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A new supply model for luxury: A creative group based on heritages and mass production

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Mots clés : modern luxury, heritages, creativity



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A new supply model for luxury: A creative group based on heritages and mass production

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Abstract

Modern luxury includes mass produced goods. On the basis of old innovations, mainly developed by the Champagne industry and the French fashion, the new groups of luxury surpassed the contradiction between luxury status of goods and industrial mass-production. They invented a new supply model (the luxury tree) centered on the exploitation of heritages.

Key words Modern luxury; heritages; creativity.

Luxury industry considerably evolved during the seventies and the eighties. Instead of old small firms owned by their founder-creator, financial and industrial groups (LVMH, Kering, Richemont, Hermès, Chanel, Ralph Lauren, Calvin Klein, Prada, ...) are today the leaders of luxury. They considerably enlarge their outlets and luxury goods are often mass-produced. The status of luxury changed. Yesterday limited to happy few it now is proposed, worldwide, to millions of consumers. Is it still luxury? What is modern luxury in relation to old luxury? And how producing and selling modern luxury, within the new monsters of financial groups?

To give answers we need to characterize modern luxury and to precise the contradiction between traditional luxury and mass production (our first point). We study in a second point the 'old' innovations to surpass this contradiction. In the seventies and eighties new opportunities arose which allow the entry of financial groups (point 3). Thus we can characterize the new supply model we represent under the form of the 'luxury tree' (point 4). It needs accompaniment strategies we consider in the point 5.

1 Luxury and modern luxury

1.1 Defining luxury

In economic and management sciences there is no general agreement on the definition of luxury. Some academics use naturalist definitions implying specific economic properties (Giraud, Bomsel, Fieffe-Prevost, 1995) but we always can find some situations where they do not match. They generally identify luxury with the traditional model of luxury which cannot include the whole present reality. At the same time this points the contradiction of the modern luxury.

Is a luxury good an expansive good? Not necessarily. Today, in French restaurants, the Chateldon water, is considered as a luxury water but its price rarely surpasses ten euros. We might consider the relative price instead of the absolute price (that is to say the ratio price of the luxury variety/price of other varieties). It's more interesting because it introduces the notion of gap, of difference. But the difference can be little (in some restaurants the Chateldon bottle is sold at the same price as the Perrier or the San Pellegrino bottle) and has to be explained: why do consumers accept to pay more?

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Is-it because a luxury good includes a high quality? The quality of an Hermès scarf is high but not very high : often the scarf loses its colour, for instance if the rain makes it wet. On the contrary the quality of a Facom spanner is the highest possible, as the supplier is offering replacement tools or repairs free of charge.

Is a luxury good rare? But Champagne industry produces every year more than three hundred million bottles ! The conclusion is that "essentialist" or "naturalist" definitions failed. We always can seek a non luxury good fulfilling the criteria included in the naturalist definition and a luxury good slipping out of these criteria. For instance, some goods can be considered as luxury goods in some society or at a certain time and not in others. Yesterday, spices were considered to be luxury goods but, today, the same spices i.e. the same goods, are considered to be basic goods. In the 19th century as the wild surgeons of the Gironde and the Adour rivers were not considered as noble fish suitable to be sold, the bosses of the fishing boats used to give them to their employees; the employees ate the fish, but after having extirpated the eggs and given them to the pigs to eat. Today these eggs constitute the caviar of Aquitaine, which is as expensive as the Iranian caviar.

The idea that luxury goods have a special nature, an essential quality which sets them apart from other goods cannot explain the working of luxury markets. Therefore, a luxury good is not a good the nature of which is luxurious, but a good the social and cultural status of which is, in a given context, related to luxury. It is a good perceived and felt as a luxury good, and then it is a cultural product. So, the type of definition we will use is a "conventional" one². Taste, luxury, market segmentation imply a social convention: high goods are what society acknowledges as such. The luxury status is related to an exceptional characteristic of such a good which allows it to be distinguished from basic goods. The luxury good is an *extra-ordinary* good while other goods are ordinary, normal, basic. Luxury means a difference, *a distinction*, a gap and is defined in relation to standard and ordinary goods.

We have to add a second condition to distinguish luxury goods from sophisticated or complex industrial goods. A space capsule is a very complex good, an exceptional or extra-ordinary good: for instance it has a very high quality as its reliability has to be very close to 100%. Obviously it is not a luxury good. That means that we have to distinguish goods and services related to necessity, to needs (which can be standard or exceptional, as the capsule) and goods and services related to *pleasure*, to desire, to tastes (within which we have standard taste goods and extra-ordinary, luxury goods and services). For luxury goods, the distinction, the gap is made within goods related to pleasure and not to necessity. Thus our problem, to understand the working of the new model of luxury supply, is to define this distinction and, mainly, to define it in relation to the traditional model of distinction which founded the traditional luxury in the Western world.

1.2 The traditional distinction: The contradiction between luxury and mass production in the aristocratic model

Luxury as extra-ordinary is opposite to mass production. The mass production of numerous identical goods tends to reduce them to standard goods. The specificity of industrial production, in relation to traditional handcraft, is precisely to introduce normalization: a bottle of Veuve Cliquot is the same as its neighbor, industrial production guarantees the identity, the similarity and the permanence of the good, to correspond to consumers' expectations. Thus mass production i.e. standard production and luxury appear as opposite elements.

