AN INTERVIEW WITH JEAN-NOEL KAPFERER ON LUXURY MARKETING

Interview with Lawrence Cunningham, Managing Editor
Journal of International Marketing Strategy (JIMS)

Managing Editor Lawrence F. Cunningham had the opportunity to meet with Jean-Noel Kapferer, one of the foremost world experts on luxury marketing, in Paris in early October and late November to discuss luxury marketing. The following conversations emerged from the lengthy conversations between Professor Cunningham and Professor Kapferer.

LFC: How did you become interested in luxury marketing?

JNK: When you live in Europe, especially in France or Italy, you are in an environment which is made of superb cities, streets, places, buildings, surroundings, museums, landscape. Elegance and luxury are already part of the ambient culture. So I had a background of seeing and experiencing luxury.
I had already written many books and articles on branding. As a result, I wanted to focus on one area of branding. I already had some exposure serving on the board of a premium casual chic brand. This global brand was not luxury per se, but it was high-end. I realized that high-end brands had many interesting aspects.

At that time, some ten years ago, there were very few articles on luxury. There were also few books on luxury, mostly historical or journalistic. Now on Amazon, there are at least 20 books on luxury. At that time, the topic of luxury was virgin territory.

The French and European environments were not only conducive to luxury, but the headquarters of personal luxury firms are in Paris, Milan, and London. If you want to the meet the CEOs of these firms, it is possible and convenient. Being based in Paris made this industry natural for me.

To understand luxury, you need to have the pulse of the industry. Luxury does not exist in essence, it is made real by companies, through their brands, a range of products and services, a selective distribution and experience. Luxury, in reality, is what these firms do. It is tied to the country of origin of these brands. You have to be close to the nerves of the industry, the headquarters of the firms doing luxury. Just interviewing consumers is not enough.

LFC: In your 2009 book with a former Louis Vuitton CEO, Vincent Bastien entitled, <u>The Luxury Strategy: Break the rules of marketing to build luxury brands</u>, you suggest that there are specialized strategies for luxury brands. Perhaps, you could address this issue.

JNK: Luxury is not consumer led. The role of luxury is to give consumers surprises. People expect true luxury to surprise them, to go beyond their imagination. Luxury firms and Silicon Valley have the same problem. Consumer demand is created by the ability to surprise the consumer.

LFC: Maybe you could explain further.

JNK: I wrote the book, <u>The Luxury Strategy</u> with Vincent Bastien. Vincent is a former CEO and now an Associate Professor at HEC Paris. He has managed luxury companies throughout the world, so his experience is in the real world at a very senior level.

Now let's come back to your question about specialized strategies for the luxury industry. What is the luxury industry? It is a group of people who call themselves luxury companies. But under this global word (luxury) there are three basic business models: a fashion business model where speed and being just in time is essential, a model which we call premium and a third one which is what we call the luxury strategy.

These types of companies are all called "luxury companies" by journalists or clients. The issue we address is how do we manage a fashion brand, a premium brand, and a luxury brand differently? The rules for managing these three type of firms have evolved over time and were discovered through trial and error by their founders or owners. These companies are sometimes quite old and discovered little by little what they had to do to make a clear distinction between luxury, fashion, and premium.

The book is about "the luxury strategy" not about "'what is a luxury?" For firms pursuing fashion strategies, the concept of enduring quality is totally irrelevant. The notion of "made in" is quite irrelevant also because things are not made to last. However, in firms pursuing a luxury strategy, the notion of timeliness is very important. The notion of where it is made is also very important; it is a major way to make yourself non-comparable As a CEO you have to know where you stand between the three strategies; premium, fashion, and luxury before you answer any managerial question. You have to stick to your frame of reference and not to the word luxury itself because anything today is said to be a luxury. You could say that Evian water is a luxury for people who cannot drink potable water. The issue is not how you define yourself but or what business are you in: this is the key message.

LFC: Do you need specialized curriculums for undergraduate and graduate students to understand luxury marketing?

JNK: In the beginning, the luxury industry was obsessed with what I call the garage or the craftsman. However, as the industry has matured, it is more retail focused, more global and more omnichannel.

With this evolution, luxury companies need competencies that they do not have in the firm. This need is especially the case in family-owned firms. It puts pressure on family owned firms to find this talent or to sell. It is very important to keep the family blood in these firms because it may represent five generations**.** However, to survive, they need to borrow competence from outside or bring in help from the outside companies. This explanation is why LVMH borrowed people from Silicon Valley. Outside talent is needed to move forward and enact a digital transformation of the company, a prelude to digital marketing strategies and tactics.

We are in 2017 and luxury is no more what it used to be. It is big business.

LFC: You seem to be suggesting that the needs of the luxury industry are changing and that it is necessary to combine the skills from traditional luxury with important business skills such as CRM, digitalization, and technology.

JNK: Yes, the people from outside sectors have important knowledge and experience in digitalization, or supply chain management, Omni-channel or big data. It is important that luxury marketers focus on justifying high prices and maintain the aura and the mystique of luxury.

These people who join luxury firms from outside sectors bring many important skills, but they need to understand that this is a very special sector. As a result, they have to unlearn some of the things they learned in other sectors. Pricing high is everything here. Otherwise, you are just running a business as a commodity.

