The Mass Marketing of Luxury

Jose Luis Nueno and John A. Quelch

> **Four distinct circles of management practice, implemented together, can ensure the success of a luxury brand in the global marketplace.**

Gianni Versace's sudden death in July 1997 has helped focus renewed attention on the marketing of luxury brands and the importance of succession management to their continued success. Sales of luxury brands, from champagne to Rolls Royces, had decreased on average by 3 percent each year between 1990 and 1993. Declines were especially notable in Europe. Only the more internationally diversified, vertically integrated, or innovative companies, such as LVMH or Armani, bucked the industry trend. Since 1995, however, the market for luxury brands has rebounded dramatically, with worldwide annual sales growth of 10 percent per year and growth rates approaching 30 percent in certain Asian markets. Duff (1997) estimates that in 1996, the global market for luxury brands—fashion apparel and accessories, cosmetics and fragrances, wines and spirits—was $70 billion, with 20 percent of those sales through duty-free shops.

Why has there been such a resurgence of luxury brand sales in the 1990s? Renewed consumer confidence, rising stock market indices, growth in disposable personal income, and low inheritance taxes, especially in North America and Asia, are fueling the demand. The suppression of ostentation, which characterized consumer behavior during the U.S. mini-recession of the early 1990s, is no longer evident. Expensive gifts are again being given, with a particular emphasis on quality and uniqueness. There are now more than 2,000,000 millionaires in the United States, and the rich are getting richer. Since 1980, according to Leonhardt (1997), the wealthiest one-fifth of the U.S. population has enjoyed a 21 percent growth in income. The result is an increasing bifurcation in retailing between successful full-service stores like Nordstrom and discount retailers like Wal-Mart.

Analyses of consumer purchase data in many product categories show that the skew in buying power toward wealthier consumers is greater than the mass marketers of mainstream brands have realized. J.D. Power & Associates data show that the highest-earning 20 percent of the U.S. population accounts for 54 percent of new car sales, up from 40 percent in 1980. Many product markets are bifurcating, their sales shifting away from mainstream brands to both premium and value brands.

Nouveau riche consumers and entrepreneurs can afford to indulge in the purchase of luxury brands, but many lack the experience and confidence to discriminate. The assurance provided by the well-known and reputable brand can overcome this barrier to purchase. At the same time, brand ownership conveys information about the owner's social status, especially in societies in which class distinctions are unclear or in flux. In the cross-cultural global economy, ownership of a global luxury brand becomes a universally accepted and reassuring statement of good taste.

The market appeal of luxury brands is no longer confined to older, wealthy women. Most luxury purchases are made by men, though only 20 percent of the sales are men's products. This represents an underexploited market. At the same time, an appreciation of luxury is not confined to older consumers; Generation X-ers sport Prada knapsacks and ride expensive mountain bikes. Young Japanese office ladies, who live with their parents and therefore have significant disposable income, account for almost half the Japanese luxury brand apparel and fashion accessory sales.

The appeal of luxury brands has become global in scope as the distribution of wealth has broadened geographically (see **Table 1**). Recent figures indicate that 40 percent of sales are made in Europe, 28 percent in North America, and 24 percent in Asia, but the growth rate in Asia is