This opposition is reinforced by the characteristics of 'old' luxury, mainly of aristocratic luxury. In the aristocratic society a radical social segmentation between the elite and the people rules the social functioning: in France, the "Ancient Regime" was talking of blue (aristocratic) and red (popular) blood. Luxury is the proper of aristocratic groups: ordinary people are not able to

² This point imports to understand the modern luxury and, particularly, the ability of financial groups of luxury to change the conditions of the luxury markets (cf. 4).

appreciate luxury goods; it would be 'as giving pearls to pigs'. According to the framework of the *société de Cour* (Elias, 1973) the distinction is strictly organized through norms and rules. At the same time, competition between *courtisans* as well as international competition between Royal and Imperial Courts tends to increase the exuberant character of luxury consumption.

As luxury goods are dedicated to the elite, their markets are narrow ones. That explains that luxury goods are thought as rare goods, but this scarcity is mainly related to their outlets and not to their intrinsic characteristics (it is always possible to produce more sophisticated goods, even to find more diamonds by hiring more people). Production of luxury goods belongs to craft sectors, using a sophisticated workforce developing a skilled competence.

Thus, the heritage of aristocratic luxury sets a contradiction between luxury and mass-production, which is dedicated to standard goods with a basic utility, able to satisfy basic needs. Luxury is generally produced according to craft industry processes, far from industrial processes. That increases, according to the Baumol effect, the absolute and relative prices of luxury goods (see for instance the prices of Haute Couture), which tends to limit more and more the dimension of their markets. In short, luxury and mass-production are opposite, according to demand conditions and to supply conditions.

2 Surpassing the contradiction: the 'old' innovations

Today the total of sales of luxury groups show that they surpassed this contradiction. Nevertheless this process began earlier, according to social changes but also to individual and collective supply strategies.

2.1 The emergence of the Bourgeoisie

The growing economic power of the Bourgeoisie, coming from the marketization of modern society, reinforces its willingness to access luxury goods. The interpenetration through bourgeoisie and old aristocracy leads to the constitution of a social elite, separated from vulgar people by its wealth, power and education. The high bourgeoisie participates to the new places of ostentatious leisure (Veblen, 1899): sea holidays, horse races, concerts, painting exhibitions, dancing, ... The middle bourgeoisie wants to be distinguished from ordinary people and to live more comfortably. All that constitutes new opportunities for enlarging luxury markets.

That leads to use new innovations. In some industries new technologies allow to substitute industrial production to handcraft, as in the perfume industry. In the distribution of products, the *grands magasins* and the chain stores bring goods to every city and urban bourgeoisie can have direct access to fashion goods. The aristocratic model evolves towards an elitist model where luxury goods widen and are consumed by people belonging to economic, social and cultural elite, the upper classes. This evolution is very clearly shown in France by the succession of emergence of luxury suppliers, who are no longer individual artisans but take the form of familial but capitalist firms, oriented towards markets and interested in the profitability: Puiforcat (1820), Manufacture de Gien (1821), Mauboussin (1827), Christofle (1830), Bernardaud (1863), Ercuis (1873) in the arts of the table, Hermès (1837), Vuitton (1845), Hédiard (1854), Dupont (1872). Moreover two industries play a key role in the enlargement of luxury markets and the organizational change: the Champagne industry and the French Haute Couture.

2.2 The Champagne wine, the first product of mass luxury

During the 18th and 19th centuries, Champagne became the wine of luxury and celebrations and the wine consumed in the Courts thanks to a reputation effect based on its quality. Quality has such a high reputation that it has to be kept for aristocratic groups, and it consequently implies a special market and an extra-price compared to ordinary wines. Exports of Champagne allowed the growth of the Champagne market: while in 1785 only around 300,000 bottles were sold, in 1832, 600,000,

in 1844, 7 million were sold, 8 million in 1852 but 17,5 million were reached in 1870 among which nearly 14 million were sold abroad (systematically explored by the great wine merchants who found large outlets in Russia and in the United States of America in addition to traditional british consumption); in 1899, 28 million were sold and the peak of 1910 before the big crisis of the vineyard is 38,593,000 bottles among which 23 million were sold abroad³. The development of outlets in the European courts was going to turn external markets into the driving force of production growth and to lead to a new identification between champagne and wine of celebration giving it therefore a relative specificity. At the same time the process was supported by the creation and the development of new suppliers, the Maisons de Champagne: Besserat de Bellefon (1843), Boizel (1834), Bollinger (1829), Canard Duchêne (1868), Deutz (1838), Charles heidsieck (1851), Krüg (1843), Charles Lafitte (1848), Pommery (1836), Mumm (1827) and others. A lot of them came from the distribution sector (numerous german firms switch at this time from textile sector to Champagne) and came with their knowledge of market distribution and with their international networks.

So, at first, Champagne wine was erected as an aristocratic luxury good but sold on international markets with mass outlets. Further on, the management of the Champagne heritage surpassed this brilliant result. The great houses were the inventors of a new type of luxury good: the democratic and market luxury good. In the 1950s 50 million bottles were sold but in 2008 more than 340 among which 141 million bottles were exported⁴.

In the case of Champagne wine, the gap between standard and luxury goods is based on extra-quality but is also related to the iconic status of the wine, considered as *the* wine of feasts and ceremonies. Extra-quality can be reproduced even if production becomes mass production: Champagne wine is an 'industrial' wine, produced by assembling different types of grape, growing on a territory that can be enlarged. The problem of democratization of this luxury product is mainly to maintain the image of luxury wine while expanding the quantities sold. That is possible as the wine continues to appear as an exceptional good, related to special situations, and as a wine very different from others, carrying semiotic characteristics.