LFC: Let's move our focus from your 2009 (revised in 2012) work, <u>The Luxury Strategy; Break the Rules of Marketing to Build Luxury Brands</u> to your 2015 most recent work <u>Kapferer on Luxury; How Luxury Brands Can Grow Yet Remain Rare.</u>

JNK: The 2015 book is a collection of my most recent research papers that have been published in international academic journals. This book focuses on a very serious issue: growth in luxury firms.

The book starts from the premise that the luxury sector is the only sector where growth is a problem. Growth is a problem not because you cannot find enough customers but because there are too many clients. If there are too many clients, you may be tempted to sell to them, and then you lose something.
The luxury paradox is as follows: the higher the desire, the higher the sales but, the higher the sales, the lower the desire.

Perhaps, you could starve the market instead. The firm could say to customers that they have to wait two years to get the product because you do not produce enough of that kind of product. You could create new factories to match demand, but the luxury firm decides it won't.

On the other hand, some brands could say well they have to sell it to everybody because they are our clients. They must deliver the products they expect. Then these brands would enter the premium market, abandoning social stratification and distinction as a key lever of value creation. You don't want to go there because your price will go down. The issue is how can you both grow and remain rare.

LFC: So what is the solution to this dilemma?

JNK: The solution is an artificial rarity. It is a virtual rarity. It is not a normal state of affairs. No car company can survive selling only three thousand cars. It is impossible because you cannot even think of renewing a model which is a billion dollars to create.

Firms like Porsche have shown the way. Porsche in 2015 sold 225,121cars. Rolex is rumored to sell almost a million watches.

They keep their prices high and always going up. They can hold their price. They do not negotiate. Price goes up every year. They raise prices ahead of the growth of purchasing power because Porsche aims at people with purchasing power**.** I do not say the very rich and billionaires but purchasing power.

Purchasing power **-** especially in emerging countries is growing bigger and bigger. Porsche always raises prices every September by 5 percent so that they are ahead of the purchasing power. People can then dream about having a Porsche. A dream should remain a step beyond your purchasing power.

Ferrari plays the game of starving the market. The business model of Ferrari is cars plus Formula One media rights plus a lot of licenses: so it's a very balanced business model. They can afford to produce only 7900 cars because they make a profit on their media rights and on licensing.

If you produced 1.8 million Porsches, you would not be Porsche anymore. You are an Audi, and this is a premium brand. The Audi CEO himself calls Audi a premium brand. Not a luxury brand.

The CEO of Porsche has a very nice saying, "You should always produce one car less than demand." I don't know how you predict demand. He obviously understands the psychology of demand.

Mr. Piëch, a former CEO of Porsche, said that when he sees four or five Porsche in front of the same hotel, then he is very worried. Four or five Porsche in the town is not a problem, but in front of the same hotel, it is a problem. Per se selling ten thousand more Porsches to China does not hurt the brand objective rarity, but it hurts its subjective rarity and power of distinction. It means the same people have the same car.

When this happens, fashion, imitation is operating. When everybody wears the same thing: It is called fashion. You become a fashion item, and people then move on to something else like Maserati, more distinctive.

It is a difficult issue for all successful luxury brands, but it is an issue which needs to be addressed. So there are many chapters in this book (2015) which develop this issue in different ways. For instance, you can starve the market in a specific part of what you produce, usually your core. Hermes starves the market on their core excellence which is leather bags, but they don't starve the market on ties, and silk shawls. So you may decide where you play the game of starving the market. These issues were not addressed in our first book (The Luxury Strategy), they are in the second.

LFC: So one would argue that luxury and rarity is all perceptual?

JNK: There must be some objective reality because what is truly exceptional is rare, but you if you have objective reality all across your product range, you are dead. The business model does not hold. You do not produce and sell enough to cover the fixed costs of building a prestigious image and develop retail.

LFC: As a result, you cannot grow.

JNK: First, you cannot grow. Second, everything gets more expensive. Third, if you want to invest in technology, it is difficult. You may then be bought out by an investment group. These factors are why many companies sell because they do not have enough cash anymore. They are too small to finance growth.

LFC: In the 2015 book you suggest that luxury is culture. So what do you mean by this?

JNK: The luxury industry positioned itself as a creative industry, as applied art. In the 15th century, artists would make one painting. Andy Warhol showed you that you could sell two thousand copies of the same painting. So we are selling 2000 copies of not a painting but of the bag which is made by almost an artist: i.e., an artisan. So this industry has positioned itself as a cultural industry which is very interesting because if you position yourself as a cultural industry, you cannot criticize people for having a conspicuous very nice jewel: it is almost a piece of art on their wrist. If you say your piece is just to show off, then you will be condemned. If you say you wear art, then you often are praised. There is a chapter in our book called the "artification of luxury" which means the purposeful transformation of non-art into art.

Have you visited Frank Gehry's Vuitton Foundation in Paris? It was opened two years ago at a cost far beyond the original estimates of 100 million euros. It is a fantastic piece of architecture with the latest modern art. It is an art statement of a company selling plastic leather bags. They suggest that they are the modern avatar of the House of Medici's. They act as did the sponsors of the Renaissance. They are the sponsor of today's artists. The goal is to say we are producing and selling culture. We are selling things which are needless but which elevate people.

