CHAPTER 1

INTRODUCTION

1.1 Introduction

In this chapter we will discuss concepts of brands, branding and luxury brands. Later on we will describe the background of our research. We will also discuss the problem areas and define our research purpose. In order to achieve the objective of the study, we will formulate research questions at the last.

1.1.1 What are Brands?

Today when we think of brands we believe that we will receive a certain amount of quality, value and performance - both tangible and intangible. Literature suggests that the practice of branding goes back to 2700 BC when the ancient Egyptians used Livestock branding as a theft deterrent (Dunn). According to Clifton et al. (2003) p 14, —the word brand comes from the Old Norse brandr, meaning to burn, and from these origins made its way into Anglo-Saxon. It was by burning marks, that the early man stamped ownership on his livestock and with the development of trade, buyers would use brands as a means of distinguishing between the cattle of one farmer and another.

The American Marketing Association (AMA) defines brand as “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors” (p. 404). However from a consumer perspective, it is also defined as “the promise of the bundles of attributes that someone buys and provide satisfaction . . . The attributes
that make up a brand may be real or illusory, rational or emotional, tangible or invisible.” (Ambler 1992)

Traditional marketing literature defines brand as: “the name, associated with one or more items in the product line, that is used to identify the source of character of the item(s)” (Kotler, 2000, p. 396). Also, whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand (Keller, 2003, p. 3).

Kapferer (1997) defined a brand in terms of the eight functions served for the consumer i.e. identification (to be clearly seen, to make sense of the offer, to quickly identify the sought-after products), practicality (to allow savings of time and energy through identical repurchasing and loyalty), guarantee (to be sure of finding the same quality no matter where or when you buy the product or service), optimization (to be sure of buying the best product in its category, the best performer for a particular purpose), characterization (to have confirmation of your self-image or the image that you present to others), continuity (satisfaction brought about through familiarity and intimacy with the brand that you have been consuming for years), hedonistic (satisfaction linked to the attractiveness of the brand, to its logo, to its communication), and ethical (satisfaction linked to the responsible behavior of the brand in its relationship towards society).

Brand image, identity and positioning are the essential components of any brand. In a competitive market like today’s, organizations use brands to differentiate themselves from competition and to communicate unique qualities of their products (Low and Fullerton 1994, Aaker and Keller 1990). As per Jevons, (2007) “A brand is a tangible or intangible concept that uniquely identifies an offering, providing symbolic communication of functionality and differentiation, and in doing so sustainably influences the value offered.” Once the brand is established,
the brand name itself adds value to the product in the minds of consumers which is also referred as positioning. This added value is referred to as brand equity (Aaker 1990).

1.1.2 Luxury Brands

The term luxury has taken its roots from French word *luxurie* which means “lasciviousness, sinful self-indulgence”. Some scholars trace back its roots to the Latin words *luxus*, meaning “excess, extravagance,” and even “vicious indulgence.” For centuries the concept was limited to the ruling classes only. A more positive meaning emerged only in the seventeenth century, when the concept was associated with escape from, or cure of, the ordinary and the struggle for betterment. Your possessions not only construct and preserve your identity but also play a very powerful and pervasive role in same (Belk, 1988a).

Luxury is an experience rather then an object. Concepts of self differ cross-culturally (Belk 1984; Harris 1989), so is luxury. It has different notions to different people depending on their socio-economic background and connotation also changes with time. An article, which may be a luxury to one, can be a mere necessity to another. For example, Lombergini might not mean anything to someone who don’t know anything about the lineage and power of the car and can't appreciate the same without any training. “Kopi luwak” or civet coffee, is one of the world’s most expensive and low-production varieties of coffee produced in islands of Indonesian Archipelago. It is made from the beans of coffee berries which have been eaten by the Asian Palm Civet and other related civets, then passed through its digestive tract. Now, on one hand, there are people who are ready to spend US$100 to $600 per pound for same (Norimitsu, 2010) and even USD $3000 per pound for the specialty Vietnamese weasel coffee, there are people who find the idea of
consuming these coffee beans repulsive. Similarly, till few decades back Swiss watches were supposed to be luxury by majority of masses because of their rare level of accuracy. However now a days, even a simple digital watch exceeds that level of performance.