2.3 The French Haute Couture

The French Haute Couture is the second area which creates a mass-oriented luxury. The Haute Couture produced highly sophisticated models on the basis of very expansive fabrics and very long hand processes of fabrication for a narrow elite. The Baumol effect leads to strong increases in prices that undermined the profitability of the sector. Enlarging outlets was thus a necessity. Paul Poiret launched the movement of declining the reputation of Haute Couture in perfumes and accessories, the prices of which were very inferior to the incredible prices of Haute Couture clothes and could be sold to the bourgeoisie. Outlets were highly larger and industrial production allowed benefiting from scale and scope economies. Until the fifties this system was profitable, but the economic conditions of the fashion system considerably changed, increased the costs of haute Couture creation and many *Maisons* disappeared: after the Second World War there were still 106 *Maisons de couture* in Paris, in 1967 only 19 and now there are less than ten. The survivors are the *Maisons* that have been able to introduce mass production. After the Second World War, Christian Dior connected *Haute Couture* and ready-to-wear by creating high quality ready-to-wear. This gave birth to a new luxury ready-to-wear, the '*prêt-à-porter des couturiers et créateurs*' which allowed the *Maisons* to expand their market. They used their reputation to sell quality and fashionable clothes according to the development of the semiotic value of clothes. At the same time, that allowed a new enlargement of the market of accessories, particularly perfumes, driven by the

³ Georges Clause in Crubellier, *Histoire de la Champagne*, 335. In 1870, only the 25% of the champagne wines were consumed in France.

⁴ 338.7 m bottles are the present record, obtained in 2007; exports constitute around 45% of the sales.

increasing semiotic value of the great trademarks. The profitability of ready-to-wear and accessories offset the non profitability of the *Haute Couture* segment and a strict connection was set up between the mass production goods and the laboratory of creativity and reputation of the top segment (Barrère et Santagata, 2005).

3 The new opportunities

A new step in the surpassing of the contradiction between luxury and mass-production intervened in the eighties. The development of *semiotic* goods constituted a new opportunity to change the conventional conception of luxury. New technologies allow to produce extra-quality on a larger scale and drastically reduces transport and transaction costs. The present macro-conditions of global economy contribute with them to create a new paradigm, *the paradigm of democratic and market luxury*, and financial groups catch these opportunities to disrupt the old organization of luxury and impose a new model.

3.1 The development of semiotic goods

The seminal work of Baudrillard (1970) focused on the semiotic dimension of consumption. Goods carry signs representing significances, senses, and give symbolic benefits. For instance, a fashion good, a dress of Jean-Paul Gaultier, brings a direct semiotic utility (the purchasers, as Bourdieu said⁵, acquire a part of the magic of the maker's label) and an indirect and social semiotic utility (the dress is bought because it offers signs of distinction and signs of identity). So people demand goods because they want semiotic and symbolic values. Using Lancaster's methodology, according to which a good is a bundle of characteristics (Lancaster, 1966, 1971), we can say that, among the characteristics of goods, semiotic ones are growing (Barrère and Santagata, 1998); immaterial utilities increase in comparison with material ones (Douglas and Isherwood, 1979).

If in the aristocratic ages the semiotic value of luxury goods was mainly dependent on their scarcity and price, modernity allows producing semiotic value without very strong costs of production, beyond the traditional area of costly raw materials and very skilled labour. Let us consider the case of a luxury bottle of perfume. What is the cost of the raw in percentage of the final price ? Less than ten percent ! probably between two and five percent for almost all the perfumes. So, you don't pay for the raw material, you pay for the design, you pay for the invention of the formula of the perfume (a combination of flavors, created by a very skilled person, a *nez*), you pay for the semiotic image of the perfume, associate to the iconic image of some stars. Thus perfume is produced, not mainly with raw material, but by creativity (the nose) and heritage (the image and the reputation). Then, if the aristocratic distinction between luxury good and ordinary good was based on a material difference (difference due to extra-scarcity or to extra-quality), the modern distinction can also be founded on the immaterial difference represented by the semiotic value of the good.

The growth of semiotic values has to be inserted in the process of culture commodification analyzed by Walter Benjamin (1936). Technological developments allowing the production and the reproduction of cultural works break the previous model based on the singularity and uniqueness of the work of art. Culture then can enter commodities era, be mass-produced to be mass distributed and consumed, according to an industrialist framework which was previously only characteristic of industrial goods (production with equipment, supposing high financial investments allowing economies of scale...). An industrialist market model (see for instance the Factory of Andy Warhol as mass production) is taking place to manage culture. This process leads, for Horkheimer and Adorno (1947), to a submission of the field of culture to market economic regulation. They had in mind the traditional cultural products strictly related to art field: books and literature, paintings, movies and theatre, ... Nevertheless the commodification of culture also introduced a

⁵ Bourdieu, 1974.

commodification of tastes, allowing to normalize individual tastes to constitute regular segments of demand. Semiotic goods participate to this process which leads to organize mass and differentiated segments within the luxury outlets.

The new opportunities created by the development of semiotic values are increased by the development of *hedonic* motives (Hirschman and Holbrook, 1982). Other authors connected rise of hedonistic consumption and experiential relationship to the progression of advertising, of mass culture and recreation⁶. Finally the development of semiotic and hedonic goods can be related to the necessity of developing new outlets for capitalist production. It is a field where novelty can be emphasized that leads to a faster renewal of goods. Lipovetsky (1987, 2006) highly focused on the relation between modernity, individualization and search for the pleasure attributes of goods and services.