Luxury sells dreams but we as professors we cannot take dreams for reality. Our job is to open the eyes so that people who manufacture luxury understand the new nature of their industry. It is like Hollywood. Hollywood is a dream manufacturing industry.

LFC: There is a theme for your next book.

JNK: This is how luxury firms succeeded. You make people believe you have been there for 100 years or 200 years. Thus you build a legend

Let me tell you something. I ran into an exchange student in the international MBA where I teach. I asked if he was an American. He said, yes. So I said to him: "Where are you from?" He replied that he was from California. I asked him how old he was. He said that he was 23. I asked him when Ralph Lauren was created? You know what he said? "The Civil War." For him, Ralph Lauren was not something invented in 1967. For him, it has been there since before his great-grandparents.

Ralph Lauren has made the dream to become a reality for the people who are 23. To this exchange student, it looks like Ralph Lauren has existed for many years. And I say the Ralph Lauren dream has become a reality. But we as analysts, we must decode the dreams. We must decide the way the dream is produced, or created.

LFC: Because if we can decode the way the dream is created, then we can explain how to do it?

JNK: Yes.

LFC: Right, the process! If we can decode the process by which we create dreams, then we can teach people how to do it. I wonder if this will, of course, reduce the exclusivity and the rarity of the industry by teaching people the process of creating dreams.

JNK: It is an industry

LFC: Yes!

JNK: Now when you start a company, you are not an industry**.** You are small with big hopes**.** You are a creator just as Steve Jobs in his garage. Such creators did not think they would create the number one valued company in the world. They were just trying to fix or find a better way with their personal computer. Now, in luxury, we are talking about companies/brands with the same name as the early founder but which are valued one million more times. It has become a very serious industry based on the sustained myth of the garage.

When you think about it, the process is very funny, and that makes it very interesting.

LFC: I think you have captured it because it is a process of creating dreams. People are wearing this or that attempting to live the dream. They are living the dream as best they can.

JNK: Plus these luxury items are nice objects. You know it has been carved. There is a lot of elegance. It is not made by robotics. It is not made by Chinese in a sweat shop. You feel it is a highly work intensive item made by artful humans.

LFC: Right.

JNK: It is not capital intensive. It is work intensive

And it's like going to a restaurant where someone spends two hours preparing an elegant meal, and you say great. Very different than fast food. Two different moments.

So with luxury, we have an artisan cooked watch although some parts of it are very industrialized, the design and craftsmanship are in a class by itself.

LFC: As you know, my background is in services. My question is whether these growth models are the same for luxury services as they are for luxury physical goods.

JNK: You want me to be frank.

LFC: Yes

JNK: I don’t know.

LFC: That maybe the best answer.

JNK: The weakness of most books on luxury is that they did not carefully check whether their principles apply to services, with maybe the exception of the hospitality business. I said to Vincent Bastien in our first book that we have something called the 21 anti-laws of marketing. But have we checked whether they apply to services? Probably my third book will be devoted only to services because there are not enough people working on services. It is huge for students. There is a need of good theorizing. There used to be an American professor who passed a few years ago.

LFC: Lovelock? Chris Lovelock? I dealt with him on several occasions. He was one of the key players in the founding and development of the field.

JNK: Yes, I met him. Yes, who is the new Chris Lovelock?

LFC: It is difficult to identify one person.

JNK: How are services the same and how are they different for luxury. Services are not a product. So what does it mean to starve the market for a service? You can say we have 20 rooms and no more in spite of the demand. Or we can have a notable Spanish restaurant where you had to reserve in January because it was booked a year in advance. But these are extreme cases. Probably you have hit a key issue because of the missing book on luxury services. Not the descriptive book like saying what Marriott does or whatever. But saying ok does it work the same way? So thank you for giving me the title of my next book.

LFC: Well I have another question for you here.

JNK: If it's a service you need it would be better to have somebody coming from the same service sector.

LFC: Well we should talk more about this because I think the examples you gave are hospitality…

JNK: Also banking

LFC: There are also other types of services that are close to luxury which is more personalized services.

JNK: I talked about service as a sector within the luxury business. All luxury brands come with service. If you don’t have service with your luxury product, you can’t exist. But here we talk about service as an industry.

LFC: Right

JNK: But we here we talk about service as an industry within the luxury industry.

LFC: Right. Let me pass on because we will come back to it later on. In your bio, you talked about being in demand as a speaker in many different locations. What are the central themes that you stress with audiences? I realize some of these are audience specific.

JNK: Okay the first thing I want to stress is first the difference between East and West, mature countries and emerging economies.

Where are you based?

LFC: I am based in Denver

JNK: Denver? So you ski

LFC: Yes

JNK: Okay we are talking about luxury. Luxury is a word which is almost the same in all the countries of the West: luxus, luks, luxe, lusso. Germans and Italians look at luxury in roughly the same way. It is the same word. As soon as you go to China, this same word does not exist. You have four words to describe luxury. If you ask the Chinese how do you say luxury in Chinese? They will say it depends on what you mean. She chi means a great man and a lot of people. So the notion of luxury is that you look like a great man in front of a lot of people who look at you because you are a great man because you have a great watch. Here the social dimension of luxury is very important. Since the President of China has decided they need a crackdown on corruption, this expression of luxury is not as good as before, so they use another word, Jing Pin.

