



Growth Trade-off Variables in Luxury Brand Management

RayeCarol Cavender, Ohio University, USA
Doris H. Kincade, Virginia Tech, USA

Keywords: Luxury, branding, trade-offs

According to brand management expert Kevin Keller (2009), “the most fundamental challenge of marketing and brand management for all brands including luxury brands is how to reconcile or address the many potential trade-offs that exist in making marketing decisions” (p. 293). Three notable trade-offs in the luxury goods industry are (a) classic vs. contemporary image, (b) exclusivity vs. accessibility, and (c) retention vs. acquisition. These are all interrelated and pose a dilemma for luxury marketers in that strategies emphasizing heritage, exclusivity, and retention are not useful in managing contemporariness, accessibility, and acquisition.

In a case study, the researchers identified the presence of these growth trade-offs within the sample company, Louis Vuitton Mœt Hennessy (LVMH). Using content analysis on extensive primary and secondary data sources, the researchers noted that trade-offs were never addressed by LVMH as either/or decisions as indicated by Keller. Rather, trade-off decisions were approached with the goal of incorporating both options of the trade-off into LVMH’s brand management strategy to facilitate a balance. One additional trade-off measure, short-term profitability vs. long-term gain, emerged throughout data analysis as well as the clear focus by LVMH, to favor long-term gain as a more valuable contributor to fostering sustainable brands.

The first measurement of trade-offs, classic vs. contemporary image, is a common issue for luxury companies. Evidence was found in the case study that an older brand (e.g., Louis Vuitton, Givenchy, Fendi) can cultivate contemporariness, while a younger brand (e.g., Thomas Pink) can create an artificial heritage until the brand matures and cultivates its own true heritage. One of LVMH CEO Bernard Arnault’s strategies for invigorating older brands in the portfolio is through the appointment of creative, sometimes eccentric, design talents that bring a modern edge to the brands and attract younger clientele, while preserving the brands’ heritage and craftsmanship (e.g., Marc Jacobs at Louis Vuitton, Phoebe Philo at Celine; Matlack et al., 2004). Evidence in the case study also indicated that the younger brands do not necessarily need a long history to be successful. Young luxury goods brands (e.g., Marc Jacobs, Benefit) have achieved success through embracing a purely modern aesthetic and brand image (Adams & Elliott, 2010; Galloni, 2004). The key as indicated by the analysis of LVMH is not to rush development of heritage or financial profitability, but to reach these goals in a timely progression.

The second measurement, exclusivity vs. accessibility, is also a growth trade-off balanced by LVMH. The company “has managed the balance well, but it is taking no chances, offering customers increasingly expensive and bespoke services in an effort to retain a high-end mystique around brands in danger of becoming ubiquitous” (Denis, 2012, para. 1). To master the paradox of growing without diluting the brand image, LVMH’s distribution is tightly controlled, which allows for control of margins and adherence to marketing decisions (Denis, 2012). License agreements are approached with extreme caution as many companies within LVMH (i.e., Donna

Karen, Dior) suffered from flailing brand images due to over-licensing at the time of their acquisition (Galloni, 2004). A current trend in LVMH is that many brands are now favoring increased depth (i.e., exclusivity) over breadth (i.e., accessibility). That is, many LVMH brands (e.g., Fendi, Guerlain, Dior, Sephora) are renovating existing store spaces to increase floor space, improve architectural design, improve service offerings, and appeal to consumers' senses instead of opening more stores. In keeping with an experiential marketing orientation, brands in the LVMH portfolio are striving to create holistic but exclusive experiences for their consumers.

The third measurement, retention vs. acquisition, is another trade-off in which LVMH is maintaining a careful balance. LVMH has over 60 prestigious brands, trading within five operating groups ("Luxury goods retailing," 2011). Trade-off decisions such as which brands to keep, buy, or divest, must be made, and the impact of those decisions on loyal consumers as well as potential and new consumers must be assessed. Therefore, evidence from the case study showed that LVMH brands will likely be in concurrent and asynchronous phases of retention and acquisition across multiple market segments and require constant monitoring and balancing.

The fourth measurement, short-term profitability vs. long-term gain, was the only trade-off measure in which LVMH made a clear choice of one strategy over the other rather than maintaining a balance between the two options. With respect to the brands in the portfolio, LVMH has often sacrificed short-term profitability for long-term gain. This strategy has served as a guide for cultivating a presence in emerging markets (i.e., Southeast Asia, Middle East) and in helping newly acquired brands achieve profitability (Adams & Elliott, 2010). Pressure to meet short-term financial goals does not fuel creativity of designers but can have the opposite effect (e.g., Christian Lacroix). By eliminating this pressure on creative design teams and allowing companies to undergo any needed restructuring, many newly acquired companies have reached a more sustainable profitability and ensured their longevity in the luxury goods marketplace.

Results for this study indicated that evaluating growth trade-offs, through strategic planning and strategic management response, is a necessary step to brand management success. Furthermore, the most successful brands were evidenced to be crafting a careful balance between components of the trade-offs, confirming their ability to strategically navigate changing consumer markets and maintain a strong presence in the luxury goods industry over time.

References

- Adams, S. & Elliott, H. (2010, November 22). Master of the brand: Bernard Arnault. *Forbes*, 186 (9), 62-74.
- Denis, P. (2012, May 18). LVMH looks to burnish Vuitton mystique and buoy sales. *Reuters*. Retrieved from www.reuters.com
- Galloni, A. (2004, October 8). Fashion statement: Its closets full, LVMH decides to return to basics. *The Wall Street Journal*, p. A1.
- Keller, K. L. (2009). Managing the growth tradeoff: Challenges and opportunities in luxury branding. *Journal of Brand Management*, 16, 290-301.
- Luxury goods retailing- Global. (2011, August). *Mintel*. Retrieved from Mintel database.
- Matlack, C., Tiplady, R., Brady, D., Berner, R., & Tashiro, H. (2004, March 22). The Vuitton machine. *BusinessWeek*, 3875, 98-102.