3.2 Changes in production, distribution and market

Since the second world the evolution of technology war strongly modifies the conditions of production and distribution of luxury goods and services. Among the numerous innovations which occurred some had a strong importance. The logistic revolution drastically cut the transport costs and allow diminishing cost of imported raw materials, increasing exports of luxury goods and deepen international and local division of labour. The implementation of the new technologies of computing industry decreases transaction costs and increase efficiency of productive combinations and management techniques. New processes of production, able to mass produce a high level of quality, emerge. Today the traditional process of production of luxury, centered on very high quality of labour, giving a key role to specialized handcraft, using only rare raw materials, is substituted by diverse and complex combinations of mechanical and manual processes, including self-control and scientific technologies. Therefore it became possible to use mass production to obtain luxury goods, without cutting down quality but reducing costs. It is too possible to produce a differentiated luxury, with different levels of quality at different costs and prices.

Distribution and communication technologies strongly changed too. They allow to develop information of consumers and to propose them simultaneously a lot of traditional and new luxury goods and services. Firms can now use sophisticated strategies including advertising, communication and sponsorship, to persuade consumers to buy their products. They derive from the exploration of the behaviors by the marketing disciplines. Neuroimaging studies investigate how commercial brand information is processed in the brain (Paulus and Frank, 2003; McClure *et al.*, 2004; Deppe *et al.*, 2007; Schaefer *et al.*, 2006). Psychological and sociological studies consider the consequences of emotion created by advertisements in brand preference formation (Gorn, 1982; Whissell and McCall, 1997; Shadel *et al.*, 2002; Anderson *et al.*, 2005). The neuromarketing⁷ uses magnetic resonance imaging to study the activity in the prefrontal cortex; it allows understanding what the brain does while making a purchasing decision and to explore the determinants of taste judgments the economic consequences of which are decisive. For instance, images of dominant brands, such as the iPod, stimulated the same part of the brain activated by religious symbols (Lindstrom, 2008). Besides these techniques, communication strategies include a lot of instruments

⁶ Various studies have attempted to measure, in line with Spangenberg *et al.* (1997), for specific consumptions, the share of utilitarian and hedonic components in the overall utility felt by individuals or in their attitudes (is the degree of involvement of the consumer rather depending on objective factors, related to goods, or related to subjective personalities?).

⁷ Neuromarketing is the study of how people's brains respond to advertising and other brand-related messages by scientifically monitoring brainwave activity, eye-tracking and skin response (Martin Lindstrom's website).

to reduce and to manage the diversity of tastes: advertisement, storytelling, sponsoring, expertise, trademark, selective distribution, ...⁸.

3.3 The new macro-conditions: inequalities, wealth and globalization

The development of the modern luxury strictly depends on the new macro-conditions of the period, mainly on two ones: the globalization movement, allowing to aggregate the demand coming from different countries and so constituting a mass demand, even if its proportion in every country is small (markets of luxury products have been among the first markets to become globalized); the increase of inequalities within the general trend of wealth increasing, allowing to enlarge the potential demand for luxury.

The demand for luxury is now sustained by social groups with very high assets in western Europe, Japan and in the United States but also and more and more coming from Russia, China, Brazil, India etc. The 2014 report by Merrill Lynch and Capgemini estimates the number of "high net worth individuals" ("High-net-worth-individuals" HNWI) in the world, that is to say, heads of households with a capital mobilized over one million dollars (excluding their primary residence and their consumer goods), to 13.7 million in 2013. They are with their families a social group of about 50 million people, likely to regularly consume luxury goods. In addition, the number of 'rich' and the amount of their wealth is increasing rapidly. The number of HNWI grew by 7.6% per year on average over the period 1996-2005 and accelerates to 9.9% over the period 2008-2013 and 14.7% for 2012-2013. The total wealth of HNWI is too increasing faster and faster: amounting to 32.8 trillion US \$ in 2008 to 52.6 in 2013. According to Merrill Lynch and Capgemini global "HNWI financial wealth is forecast to grow 6.9% annually through 2016 to reach a new record high of US \$ 64.3 trillion, with an additional US \$ 11.7 trillion in HNWI wealth created over the three-year period 2014-2016" (Capgemini and RBC, 2014, p. 9).

The report also shows that wealthy individuals from emerging countries have been having for several years a significant effect on the luxury market. Among them, the Ultra-HNWI (those with US \$ 30 million or more in investable wealth) constitute only 0.9% of the HNWI total but own 34.6% of the total wealth. They consume elitist luxury at very high prices that allows luxury sellers to make on them very big benefits. The latest available report from Goldman Sachs shows that since 2003, more than 45 million Chinese have the means to spend more than \$30,000 per year.

3.4 A new paradigm: the democratic and market luxury

From the eighties, the new paradigm of mass luxury in a market and democratic society replaces the old elitist paradigm. All the individuals are formally equal in market relations. Therefore everybody is entitled to consume luxury goods (which remain extra-ordinary goods), according to his willingness to pay, i.e., if respecting the market constraint. Access to luxury is a democratic right.

Veblen analyzed the demand for luxury as a consequence of conspicuous consumption. It is probably a strong motive of luxury demand from the people becoming rich quickly in the emerging countries as China, Russia, Brazil or India. But a lot of other motives related to semiotic values and to pleasure and desire characteristics explain the strong development of the luxury demand, as a regular or an occasional demand. If it remains a very limited segment of the elitist luxury (the Haute couture, the famous restaurants, the Ferrari or Rolls-Royce, the diamonds...), the majority of luxury goods becomes mass market luxury goods, often industrially produced. Luxury goods are not yet a close segment but a part of the set of goods which are different according to their conventional status within a continuum of goods, from the standard goods to the luxury goods.