The Chinese or Japanese vision of luxury depends on what dimension you want to stress: if you use one single word you cannot express all what all you need to. Certainly, this is a challenge for the luxury industry in Asia: how do you teach luxury to sell in a luxury shop to somebody who has never opened a Vogue magazine nor grasps the concept? Their salary will be a third of what he or she is selling. They don't understand the words, yet they are very polite and do not say it to you. They spend hours in front of you. In fact, they don't understand what you are saying. It is a human talent challenge which therefore based on how do you convey something which is cultural? What they buy is our luxury. They don't buy luxury they buy western luxury as a surrogate of the western lifestyle and dream. We as Professors are using words, but they don't understand these words. I insist on this multi-cultural difficulty for the industry for they have to hire thousands of salespeople.

JNK: That is one theme I address as a guest speaker. The second thing I address are the changes faced by the luxury industry and the new challenges. The first challenge is success itself. Luxury has not been created for success; it was aimed to be reserved for a few people. Now it's becoming a big thing. How do you take something that was made to be small and make it for it big or many people?

LFC: It is a terrible dilemma.

JNK: The second dilemma you have to face is bigness. The digital world is that of bigness. Don't we talk of mega-operators (The GAFA's). TMall, Alibaba, WeChat, Weibo in China are also giants. Do not we talk about Big Data? Do you know my friend Scott Galloway?

LFC: Yes

JNK: Scott Galloway teaches digital marketing at the Stern School at New York University.

And he is always comparing things with big numbers: how many million people are following you on Facebook? He insists that luxury companies should compare themselves to other companies from mass sectors who have 100 million followers. But why should Hermès have 100 million followers? The digital industry has only one thermometer: where do you stand on the global hit parade? The real question is how many followers does a luxury brand need?

The digital industry is encouraging you to compare yourself to people to whom a comparison should not be relevant. But the measures are supposed to be the same for everyone (How many fans? How many items sold online? How many posts on Instagram?), as if luxury brands were running in the same race as non- luxury brands**.** This practice is a danger. In this comparison, in this race to get the biggest numbers you may lose your specificity. Luxury management is a delicate equilibrium: It's always about the fear of losing specifics, thus diluting luxury. This factor is important, and that is the reason I talk about it.

LFC: Let me follow up on this because it seems very difficult to be a publicly held company in the luxury sector because of the pressure on earnings per share.

JNK: Yes, you are right. Many companies are still family owned like Chanel and Ralph Lauren. In many cases, they have a lot of cash and so they do not need to worry quite as much about short-term earnings. These firms do not need to acquire capital through a public listing. Other firms which do need cash go into groups (such as Kering, LVMH, Richemont) that provide access to cash, protect them against quarterly earnings pressures and give the luxury firms the opportunity to take a long-term perspective.

There are also banks that believe in these family-owned firms. The banks give them access to capital because they believe in these firms and have faith that their loans will be repaid.

You cannot just take a short-term perspective in the case of luxury firms.

LFC: What about other issues?

The industry is facing many difficult issues in coming future e.g. 2020. For example, how does Porsche or Ferrari manage if autonomous cars become the norm?

LFC: With great difficulty?

JNK: What is a Porsche in this environment? Well, it is a pleasure? Technology is growing so quickly that it creates problems which were totally unforeseen even ten years ago e.g. autonomous cars.

The theme that I want to address in my speeches is: do we change luxury or will luxury be a branch standing apart. Remote! It is like the evolution of species.

LFC: Perhaps, luxury buyers will be still be permitted to drive their Porsche themselves.

JNK: Yes it's like fast food created slow food.

LFC: Let me switch to a different luxury theme. How is the concept of luxury evolving in China?

JNK: The very rich Chinese have many houses around the world, and their children are either in the US Universities, Oxford or Cambridge. They don't look after luxury objects. They are buying art. They are the top guns. They are very international. They are CEO's, and they are the luxury buyers from the capital and tier one cities.

As you know, in China you have different tier cities that roughly correspond to different luxury buyers. The tiers are related to size and number of the cities. You have tier one, two, three and four cities. Even in tier four cities, you have enormous amounts of people interested in luxury, but of course, the latest trends are adopted first in the tier1cities.

In China, the mass of people hates differentiating themselves. They want to be like everybody else. You need to succeed like everybody or at least to have the same sign of success as everybody. So if my successful friends have a blue tie, I need a blue tie. I should change my tie. My lady friends have a certain type of dress, so I should have the same dress.

In China, because of saving face you do not want to stand out. It is the same in Japan. Don't ask me to stand out. Further, you should wear the signs of success. It is like the winner takes all, and then many try to emulate the winners. Hence the success of luxury megabrands in Asia. Their flag was the red flag now they have the Vuitton Flag**.** It is a sign that China is emerging.

Every phenomenon creates its counterweight The lower tier cities are trying to emulate the higher tier cities, yet, the higher tier cities have already moved on to the next distinctive luxury. It is the beginning of re-differentiation.

