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Thesis Prospectus II

## The Global Success of French Luxury Brands

The French Secret: How has France maintained competitive dominance in the luxury market?

Luxury is something the French know well, considering they based their industrial revolution around the concept. It is no surprise then that France is the global leader in the luxury goods sector, owning a market share of over 34%.<sup>1</sup> But when one considers the recent global economic difficulties it is hard to imagine the market, filled with items created for want rather than need, to have experienced large amounts of growth in the past half-decade. However, when one looks at the data, luxury goods only fell 3% in 2008 amidst the economic crisis.<sup>2</sup> Furthermore, while there was an additional drop of 3% in 2010, there has been nearly a 16% growth in the luxury industry since 2009.<sup>3</sup> In this study I will discuss the past decade and if the actions of the luxury markets top brands, all owned by the French, have affected the rest of the luxury market. I will also question whether or not the concept of a luxury good can maintain its traditional image during the modern world or if the globalization of the leading French luxury brands has had a part in sacrificing the luxury good.

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<sup>1</sup> "Transport Insurance for the Luxury Industry." *Allianz*. Expert Risk Articles, 2009. Web. 1 Sep 2011. <[www.ages.allianz.com/insights/expert-risk-articles/transport-insurance-for-the-luxury-industry/](http://www.ages.allianz.com/insights/expert-risk-articles/transport-insurance-for-the-luxury-industry/)>.

<sup>2</sup> "Transport Insurance for the Luxury Industry."

<sup>3</sup> "Luxury- Top 100 Report ." *Millward Brown*. Millward Brown, 2011. Web. 31 Aug 2011.<<http://www.millwardbrown.com/BrandZ/Default/Categories/Luxury.aspx>>

I am interested in the study because the importance luxury goods have played in establishing and supporting the French economy has been vital. When France began industrializing, it chose to specialize products rather than mass producing like Britain to gain a place in the economic growth going on in Europe during that time. Due to this specialization, France effectively created the luxury good market. That being said, I am well aware that during times of economic instability, the goods that fulfill wants rather than needs are often the first items to go. Knowing this, I wanted to do a study on France's luxury market to see what changes have occurred throughout the past decade of economic instability. It is obvious that the market still exists, as shown by the recent 19% growth in 2011 alone, but I want to know what, if anything, changed in the midst of such uncertainty.<sup>4</sup> Also, if economic instability weren't enough, this past decade saw a level never before reached in globalization of businesses and their brands. The world is now the market, not just one country. I want to see how this new global market has changed luxury, be it willingly or forced.

#### RESEARCH:

I plan to create a study that will answer the following research questions: How has the luxury market been managed in recent years? How have the French based market leaders such as Louis-Vuitton-Moet-Hennessey (LVMH), Hermes, Gucci, and Chanel, among others, had to change their traditional structure to maintain competitiveness? Is the luxury market still changing today?

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<sup>4</sup> "Luxury- Top 100 Report."

Introducing the subject, I will discuss the history and importance the luxury market has had in France and what the market looks like today. I will briefly mention how it has seen large amounts of growth this year and how there is an expectation that it will continue to rise.<sup>5 6</sup> I will also touch briefly on the matter of companies having interest in further expansion into new markets; this subject will be expanded upon in more detail later on in the paper. Then I will give brief explanations on the luxury brands used throughout this study. The explanations will resemble small histories of the various companies and should allow the reader to have marginally better insight into the subjects referenced throughout the thesis.

Once the histories are finished and the scene is set, I can begin to address my thesis question: How has France maintained competitive dominance in the luxury market? First I will focus on the market itself, explaining where it currently is and what is expected for the luxury sector. Then, I am going to attempt to prove France's dominance in the market. I will break down the data by sector and show what part of the luxury market is owned, run, or managed by French based companies. I will proceed to dissect the various parts of the luxury market by comparing the top brands.

During this portion of the paper I will also be asking and answering the question "How do you note success?" The simple answer being the brand is profitable. I plan on proving the

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<sup>5</sup> "Luxury- Top 100 Report."

<sup>6</sup> Silverstein, Barry. "High Time Ahead: Luxury Brands to Rebound in 2011." *Brandchannel. Luxury Watch*, 22 Oct 2010. Web. 24 Aug 2011. <<http://www.brandchannel.com/home/post/2010/10/22/High-Times-Ahead-Luxury-Brands-to-Rebound-in-2011.aspx>>.

profitability by comparing the competition in the same sector, as well as comparing what has been going on in other market sectors not related to luxury.

Next I will be focusing on the strategies of the brands. By this point if I've proven the luxury market is profitable, as well as individual brands, then I want to figure out why they're profitable. This means I will be re researching the recent actions of luxury brands to see how their business strategies have been managed and how they have evolved. This portion of the paper will discuss the reshaping of the market, how the brands have navigated the system, and changes in company structures. Furthermore, I will discuss the mergers and acquisitions that have occurred in multiple luxury brands.

Then I will discuss the effects of the new strategies. With the new focus on emerging countries comes the nouveau riche. Are they more brand conscious than others? How does attitude toward luxury in emerging market countries compare to luxury in developed countries? My goal in this study is to understand if, in the midst of the luxury companies focusing on maintaining their global dominance or perhaps just their competitiveness, the luxury market has become saturated with more banal merchandise, capable of being bought by any member of the middle class? Has luxury lost all meaning in a world where anyone can buy something with the Louis-Vuitton logo? Also, if luxuries have, as I believe, become diluted, what made them that way, and are the companies trying to revitalize their markets?

To do this study, as mentioned previously, I will be using information from the Millward Brown and Interbrands rankings from the past half-decade. I will also be using quantitative data on the Worldwide Luxury Goods Sales from Bain & Company. I will be using data on French

based and/or owned companies only, of which there are eight in the top ten luxury brands.<sup>7</sup>

These brands are: Louis Vuitton, Hermes, Gucci, Chanel, Cartier, Hennessy, Moet & Chandon, and Fendi.<sup>8</sup> I plan on doing extensive research in these top brands, but I would also like to try and incorporate the top luxury companies from other luxury sectors such as the wine, food, and travel industries.

Furthermore of the research I have done thus far, I have accumulated data from various web articles. Among the sites used are: the marketing website brandchannel, the insurance website Allianz, the New York Times, the online business journal of Wharton School knowledge@wharton, and finally Forbes.com. Also, currently I have a few journal articles being looked into; the majority comes from The Journal of Brand Management. Finally I also have multiple business related magazines for potential sources, such as Bookmberg Markets and Luxe. Obviously as I continue with my thesis I will gather many more sources from all of these sources, focusing more on the journals, as well as many others. I will also be looking for more of the strict numerical economic data on the luxury market to provide a sound basis and support for my thesis.

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<sup>7</sup> "Luxury- Top 100 Report."

<sup>8</sup> "Luxury- Top 100 Report."

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