⁸ Today these strategies are confronted to the development of networks (mainly the Internet ones) which can counter-balance the regulation of tastes by big suppliers and imply adaptation of communication strategies of luxury actors.

This evolution is linked to strong changes occurred in the macro-conditions of markets and incomes.

3.5 Seizing the new opportunities: The entry of financial groups

Actually, in a society in which luxury and creative needs are becoming as much necessary to large parts of population as traditional basic needs, luxury groups are the ones able to provide luxury goods to everyone around the world and to sell them to a large number of consumers. According to the structure of the global wealth, they structure luxury markets into hierarchical segments: from the most democratic segment offering luxury dreams for little money to very top segment only opened to the happy few. Financial luxury groups join these two sides of luxury and conceive a continuum of luxury. They have been able to seize the new opportunities of globalization and increase of wealth by developing a new supply model, which is inspired by the first innovations of Champagne and fashion industries, but bring new answers to surpass the contradiction between mass production and luxury. At the same time they were able to act like this because they own specific resources: their industrial size is sufficient to resist to the volatility of demand, to lead wide communication and distribution campaigns⁹, to introduce creative management, to manage property rights, and so on. So doing they introduced a new supply model organized to surpass the contradiction between mass production and luxury.

4 A new supply model: the luxury tree

The new supply model defined in order to produce a mass luxury is centered on the management of the key specific resource of luxury groups, their heritages. We begin by analyzing the role of heritages before characterizing the main elements of the working of this new model.

4.1 Heritages as specific resources

By producing through time, firms build heritages, i.e. specific resources which pass through time and can be used for new production and market reputation (Barrère, 2013). In the case of luxury production these heritages are peculiarly important. Luxury firms accumulate reputation, creative and craft knowledge, patents, develop an internal productive atmosphere, similar to the *industrial atmosphere* defined by Alfred Marshall (1890, 1919). The luxury groups, as LVMH, Kering and Richemont by taking over old *Maisons de couture* and luxury firms, become owners of the private heritages constituted by these firms. These heritages had a very big value and could be a strong basis for the development of new luxury goods and the enlargement of their markets.

In the fashion industry, for instance, the creative knowledge heritage develops both a 'stock and memory' effect and an 'experience' effect:

- memory effect. The history of the *Maison de couture*, the memory of great designers (Chanel, Balenciaga, Dior, Saint Laurent) and the cult of creation are a major incentive to creativity.
- stock effect. It derives from both the physical stock of designs and models and the cultural heritage of a style (e.g., the Chanel style). This is extremely valuable, because not only does it allow new designers to 'revisit' both old collections and styles and the history of fashion, but also because it allows customers to identify a style.
- experience effect. Apprenticeship from famous masters in the *Maison* facilitates the transmission of creativity, especially between generations. It is the same for the *savoir-faire* developed by workers and craft-people.

⁹ For instance to pay some superstars to promote a product or a trademark (e.g. Nicole Kidman who won EUR 7,5 million for the Chanel N°5 campaign).

In the Champagne industry as in the Swiss watch-making and in the Italian craft we have similar effects. The great Maisons de Champagne just as much as famous firms of luxury car industry (Rolls-Royce or Ferrari), of watch industry (Rolex), of jewelry (De Beers or Boucheron) own specific heritages, coming from their long history. Moreover this one gives them reputation (think of the communication made by Vuitton, Hermès and Mont-Blanc on how long they have been in experience), a key input for selling luxury goods.

Suppliers can also use common heritages related to an industrial or cultural cluster (the parisian fashion, the italian Alta Moda and luxury craft industry, the swiss tradition of watch-making, ...). Common heritages include heritages of craftsmanship, which have been handed down over generations of workers, providing them with the technical skill to perform sophisticated operations arising out of a long succession of inventions and innovations. The importance of craftsmanship heritage is attested too by the behavior of the leading firms in luxury accessories such as Vuitton, Hermès, Gucci and Prada. They limit the use of outsourcing, seeking to set up plants in places that are rich in highly qualified labour. In the same way, analyses of industrial and cultural districts (Bagnasco, 1977; Becattini, 1998; Santagata, 2010) showed - in the case of Italian districts, for instance - how the social heritage of craftsmanship has constituted a key condition for economic and social development. Common heritages include too heritages of creative knowledge, which also produce experience effects by the way of the ability to design new luxury goods. Heritage therefore plays a key role as a source of inspiration, production and contemporary creativity. Finally heritages of tastes, i.e. semiotic heritages producing a common reading of signs, produce homogeneous representations and contribute to creation but also plays on demand. They allow demand to adjust to supply, since creativity does not correspond to an alignment on individual preferences but more to the production of new goods, previously unknown to consumers, and new wants. They make creation credible, legitimate the creative work, and provide a competitive edge on world markets through an image heritage.

4.2 The core of the model: A creative economy based on heritages

The question becomes: how creating extra-ordinary in the field of hedonic goods and services, the condition of positioning goods as luxury goods, on the basis of heritages without abandoning mass-production? In our opinion the extra-ordinary character of luxury goods is *twofold*: extra-ordinary concerns firstly the goods (*luxury goods are extra-ordinary products*) and concerns secondly the suppliers (*luxury goods are proposed by extra-ordinary firms*). As this second side tends to become the main, we start with it.