It is important to remember that the Chinese are still emerging from communism. Forty years ago everyone was the same in every visible way. While they have moved from communism to differentiation in an evolving consumer society, they still wish to remain the same in many aspects of dress, fashion, and luxury. However, we now find that the elite is at the beginning of a transition. They are knowledgeable and comfortable enough that they do not want or need to be like everyone else. Their taste is changing and emerging.

When they return to Europe for their second or third trip, they do not visit the big stores anymore. They now want to see the unknown brands.

There is the beginning of a new social dynamic. It started with imitation and is evolving towards differentiation. But now we have the beginning of social differentiation between classes and class is a linked to a town where you live.

There is another important thing that I observe among Chinese people who have made money very fast. I teach seminars to Chinese business people at Tsinghua University Beijing and The Luxury Business Institute Shanghai. These seminars are executive seminars. There are lots of women in the audience; I don't know why they take my course. They have already succeeded with their company. I often ask why are they attending my course because they know what success means much more than me? But they seem to want to understand why they succeeded!

LFC: They're looking for a post experience confirmation and that they have accomplished something very important!

JNK: They tell me how they succeeded and I tell them that they succeeded because they are very clever and intuitively followed a luxury strategy.

LFC: What else do you tell them about luxury in China?

JNK: I tell them about the differences in city tiers and the beginning of re-differentiation taking place

LFC: Yes.

JNK: I explain Chinese fast wealth.

These Chinese people make money as much as Rockefeller and Vanderbilt did, perhaps, even quicker. They are taking one generation to become wealthy. So instead of buying one table for their house, they need to buy ten tables for their ten houses. They need to multiple TV sets. They do not buy one they buy the shop. They get their first house and then they have a second house to fill. There is a massive demand because many people are succeeding on a large scale.

Luxury brands present in China were not ready for this demand. There was too much demand in too short a period. The rapidity of this success forced wealthy Chinese to use price as a surrogate measure of quality and good taste. Westerners would be in the same position if they had to buy Chinese antiques since they know nothing about Chinese antiques.

Until recently the Chinese used price as a signal for luxury. There will be a moment when the price will no longer be the most important signal. Price suggests that since one antique item is more expensive than another, it must be better antique. But the next step is to be educated on antiques, on luxury.

We are facing people who are buying very expensive stuff because they don't know. However, there will be a moment where in the evolution of Chinese luxury where price will not be as much a sign of quality.

We see this with wine. When you know little about wine, you use price as a signal. When you know all about quality, price becomes much less important as an indicator of quality. Everything is ephemeral. Everything doesn't last.

When I go to China, many times per year, the first thing I see is what is new in China. Things change every few months as opposed to other cultures where they do not change. As in Europe.

LFC: In the US, there are many interesting issues associated with luxury. One issue is comparing the baby boomer and millennial concepts of luxury. What do you think of this issue?

JNK: As you know, there is a lot of literature both managerial and research oriented on the millennial issue. The research on millennials does not impress me so far because I do not know if it is predictive. For example, millennials used in many studies are still students who do not work. They do not make money. When you do not make money, you love everybody. You want to share everything with everybody. So you have the sharing generation. The collaborative generation. Now the question is when they will make their first million dollars how they will behave? Will they share it? Will they say that they will not care about signs of success?

I'm waiting for ten years or more to see what part of their identity will be salient when they buy. It is like being a rich green-oriented person. If you are a rich green-oriented person (before Tesla arrived because Tesla gave the solution), what kind of car should you buy? If you are green oriented, rich and making a lot of money, and you get a bonus at the end of the year of one million dollars, you can go out and buy any car. But you have a green part of your personality so you should buy a small car. In the meantime you are rich, and you want to be at the same level as your peers. Which part of you will be prevalent when you buy? Tesla has found a way. You can be green and pay a lot. This concept is called green conspicuousness, so there is a challenge because luxury is based on the idea that you are more happy with possessions. The literature on millennials says that they want to share instead of possessing. They want to throw away what their parents thought. What will happen when they start climbing in society in ten years? Will they still keep up that myth? Maybe.

I read that Steve Jobs owned a Porsche. You could say well he's a California guy. Will millennials still have a Porsche or will they own no car and rent a Porsche for a few days? I don't know. But what I find is that the literature is too much about what millennials say and are today. In ten years will they be the same once they climb the ladder? We don't know. So that's why we have to wait till this conflict of identities emerges within themselves. I cannot predict it, but it's an issue, and the luxury industry must be quite careful. Nothing is always the same year after year.

So probably there will be more rental properties. For many people why own? Should not you share castles or islands instead? The second-hand luxury market is growing as you have seen. These are weak signals that something is changing. But I am not buying one hundred percent of the predictions that this generation that would change everything. Especially after they marry and have children: then owning a place or a car becomes relevant.

At this time, it is too early to tell. Remember Russell Belk who wrote the paper that our possessions define us: in English, I like the word to behave. It is made up of two parts (be-have) meaning that be and have go together. You are what you have. Will you be tomorrow what you rent or share?

LFC: What do you think about schools of luxury marketing? Are there different approaches to luxury?