Marketing academics have different views on luxury. For example, Vigneron and Johnson (1999) use ‘luxury’ to describe the very top category of prestige brands, whereas Dubois and Czellar (2002) view ‘prestige’ to stem from a unique accomplishment in the brand and ‘luxury’ to merely concern self-indulgence. ‘Luxury’ as a term is commonly used by marketers in most categories, be it product or service, to communicate to consumers a particular tier of offer (Dubois et al., 2005)

Economists define luxury goods as goods for which demand rises either in proportion with income of individual or in greater proportion than income (Kemp, 1998). Luxury goods exist at one end of a continuum with ordinary goods, so where the ordinary ends and luxury starts is a matter of degree as judged by consumers. Sekora defines luxury as “anything unneeded” (1977, p. 23).

Studies conducted in eighties and early nineties on luxury were based on assumption that prestige products are infrequently purchased, require a higher level of interest and knowledge, and strongly relate to the person self-concept. For instance, the framework given by Rossiter, Percy, and Donovan (1991) assumes that prestige products are high-involvement products, and that transformational brand choices (i.e., sensory gratification, intellectual stimulation, and particularly social approval) are the primary factors in selecting a prestige product.

A product or service would satisfy the perception of luxury of an individual depends on a number of factors, interactions with people (e.g.,
aspired and/or peer reference group), object properties (e.g., best quality), and hedonic values (e.g., sensory beauty). These interactions occur at personal as well as societal levels. “Prestige-seeking behavior is the result of multiple motivations, but in particular the motives of sociability and self-expression.” (Vigneron & Johnson, 1999). The way Rose (2003) has put it “The designer handbag is, in fact, all about the display of symbols, the little interlocking Gucci G’s the Chanel C’s, the offset LV of Louis Vuitton. It is the proof of taste, the proof of money, a silent “I am someone” message that only fellow label lovers know how to read”.

The luxury brand is the highest level of prestigious brands encompassing several physical and psychological values, such as perceived conspicuous value, unique value, social value, hedonic value and quality value (Vigneron & Johnson, 1999). They also share a list of specific characteristics that make them unique in terms of their brand equity. “A strong element of human involvement, a very limited basis and recognition of value by others are some of the characteristics of the luxury brands” (Cornell, 2002). As per Phau & Prendergast (2000) “luxury brands evoke exclusivity...” Nueno & Quelch (1998) add that luxury brands are those for whom the ratio of functionality to price is low but by ratio of intangible and situational utility to price is high. This implies that next to their expected premium quality and superior performance, luxury brands are valued by consumers due to their nonfunctional dimensions to which a recognizable style or design, a global reputation and a strong element of uniqueness belongs (Nueno & Quelch, 1998). Luxury brands enjoy a desirability that extends beyond their function and which provides the user with perceived status through ownership (Jackson and Haid, 2002)
Literature also suggests that people would have different perceptions of the level of prestige for the same brands, and that the overall prestige level of a brand would consider the prestige perceptions from different people (Vigneron & Johnson, 1999).

1.2 Research Background

1.2.1 Status and Luxury

The need to display who you are and differentiate yourself from those around is nature’s recipe to survive, but may be this desire is strongest amongst humans as the history has abundance of examples of human race or individuals going to any extend to own and retain their worldly possessions. The changes in the ownership that Kohinoor has witnessed can be seen as a befitting example. Luxury is beyond necessity, for luxury products marginal utility of the agents income increases with the increase of prices however it goes down for non luxury products (Besley 1989).

Companies provide buyers with what are conventionally called elite brands, defined by Silverstein and Fiske (2003) as those brands that possess higher levels of quality, taste and aspiration than other brands in the product category. These products are often justifiably priced higher than other brands in order to make their brand seem exclusive and more prestigious. For example, elite designers are able to transform a $10 t-shirt into a $100 sought after treasure (Chatpaiboon, 2004). Hermes reported that customers were placed on a two-year waiting list for their most popular Birkin bag, which retails for $6000 (Branch, 2004). On eBay, women engaged in bidding wars over a blue Birkin bag for which the winner ultimately paid over $13,000 (Rose, 2003).
Research in the UK by the market research firm Applied Futures identified that people's needs for appearances and materialism were increasing. (Powderly and MacNulty, 1990). “A status symbol is a perceived visible, external denotation of one's social position and perceived indicator of economic or social status” (David, 1994). Now what a better way to show off you status other than acquiring the luxury products to show one's social standing.

Several studies conducted in the past have shown that the high quality perception of luxury brands has always been a key consideration for the luxury buyers. ISO 8402-1986 standard defines quality as "the totality of features and characteristics of a product or service that bears its ability to satisfy stated or implied needs". However when it come to the luxury brands and products, it goes beyond fulfilling the implied needs, it is about the superior craftsmanship, the best quality material used and also about the best practices to be followed.