Extra-ordinary firms

The extra-ordinary character of firms producing luxury goods and services is mainly based on their heritages. Bernard Arnault, the owner of LVMH, used to say that Louis Vuitton has a 150-year history, that makes it unique. Heritages here play by two ways. Firstly they are reputation heritages. This reputation guaranties consumers a high quality or a strong creativity because it has been legitimated by previous consumers, from a long time. If Vuitton has a 150-year history and is today a growing firm, that proves the constant quality of their products. The name of Dior associates the talent and the creativity of Christian Dior to the present goods supplied by the firm Dior. Secondly heritages produce a specific image, connecting present goods and past times, allowing them to put down roots in a history and a place, when modern consumers express an increasing consumer demand for heritage, which is construed as a demand for stability. Consumers are eager to rediscover their traditions, their history; they are looking for their 'roots' (Rochefort, 2001). In a world of semiotic goods this is peculiarly important. See how a lot of luxury goods are sold with notices telling a story (the Fisher space pen, the pen used for the Apollo missions, is presented in

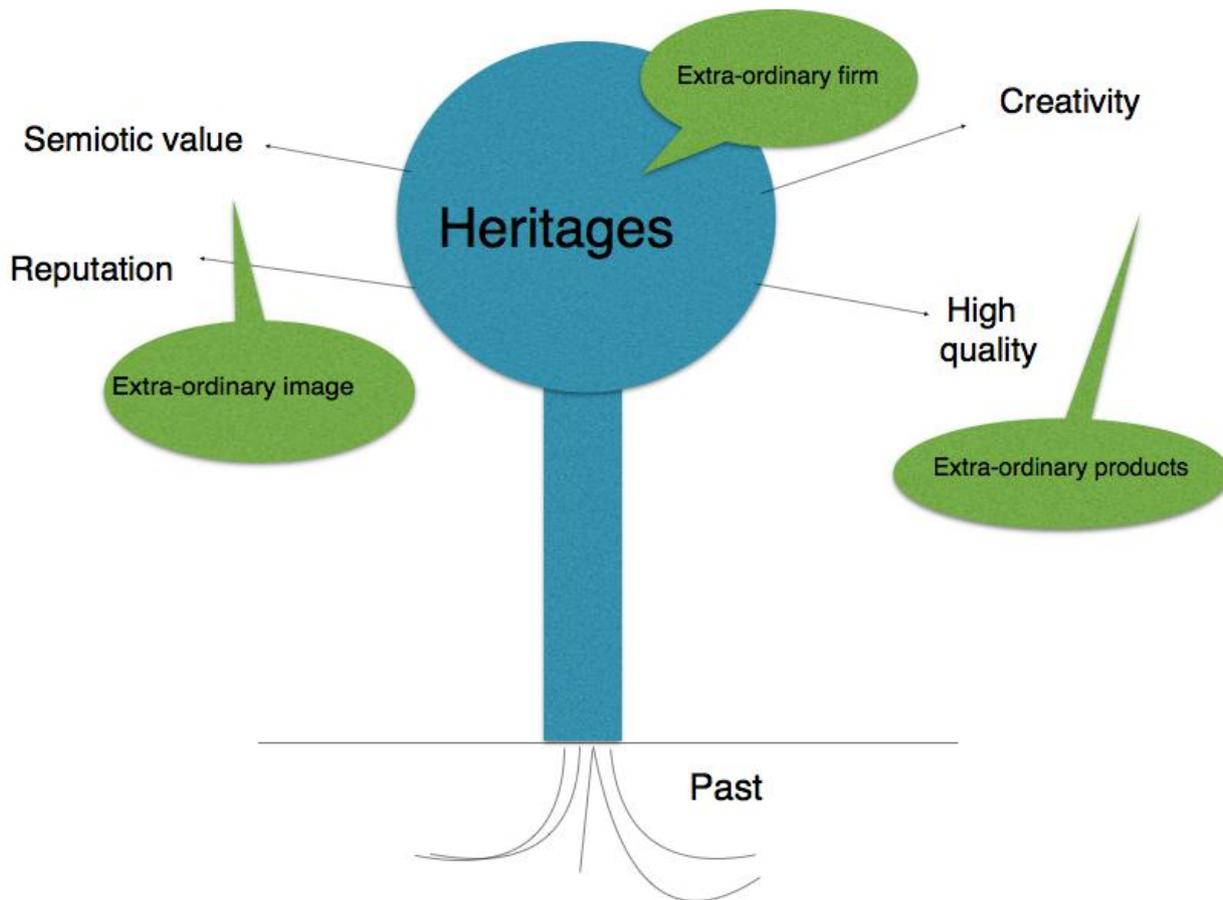
Italy as 'the unique pen with a story to tell', the Moleskine notebooks include a little booklet telling us the historical creation of these notebooks).

The extra-ordinary character of luxury firms allow them to surpass the basic contradiction luxury-mass production. Vuitton produces more than 3 million bags, on an industrial scale, but the firm Vuitton remains different and unique.

Extra-ordinary products

Referring to past would fail if present goods were not at a corresponding level. The luxury group has to maintain a gap between its products and standard products. That implies high quality and, more and more, innovative and creative products. Creativity uses too heritages: there are two distinct forms of culture, that which is 'new', which comes about through creativity, and that which is 'old', which draws from stock, through heritage. But current creativity uses the creativity of the past - which has accumulated, constituting a heritage - and at the same time, adds to it. Moreover, when luxury industries use creativity and heritage simultaneously, they benefit from a virtuous circle, by which I mean that goods, knowledge, and ideas produced constitute types of heritage which, in return, favor creativity.