JNK: Yes there are different approaches, tied to their country of origin. The theory is based on theorist and theorists express the culture in which they were born. So if I were born in Hawaii, I would naturally be surfing. If you live in Hawaii, you have a different vision of the world than if you live in Paris

LFC: What about the U.S. school of luxury?

JNK: To come back to luxury management there is indeed a U.S. school of luxury. It is good at inventing and developing successful luxury brands which are more accessible in price. Or even very accessible in price; Michael Kors, Coach, etc. This accessibility in price is very tied to the culture of the U.S., its DNA. The U.S. is an open society. France has more developed closed clubs, elitism. In the U.S., because of the size of the country, you are obliged to have more people or clients. Thus luxury marketing in the U.S. is closely tied to segmentation and pricing: there are luxuries at any price.

There is a photograph that I show when I make speeches. This picture I took at Miami airport. There is a shop in the airport called “Luxury at $10.” This picture illustrates the concept of luxury in America. In Europe, you could not say luxury at ten euros. Ten euros is a tip. As you can see, this is a cultural issue. It means that what the word luxury means here something like ‘nice objects for your pleasure, nicely made and very accessible.'

John Idol is the CEO of Michael Kors. Last year I attended a speech in New York which Wharton invited me to be a guest speaker. It was an alumni event. John Idol said they are the fastest growing luxury company in the world. This comment is a cultural pronouncement. This comment is cultural because no CEO in Europe would ever say this. No CEO would even think it! In Europe we worship time. We worship the ability to charge a lot of products which evolve a little over time. Time allows us to worship luxuries which allow us to charge high. It may take fifty years to build a luxury brand. Instead, Mr. Idol said to look at the growth rates. Now the result of Michael Kors is bags that are sold for 900 dollars, not 3000 dollars as Dior. Also, the brand is too widely distributed and has recently been hurt by department stores too frequent and high discounts.

You should always compare luxury brands by the median price of their range. Therefore, the obligation to look after many people calls for a lower price premium. If it is a large target, you need to appeal to large amounts of consumers at a lower price. And vice versa. It is a matter of business model.

LFC: It is cultural?

JNK: It is cultural. In the USA, there are very expensive mansions, real estate, and houses. But considering products, Cadillac has never been priced as high as other competitors such as Rolls Royce or Mercedes S-Class. And even California wines don't try to compete with real luxury Chateaux.

American luxury firms don't like the idea of luxury for a few. They like the idea of luxury for many, and that is cultural.

LFC: But comparing the French, German?

JNK: The Germans don't know what luxury is: Luxury is not a word they use. They use the word 'best quality' or premium. They like to say 'this car is the best car.' They ask what the best quality is. The Japanese are the same. The key word is the best quality. This is the best because the best technology is German, they say. The Japanese are the same. They say it's worth the price. Porsche is worth $200,000 because let's analyze the engines, the brakes, and the technology. So we have what we call a "premium business model" because they consider that any part of the price should be rationalized or justified. And they explain it through technology. But when you sell a bag or Swiss watch at $100,000, you cannot justify this price. You just say it is a piece of art. The rational part of the price only covers 20 percent of the price. That is the luxury strategy. If you are obliged to justify the price, you are more in the premium mindset than a luxury mindset.

LFC: Doesn't this explanation go back to the point that you made at the very beginning of a discussion which is that luxury is difficult to define.

JNK: As a company, you must stick to what you believe. And make everybody believe that you are right because the guy who imposes his vision wins the world. It is like Shanghai ranking world universities. We have let the Chinese create the rankings for worldwide universities.

So there are different visions of luxury. I agree, but they compete, they don't co-exist. Because if you say it's stupid to buy anything above a certain price, it's dangerous for their owners' image. If you say oh below 100,000.00 it is not a luxury; it is dangerous for the others, the non-buyers. So these visions of luxury are competing. It is a competition of interest. Michael Silverstein, Neil Fiske, and John Butmany wrote the book, <u>Trading Up: Why Consumers Want Luxury Goods - and How Companies Create Them.</u> They invented the word "new luxury," just to allow non-luxury brands (i.e., mass prestige) and non-luxury buyers to use the word "luxury' and enhance their self-concept.

By inventing the word "new luxury," these American authors also tried to reposition European luxury by calling it "old." It is a value judgment: Do you want to buy new things or old things? Which do you prefer? So there surely is a competition of visions of luxury, tied to the country where it emerged.

LFC: Can academics and practitioners work together to mutual advantage? Are there any places where we overlap?

JNK: In luxury, the cultural dimension is very important. Companies they know what they're doing. Companies have the sales data. They know where and what product sold well and where it did not. As academics, we love when things are different because we want to try to explain these differences. Why did you succeed here and not here? Why did you succeed in this year but we failed ten years after or ten years before. What has changed? This has to do with the difficulty of managing luxury as it is one of the most centrally managed businesses and yet the consumers are more and more heterogeneous. But if you treat heterogeneous people the same way they will dislike it, they want recognition. But if you differentiate too much then you lose power. Yes, there are these types of problems where a mix of academics and practitioners can work together on such issues.

LFC: Maybe you could explain a little more.