As per Fulvia Visconti Ferragamo, the daughter of Salvatore Ferragamo, “High quality is the result of creativity, colours, shapes, craftsmanship and attention to detail.” (Nakra, 2011)

1.2.2 Defining target audience

According to the Federal Reserve, a net worth of $1.4 million will put you in the top 5% of Americans. In India the number of families with an annual income of between Rs. 50 lakh and Rs. 1 cr was just 11,000 in 1995-96, which rose to 40,000 in 2001-02 and is projected to rise to 2,55,000 by the end of the decade. But if we look at the consumption of the luxury brands, the purchase of luxury in not just limited to the so-called affluent consumers both in India as well as globally. Earlier
globally, there were two consumer segments: (i) the Excluded, who had no access to luxury market but who, in most countries, included a vast majority of the population, and (ii) the "Affluent" (Stanley, 1989) who, whether "Old money" (Aldrich; 1988, Hirschman, 1988) or "Nouveaux Riches" (LaBarbera, 1988) had both the desire as well as the financial ability to indulge in luxury consumption. However in early eighties, a new segment of luxury consumers was identified and was known as “Excursionists” (Dubois et al., 1994). Excursionists buy and consume luxury goods only in specific circumstances. For them, buying and consuming a luxury item is not an expression of their lifestyle but rather an exceptional moment, sharply contrasting with their daily life style (Dubois, Laurent, 1996). The same phenomenon is also termed as democratization movement, in which goods formerly reserved to a restricted elite are now consumed by a large public even if only occasionally. (Dubois, Laurent, 2001). Another interesting demarcation between the classes is in terms of luxury consumption, a consumption trend of the middle class is to buy the ‘new’ luxury brand, which is relatively cheaper than the ‘traditional’ luxury brand (Silverstein & Neil, 2003).

A study by the research group KSA Technopak creates a fascinating profile for the Indian luxury consumer:

• Resides primarily in urban India,

• Household has disposable income of more than Rs 8-9 lakh per annum,

• Owns mostly a segment D/E car, that is, a premium/luxury salon like a Honda Accord, Skoda Octavia etc,

• Resides in 'posh' localities,
• Chief wage earner is most likely male, average age 36-37, married with kids, with own business,

• About 42% live in joint families or with parents,

• The woman is a housewife in 65% of the cases,

• Mostly post-graduate and above and,

• Incidence of foreign travel at 53% and 44% traveling abroad for holiday/vacation at least once a year.

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<thead>
<tr>
<th>Table 1.2.2.1: Mapping India’s Income Classes</th>
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<tbody>
<tr>
<td>Rich (Rs. 215,000 +) Benefit Maximizers Owns Cars, PCs</td>
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<tr>
<td>Consuming (Rs. 45,000-215,000)</td>
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<tr>
<td>Climbers (Rs. 22,000-45,000) Cash Constrained Benefit Seekers</td>
</tr>
<tr>
<td>Aspirants (Rs. 16,000-22,000) New Entrants</td>
</tr>
<tr>
<td>Destitutes (Less than Rs. 16,000)</td>
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Source: NCAER’s MISH Report, as reported in 2003.04 BW Marketing White Book

<table>
<thead>
<tr>
<th>Table 1.2.2.2: Distribution of Income Classes Among Urban Households (%)</th>
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<tr>
<td>Low</td>
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<tr>
<td>Middle</td>
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<tr>
<td>High</td>
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Source: NCAER’s MISH Report, As Reported in 2003-04 B’W Marketing White Book
### Table 1.2.3: Urban India's Income Classes by Size

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<tbody>
<tr>
<td>The Very Rich</td>
<td>0.8</td>
<td>1.9</td>
<td>4</td>
</tr>
<tr>
<td>The Consuming Class</td>
<td>16.6</td>
<td>26.5</td>
<td>40.8</td>
</tr>
<tr>
<td>The Climbers</td>
<td>16.8</td>
<td>17.4</td>
<td>13.7</td>
</tr>
<tr>
<td>The Aspirants</td>
<td>7.1</td>
<td>9.9</td>
<td>0.7</td>
</tr>
<tr>
<td>The Destitute</td>
<td>5.3</td>
<td>2.7</td>
<td>0.9</td>
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**Note:** Households (population). All figures in million.