The financial power of luxury groups allows them to expand creativity into the whole range of goods. For instance the creativity developed in the design of new dresses is used to propose new bags wearing the same patterns¹⁰. So doing, they are able to reach very high profitability. High quality, henceforth possible within industrial production, and high creativity contribute too to surpass the contradiction luxury-mass production because luxury goods and services, even industrially produced, remain extra-ordinary, at least in the judgment of millions of consumers.



¹⁰ Bernard Arnault was used to say that an important component of the talent of Galliano was his ability, when he drew, to imagine the whole set of different applications of his new idea: clothes, bags, jewels, shoes, ..

Figure 1 The luxury tree

We can summarize the principle of the new model by the figure 1. The luxury tree is deeply rooted in the history, in the past. That gives it a strong value deriving from the holding of specific resources, its heritages. Heritages distinguish extra-ordinary and standard firms. On one hand, it leads to the production of extra-ordinary products, by developing creativity and high quality. On the second hand, it leads to the production of an extra-ordinary image of the firm, based on its reputation and the semiotic value of its products and of the trademark¹¹.

Nevertheless using heritages as a basis for producing a new luxury, mass produced, needs some accompaniment strategies, we will study two of them among the most important.

¹¹ Some present luxury firms, as Apple which is becoming a luxury firm, have a shorter link to past. Nevertheless they used their recent history to accumulate heritages, peculiarly reputation heritages.

5 The role of strategies

The exploitation of heritages implies strategies to make their consequences getting money. On one hand, the reputation and the semiotic value of luxury goods produced thanks to heritages can persuade people to consume them but that supposes they know this reputation and the semiotic value of goods. Then reputation and semiotic value lead to communication strategies, the aim of which is actually playing on tastes. On the second hand the high quality of products and the creativity have to be protected against copy, piracy and counterfeiting, thus lead to IPR strategies which play on competition.

In this point we only want to precise the specific link between both strategies and the basic characteristics of the new model, the luxury tree.

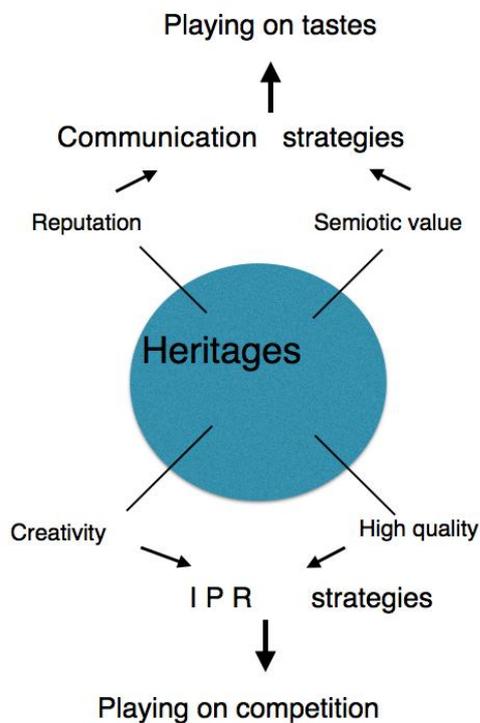


Figure 2 The

accompaniment strategies

5.1 Strategies of communication: building and exploiting reputation, semiotic value and heritages.

Heritages give goods and services a high semiotic value and a strong reputation but these assets are not mechanically generated by heritages that consumers may ignore. Luxury groups have to develop strong communication strategies. Guerlain, for instance, has to remind consumers of its famous past and of the link of N°5 to Marilyn to reinforce and enlarge the iconic value of the perfume¹². The

¹² That explains why the perfume industry is the first industry for advertising; in France, the total amount is close to 2 billion euros when it's only one for the car industry.

groups organize communication policies to enhance the reputation of their trademarks: creation of museums or exhibitions (e.g. Yves Saint Laurent and Giorgio Armani at the Guggenheim), purchasing of stores on the main squares of the world's major cities, sponsoring, association with art manifestations, ... They value their semiotic heritage in the form of the trademark that becomes a symbol of distinction between ordinary and extraordinary goods. It joins a traditional legitimacy to the rationalist legitimacy (an extra-quality and/or extra-creativity) and the charismatic ones (the legend of the great creators, Christian Dior, Giorgio Armani, Coco Chanel, Paul Bocuse...).

Moreover the semiotic value is not given by the self-working of the market but has to be built. That implies a new relation between culture and consumption. Suppliers have to sell not only their material component but also, and often mainly, their immaterial component. They sell *signifiant* goods to satisfy the consumers' demand of *signifié*, of meaning. So they simultaneously sell goods and culture. Moreover they have to explicit the semiotic content of goods and heritages that is perceptible only in a context, a system of signs. That often leads to a 'reconstruction' of the history of the firm: the building and the management of heritage are based on an interpretation of history that gives meaning to the rebuilt history. In the case of luxury groups, past is rebuilt to increase the economic value of heritage; for instance, the Coco Chanel's myth is rebuilt through glorifying some parts of her life and missing some others.

Luxury goods are also relational goods. Their utility, material and immaterial, depends on the social context and on the behaviors and choices of other consumers. Mimetic and counter-mimetic movements derive from externalities between demand functions and characterize consumption, leading to cascades and instability which is reinforced by the role of emotions in the appreciation of goods (Caplan, 2006). Choices regarding luxury goods do not derive from a rational balance between utility and opportunity cost and appeal to emotions and passions¹³. In modern societies the 'explosion of subjectivity' (Cova and Cova, 2001; Addis and Holbrook, 2001) and the acceleration of obsolescence and renewal of goods reinforce these elements. Creativity affects consumption by offering new goods, new varieties and new collections that influence individual preferences, as they do not correspond to an alignment on individual preferences but more, to the production of new goods, previously unknown to consumers (Dolfsma, 2004).