JNK: The key to luxury management is centralization. Luxury is the opposite of democracy. There is one Director or one creative director. Products are produced in the home country. Hermes owns its crocodiles. It is 100% vertical integration and control. In the meantime, the consumers are more and more heterogeneous. There is a contradiction between controlling everything from upstream to downstream (retail experience) and answering the market which is more and more differentiated. This is an issue. For instance, should you have the same products in stores around all the world even in the U.S.? Should your store on Rodeo Drive in Los Angeles carry the same products or decoration like the one on Madison Avenue?

So if you aim at local people, they don't care. If you aim at people who are traveling a lot they want to find a few things which are the same but in the meantime to go from one store to another, they have to expect surprises, differences. If everything is the same, you create a feeling that you don't understand people who travel. And the travel business is huge in this luxury business

LFC: Researchers are always looking for the next hot area. What are the emerging areas of research in luxury marketing?

JNK: Pricing. What is the maximum price? Because pricing high is not an end in itself. If you have no buyer, you don't have any business. Pricing is an issue. I wrote a research paper included our last book regarding the minimum price level of luxury? The information is based on research. What is the price below what people say it is no longer a luxury and what is the price above which people say it is a luxury? What I discovered is that it's not the same price. When you ask in any domain below what price is it no more a luxury, they give you 100, then at what price is it luxury, they say 120. So there is a buffer zone. You need a gap: where it stops is not the same thing as where it starts.

Second, if you are a very prestigious brand, you can afford paradoxically to have accessible products because that doesn't hurt your prestige as long as it's limited. But if you create a startup and if you start too low in price; people say it is mass. Entry prices say a lot about the width of the entry door to your brand.

The prestige of the brand gives the brand elasticity to pricing which is not available to people who create their brand. So this is a crucial managerial issue: you need growth thus you cannot say we don't sell to young people because they have less money. In that case, they might only buy vintage stuff. So the issue of excess prices which would not hurt prestige is an issue. This is why there is a full chapter in our last book on this pricing issue tied to growth.

LFC: So Tesla probably started in the right place.

JNK: Yes, because now they go down. Tesla wants to become a mainstream company selling 10 million cars.

LFC: And still maintain their luxury despite their downward stretch?

JNK: I don't think that what they did so far is a luxury strategy, only the beginning of a trickle-down strategy. I met a member of the Board of Toyota and asked him "What do you think of Tesla? It is incredible you know that they succeeded. Because I had been told that there were barriers to entry in the car industry." He said there are barriers to entry when you want to sell a Tesla for $20,000 because then it is a huge industry. If you want to sell at $150,000, there are much fewer buyers. Plus, in the latter case, bankers tend to believe in your future, and you have no problem to finance your start up. You will be positioned as a startup (carving the future of the industry), not as a car company (symbol of the present of the industry). Second, very high prices make break even much more accessible. Tesla strategy is not to be a luxury brand but to change the industry by addressing step by step larger segments at lower prices and expand their volume. But if Tesla had started at $30,000 they would have failed immediately.

LFC: That’s right

JNK: So it is a trickle down theory

Tesla will not be a luxury brand in the future because it doesn't want to be so. It started as a high technology brand with very high prices attracting rich innovators. Now the brand wants to be the phenomenon that changes the car industry worldwide. Well, you can't change an industry if you only produce very few. Look at what happened to personal computers

LFC: But Tesla will be a prestige brand.

JNK: He is giving prestige to the brand owners for a while. Prestige comes from the Latin root “impress.”

LFC: Right. Tesla has been able to establish where the demand is and that the product is differentiated.

JNK: But we need to wait till competition arrives. So far it was absent leaving 100% of the media space to Tesla. The big guys (BMW, Porsche, Mercedes, Volvo,) will come out with their own electric car: there will be real competition. So there is going to be a new phase very exciting to watch.

LFC: And you always want the startup people to explore the market for you. Then if you are a big guy, you can come into the market later and still be successful.

JNK: Porsche people told me something, but I think it is a rationalization. I asked them why they did not introduce electric cars themselves, before Tesla. They said that they had too much to lose. You cannot afford the risk of having failures. Porsche reputation is everything when you think long term. Porsche owners know it is a very reliable car: you never go to the garage. Radical innovations entail technological risks. Say there was a battery that exploded or an autonomous car producing death. If you are Porsche, you must afford to wait two or three years to avoid any risk. Being first is not the business model of luxury.

Somebody has to try, and newcomers will experiment. Market opportunities and disruptions are why there are new companies e.g. typical of a blue ocean strategy. Newcomers must take the risks

LFC: Are there analogies between the state of luxury today and the state of services in academia? You said that twenty years ago there was virtually nothing in academia about luxury. We could go back to services marketing in the1980s with Zeithaml and Lovelock. Are there any analogies between the two?

JNK: I feel we are talking too much about luxury today. We are not talking enough about the service industry. We should not be talking as much about an industry which is based on segregation or discriminatory prices as much as it is. In business schools, there are programs on luxury everywhere in the world. The students need to know that there are not enough marketing jobs to go around. It is a small industry. Certainly, the retail development will need to staff the stores: salespeople, inventory, but the industry does not need tons of marketing managers. They probably need more engineers, logisticians, data analysts.

LFC: You mean there too many luxury education programs?