*Source: NCAER's MISH Report, As Reported in 2003-04 BW Markedng White Book*

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### Table 1.2.4: Urban India's Classification Based on Income Class and Number of Families

<table>
<thead>
<tr>
<th>Classification</th>
<th>Income Class</th>
<th>Number of Families (in '000')</th>
<th>Growth Rate (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strivers</td>
<td>500 – 1,000</td>
<td>3,212</td>
<td>17.5</td>
</tr>
<tr>
<td>Near Rich</td>
<td>1,000- 2,000</td>
<td>1,122</td>
<td>19.4</td>
</tr>
<tr>
<td>Clear Rich</td>
<td>2,000- 5,000</td>
<td>454</td>
<td>21.3</td>
</tr>
<tr>
<td>Sheer Rich</td>
<td>5,000- 10,000</td>
<td>103</td>
<td>23.4</td>
</tr>
<tr>
<td>Super Rich</td>
<td>10,000 +</td>
<td>53</td>
<td>25.9</td>
</tr>
</tbody>
</table>

**Note:** Income figures per annum at 2001-2002 prices.

*Source: Notional Council for Applied Economic Research, India*
1.2.3 Growth of Indian Economy

Until the mid-20th century, luxury was the preserve of the very few: the very rich and those born to expect privilege. In the post-war period, and progressively throughout the second half of the century, perceptions changed dramatically. Globally the market for luxury brands has grown rapidly over the past two decades. Estimated to be worth $263 billion in 2007 that represents a 31% increase over the past five years, predictions indicate a 71% growth over the next five years, largely fueled by high demand from emerging economies (Verdict, 2007).

In past five years with the growth in global market, the luxury brands' market has increased by 31 percent where the market for the non-luxury brands has increased by 7 percent only (Tynan, 2009). Although luxury consumer demand in the West appears to be waning due to the credit crunch, property crash and a slowing world economy (Teather, 2008), the appetite for luxury brands is growing elsewhere in the emerging economies of China, India, Asia, the Middle East and Latin America (Verdict, 2007; Chadha and Husband, 2006).

Research reflects that Asian customers prize the perceived conspicuous value of goods (Phau & Prendergast, 2000) making it easier for the luxury goods industry to be successful. The luxury market in India is growing and experts say, by 2015, a quarter of the luxury market will be between India and China. (Mint Luxury conference, 2011). As per Laxman Narasimhan, Director, Mckinsey “The growth in India between 2015 and 2020 will become even larger as more people come into the consumption curve. Nine million households will be targets for luxury or near luxury consumption. Nearly 42 per cent of India’s wealthy households are in Delhi and Mumbai. Indian consumers really care about brands. Almost 22 per cent of Indian consumers try foreign products and brands,” (Mint
Luxury conference, 2011). As per the report published in Times of India the overall passenger vehicle industry ended with a mere 6% growth, while the luxury car market managed a healthy 45-50% growth (Dec 8, 2011).

An improving economy and the rapid opening up of the Indian market has given rise to a group of affluent consumers who are more than eager to adapt and adopt the latest fashion trends. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like apparels, cosmetics, shoes, watches, beverages, food and even jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer.

The top brands that Indian consumers spend on are Calvin Klein (34%), Gucci (25%), Diesel (24%), Christian Dior (16%), and DKNY (10%) (Nielsen Global Luxury Brands study 2007). India has also made it to the top ten markets globally for some of the brands. India ranks third highest globally, for people who buy Gucci products. It ranks sixth for Calvin Klein, ninth for Diesel, and tenth for Fendi for buying these brands globally. Though 73 percent Indians feel that designer brands are usually overpriced for what they are, 35 percent also believe that designer brands are of a significantly higher quality than standard brands. India stands eighth globally which thinks designer brands are quality products and invest in them in spite of the price.

Continuous growth and opening of economy have made India an attractive market for luxury brands. In the recent years more than 50 premium and luxury brands, including Louis Vuitton, Versace, Gucci, Christian Dior, and Chanel, Fendi, have opened stores in India. As per the report published by Northbridge Capital, December 2010 on luxury apparel and accessories, “the Indian luxury market is growing at a rate of 24% per annum and is estimated to become USD 30 billion as against
4.35 billion industries by 2015, making it the 12th biggest in the world”. The report also indicates that India’s luxury market and retail sector has a turnover of around USD 8889 million and is expected that by 2025 India will be among the top five markets for luxury in the world.