The evaluation by the consumers of luxury goods and services can be much highly scattered and unstable than preferences on standard goods the rankings of which are closer. Moreover price fluctuations have more limited consequences on adjustment processes than for standard goods: a decrease in the price of a perfume will not persuade me to change my favorite one if I 'don't love' its flavor. Thus a main problem for capitalist firms of luxury industry is the contradiction between the need of regular outlets, a fortiori to allow developing mass-production and the instability caused by the role of culture and emotions in the formation of demand. Then suppliers seek to organize the convergence of tastes on some legitimate ones and develop sophisticated strategies to have an influence on individual and collective tastes. So doing they contribute to the extension of capital from the economic area to the tastes, cultural norms and ideology. The trends analyzed by the Frankfurt School now concern the area of tastes. They can also be related to the Chamberlin's framework. As Keynes did, but regarding the micro and meso-level, Chamberlin (1933) focused on the twofold role of firms in the production: they produce goods but they also have to produce the outlets that will absorb the production and, thus, develop selling costs (expenditure on advertisement, sales promotion schemes, salaries of sales personnel)¹⁴.

¹³ As Elster showed, economic theory has to consider emotions: "Emotional experiences are important sources of human satisfaction, we would expect economists to have thought about them a great deal... Economists, as we know, have done nothing of the kind... To put it crudely, *economists have totally neglected the most important aspect of their subject matter*" (Elster, 1996, p. 1386).

¹⁴ More difficult is, for the sellers, the building of the demand, bigger are the selling costs as illustrated by the sectors where preferences are largely undetermined: in the case of contemporaneous art the standard convention is that half the price goes to the galerist, half to the creator.

5.2 Strategies on IPR: protecting and exploiting creativity, quality and heritages

Before the seventies intellectual property rights (IPR) were weak, luxury industry included. In some cases they took the form of trademarks. The narrowness of connoisseurs' markets in the aristocratic model avoided counterfeiting and creative piracy. In other cases, as in the fashion industry, the reputations built up were internalized in the firm and protected by a personal IPR taking the form of a *griffe* (the creator's name). The *griffe* expressed the individual creativity of the couturier and constituted a heritage that was transferable among products, hence the success of derived products (*accessoires*), but not among firms. When the firm disappeared, the reputation heritage assets, the value of which was idiosyncratic, disappeared too. Moreover the *griffe* offered a weak protection against counterfeiting and creative piracy (Barrère and Delabruyère, 2011).

Today, luxury groups need strong IPR. On one hand they have to protect their products against counterfeiting and against creative piracy. That is as more necessary as creativity can be used by competitors and by pirates, avoiding them to finance research and innovation. The increase of the semiotic value in relation to material value of goods is a new incentive to piracy and counterfeiting (Benghozi and Santagata, 2001).

On the second hand, IPR protect heritages in the same way (against piracy and counterfeiting) but allow too the reproduction of these heritages. They have to be separated from the person of the creator so that they can be passed on, either over years or across space, within the group or within the market. The trademark provides a solution: Dior is a world-famous trade mark (and was given as a first name to more than one hundred children born in 2012) but Christian Dior died 50 years ago. The trademark is no longer the *griffe*. These IPRs allow to transfer the positive image of the great creators who founded their *Maisons* to the name of the firms and to use their pre-existing reputation for new types of products: they obviously create new accessories in order to propose an all-round set of luxury goods to consumers (Vuitton does not produce only luggage but also bags, shoes, pens, watches, and so on; Hermès added a garment collection designed by Jean-Paul Gaultier to its traditional accessories). IPRs also allow for corporate restructuring in this growing industry.

Conclusion

The new financial and industrial groups of modern luxury succeed in surpassing the contradiction between mass production and luxury. Catching some opportunities, they invented a new supply model, symbolized by the luxury tree, based on the exploitation of heritages, which allow them to surpass the contradiction:

- Distribution and communication strategies allow to break the identification between a mass produced good and a banal, ordinary good the new iPhone appears as unique and extra-ordinary even if everyone knows that it is mass produced).
- High quality can be produced through an industrial way.
- Costs can be reduced to offer 'basic luxury' to large masses of consumers (think of the development of *mastige*).
- Semiotic values no longer mainly depend on costly raw materials but more and more on creativity and heritage, peculiarly on reputation heritage.

Creativity and heritages can thus apply to mass produced goods. Heritages become the new key factor of production. It plays a direct role in the building of goods and services as luxury goods and services; it plays an indirect role by increasing incentive to creativity and innovation. leading to a new virtuous circle between creativity and heritage. Then extra-ordinary image of the goods can

cohabit with mass produced goods; extra-ordinary products can be mass produced; extra-ordinary firms can be firms using mass production.

The new financial and industrial groups so demonstrate their managerial creativity. They continue to use it to develop a sophisticated management of market distribution and control and to improve their growth through IPR management. Modern luxury is no longer a narrow sector and a marginal activity; considering its profitability and its growth rates, it became today the first industry in the globalized world. Future seems to belong to it. The problem is no longer to surpass the contradiction between luxury and mass production. Nevertheless new issues concerning the sustainability of a model based on the development of wealth inequalities are emerging. It is another story.

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