JNK: A lot of students in these general luxury management programs will be very surprised when they don’t find jobs in luxury. I recommend that students should look after niche programs: thus at

Inseec Luxury Institute (Paris, Bordeaux, London, San Francisco, Shanghai, Seoul, Geneva, Monaco), we do not propose general luxury MBA courses or curricula but highly specialized ones: digital luxury, eco- responsible luxury, wine-luxury, luxury real estate management, luxury CRM. This is where students should go today.

LFC: Let's go back to luxury and services

Whereas in the service industry, it will become more and more important. So I would say the present state of excitement on luxury is excessive and that there's not enough excitement about services. There is a good example of the need to specialize oneself. Everybody is talking about experiential marketing. There is a lot of progress thanks to digital. Now you see that Amazon can deliver in Paris in half a day and soon in one hour. So what will be left specific to luxury services?

This delivery level of Amazon is now remarkable. Isn't this already a "luxury service" yet it is for everybody. So what is left to luxury itself? Can you fix a suit and bring it to my hotel room in one hour? Not in Paris, sir. So there is an issue there which is service! In many cases today, the best service is provided by companies which are not luxury companies (Kiehl's, Amazon). So what is left to luxury? Ultra-personalization? What do you mean by personalization? You know there are algorithms which make possible terrific customization. Tomorrow great service will be offered by all companies, not just luxury companies. So my question is how can the luxury industry recreate the specificity of the luxury experience or service because the big progress of servicing is coming from technology advances. The only chance is that thanks to their high margins, luxury companies could afford these new technologies sooner.

LFC: What are your views on sustainable development?

JNK: Sustainable development? Tesla is an example. You know, of course, everybody wants to protect nature. Let's suppose you ask the company to be sustainable. Sustainability requires companies to rethink their manufacturing process from A to Z, and we expect them to do it fast. It is impossible because the level of quality which has been reached so far has been based on forty or fifty years of trial and error. Deconstructing these processes creates a quality risk. For example, if you are using organic cotton it is today not as good as non-organic cotton. So it is not going to be right, and the consumer might feel betrayed by the brand regarding quality experience. Of course, it depends on how you define quality regarding durability or softness. The pressure groups, the ONGs and NGO'S which are pushing luxury brands very hard to embrace sustainable development. They are much more impatient than what the industrial forces and luxury companies can afford without betraying the brand promise.

The challenge is to push brands to embrace sustainability without killing the company which runs the brand. It is like being in a restaurant and say well from now on I am vegan or for a fashion house to say that you will not use skin from killed animals. But if you do so you have to rethink all the manufacturing, sourcing, coloring process.

It is a total transformation of companies which are often 100 years old. There is tremendous pressure from the outside to move fast, and it is difficult to move fast in an industry where everything has been based not on the past but on slow changes which were always subject to "does it work"? Now we are being asked to deconstruct everything fast. People say you don't go fast enough. It is changing a lot of the ways that manufacturing is done for a company like Prada. It is rethinking the entire process. We know the end goal but the speed to go there is probably hard and the difficulties are under-evaluated by the critics. The critics think that this can be done easily. It is a challenge.

LFC: There is also the issue of whether some of the luxurious services are convertible to sustainability like tourist services.

JNK: Yes

LFC: So far you're talking about luxuries from the perspective of physical goods, and I'm am focusing on the services side.

JNK: But on the service side I find that there is a demand for expensive things which are virtuous. For example, Marlon Brando's Island in Tahiti (Tetiaroa). In these places, the resorts are getting their water from the rain. Their food is organic and grown locally. One night might run $2000, so there is a demand from people who stay because they feel not guilty. They feel that it is okay to pay a lot because they satisfy their green consciousness. They are used as innovative clients. Green needs a luxury strategy too.

LFC: Thank you for your thoughts on sustainability. I am so glad that we had the opportunity to spend time with each other. As you know, we missed each other in May because you were on the way to Beijing.

LFC: One last question, what did you think of the upscale malls in Beijing?

JNK: Most Chinese people learn about luxury in these malls. Luxury malls are luxury universities. They buy on their smartphones. They know that prices are far lower in Europe. But if you close the shops in China you kill the business abroad, especially travel business. In fact, you have to build and show your power in China through retail there, even costly, in order to harvest sales when the Chinese tourists visit New York or Paris. There is a certain equilibrium. They learn in China what to buy in New York and Europe.

LFC: So in emerging markets one of the roles of luxury marketing is education.

JNK: Brands need to teach the sources of their pricing. What is behind their price? Remember that the clients from these countries are former poor. These consumers don't understand what is meant by the word luxury. Second, they need to learn why they should pay such high prices (not just for demonstrations of status and wealth). At first, they think they should pay the price because everyone is buying it. But it won't last. It is a fashion model of imitative behavior. This is why luxury firms must educate new consumers. The latter need to understand that the price includes intangibles: the history of the brand, the country of origin, heritage of craftsmanship, etc. At this time success in emerging countries is based more on a fashion type of bandwagon behavior. Consumers think that they have to do like everybody else. But if luxury is today in fashion, luxury is not fashion. In fashion, it means everybody should wear the same thing at the same time, but that the product does not need to last.

LFC: I appreciate the time you spent in today's interview. Talking with you has been tremendous!