1.2.4 Impact of the new media on luxury market

Luxury brands have witnessed a paradigm shift in the way they are consumed and these luxury brands have gone through the change from just consumed by the super rich and the social elites to the growing middle class who have not just the money to buy but also the aspiration. The growth in the *nouveau riches* drives the need to belong and thus affecting the consumption of luxury goods. The luxury brands used to thrive on the exclusivity and the premium. But the desire to grow their market is forcing them to look for newer markets as well as new set of consumers. So far the luxury brands have been very selective about choosing whom to interact with and also through which media. Majority of luxury brands have used magazines targeting the elite to communicate with their audience however with the rise of digital media and specifically web 2.0 the rules of the game are changing. People are spending much more time on internet and social networking platforms, as high as 3-4 hours per day.

Like other brands, luxury brands are also affected by this shift due to the time devoted by the affluent consumer on these social media sites. Along with the power of web another critical advantage social media has over the other media platforms, is the power of referral. People interact with each other; support the cause they believe in, refer the products of services they like, (needless to say defame they don’t). Positive or negative viral campaigns are becoming more prevalent. Thus like other brands,
luxury brands are also aiming at creating the brand evangelists and taking the advantage of the same over the social media. Social media sites like facebook and twitter have found an integral place in the marketing/communication strategies of many luxury brands.

1.3 Problem Discussion

With the new emerging markets, changes in the buying behavior as well as profiles of luxury consumers and extension of luxury product lines, the luxury goods industry has taken an important role in global economics. An individual’s level of materialism influences the attributes they seek and consequently their consumption behaviors. In terms of disposable incomes the Indian luxury consumer is actually a walking giant, they really have enormous surplus. They indulge in fancy cars, expensive holidays and lifestyle products. The desire is to be continuously upgraded to a higher lifestyle paradigms, which have only witnessed in their ever increasing spend. With a new luxury brand entering the Indian market every now and then, the basic need is to recognize the preferences and the profiles of luxury product consumers. Also, segmentation based on traditional variables may not be sufficient in the luxury market therefore we need to find out the different profiles of the customers based on values and lifestyles and understand their basic needs and motive for purchasing brands under study. And finally we need to explicit the influence of psychographic factors on brand loyalty.

The management of the total customer experience is becoming an increasingly important source towards building the luxury brand. Sufficient measure like training and educating the employees who are the face of the organization and deal with the consumers, need to be taken to enhance customer service and experience. Analysis of customer attitudes and behavior can help the luxury brand managers to develop
the right kind marketing strategies to match the profile and requirements of their customers at different times of the day. The new Indian luxury consumer is pursuing a lifestyle based on ostentation, impressing others with wealth and power, owning exclusive items – and owning them first. Since not much literature on the subject in India is available, this study may fill the void.

1.4 Objectives

The purpose of this study is to gain better understanding and awareness of the various sociological and psychological motives in buying the luxury brands and the decision making process of same to facilitate the marketing of these brands in a more effective manner in the Indian context. The main objectives of the study are:

1. To examine the sociological and psychological motives in buying the luxury brands in India.
2. To examine the relationship between various motives and the impact of demographics on luxury buying.
3. To examine the influencing factors and patterns of purchase decisions.
4. To find the components of customer brand identification among luxury brands buyers.
5. To decipher the basis of rejection of a high quality non-luxury brand over luxury brands.

1.5 Research Questions

Based on the above discussions, research questions are being developed for the understanding of the problem. Our Research will be based upon the ten brands in the lifestyle segment having exclusive outlets in India selected from the Forbes World most desirable luxury brands study
(2008), conducted by A.C. Neilson. The brands are Gucci, Chanel, Calvin Klein, Louis Vuitton, Christian Dior, Versace, Armani, Ralph Lauren, Prada, and YSL.

Our research questions would enable us the deep understanding of our main topic and will help us to arrest the answer of research questions.

1. What are the various sociological and psychological motives behind luxury buying in India?

2. What is the relationship between various motives and the impact of demographics on luxury buying?

3. What are the influencing factors and patterns of purchase decisions for luxury buying?

4. What are the various components of customer brand identification among luxury brands buyers?

5. What are the reasons behind rejection of a high quality non-luxury brand over luxury brands?

1.7 Chapter conclusion

Luxury brand marketers and organizations are still trying to decipher what works and what does not with Indian luxury buyers and still face many issues while creating marketing strategies. In our thesis, our endeavor is to gain better understanding and awareness of the various sociological and psychological motives in buying the luxury brands.
1.7 References


