its value proposition to customers and all other members of the channel so as to ensure that all entities are aware of the brand worth. A brand satisfies the ego needs of a consumer. Most luxury consumers are aware and have an urgent need for their ego needs to be satisfied.

3. **Quality** – Luxury brands are known for their impeccable quality. Consumers who buy luxury brands prefer these over premium brands since they feel that they will get the best quality products. This satisfies their need of "value for money".

4. **Fit and Finish** – It is essential that luxury product-based companies produce, market and sell products that have the best fit and finish in the market. If a customer buys a luxury product, which does not have the best finish, the customer feels cheated and does not want to buy products from the same company again.

5. **Shopping experience** – The shopper experience, right from awareness to purchase of the product should make a consumer feel that they have been valued as a consumer. At every touch point, the value of the consumer should be communicated to the customer.

6. **Exclusive stores** – A luxury brand should not be stocked with other premium or regular brands. Mixing brands will confuse consumers and dilute the brand of luxury products.

Conclusion

The luxury market is poised on the verge of a boom. It is essential that retailers step into this industry now and keep in mind the factors that an Indian consumer considers so as to prosper in the industry. Luxury goods are high-value purchases and it is essential that consumers are not disappointed by the good that they buy as the loss of loyalty and repercussions faced can make the retailer pay a heavy price.

Contributors

Anahita Agrawal (PGP 2013-15) holds a Bachelor's degree in Computer Science Engineering from R.V. College of Engineering, Bangalore, India. She is reachable on anahitaa13@iimb.ernet.in

Ghazala (PGP 2013-15) holds a Bachelor's degree in Physics from Sri Vankateswara College, New Delhi, India. She is reachable on ghazala13@iimb.ernet.in

Exhibits

Maslow's Hierarchy of Needs

- Self Actualization
- Prestige
- Belonging
- Safety
- Physiological

Revised Maslow's Hierarchy of Needs

- Status
- Admiration
- Affiliation
- Safety
- Physiological

Higher Level Needs

Lower Level Needs