

Chapter 5: Luxury as a creative industry. The creative value system

Why creativity is key to external analysis:

- Creativity in luxury companies depends on more than just individual skills; external factors also play a big role.
- Success in luxury firms isn't solely based on internal company actions. External factors like location and expert opinions are crucial.

Examples include:

- Luxury firms sometimes don't control all their creative processes.
 - Geographic location can greatly affect a company's creative potential.
 - Expert opinions can significantly influence how products are valued, like in the wine industry.
- There are two main reasons why standard industry analysis tools don't work well for luxury brands:
1. These tools are not made to handle the unique challenges that creative companies face. They are better suited for more typical types of businesses that face ordinary competition.
 2. Creativity in luxury brands often happens through working together with others, not alone. It combines individual creative skills with influences from the company's environment.

1. The creative value system:

- The influence of people and groups outside the company is very important for creativity.
- This collaboration can make creativity even more valuable.

Because of this, the chapter introduces the idea of a "creative value system." This system includes all the different people and groups involved in making creativity happen in a business.

The firm:

- A key player in creativity for a luxury firm is the firm itself.
- To fully harness their creative potential, luxury firms shouldn't limit their view of what creativity is. It's important to evaluate the value of creativity and its impact on management.
- Luxury firms need to pay close attention to how their environment enhances individual talents. This includes organizing their capabilities to foster extraordinary creativity and managing the creative skills of individuals, including the creators themselves.
- Brands like MB&F and Moncler demonstrate how a strong approach to creativity can create value in the luxury market. They show that creativity is more than just artistic design and is crucial for maintaining a unique style and protecting their uniqueness.
- Establishing a clear definition of a firm's key capabilities is a good first step to gaining a competitive edge. Maintaining a flexible and dynamic approach to competition helps luxury firms keep their unique qualities and stay relevant.

The partners:

- The value created by creative firms often comes from a combination of different contributors, not just from the firm itself.
- Maximilian Büsler named his company "Maximilian Büsler and Friends" to highlight the important roles that small companies, artists, and independent watchmakers play in his business.
- Partners are crucial because they have specific expertise in manufacturing, access to raw materials, or design abilities that significantly shape the final value of a product.
- Examples of such partnerships include champagne houses with their grape growers, luxury carmakers with exclusive parts suppliers, and fashion brands with access to unique materials.
- These partners are different from regular suppliers because they offer unique value that cannot be easily replaced without affecting the quality of the final product.
- In some cases, the importance of these partners may lead a firm to acquire them, integrating their unique capabilities directly into the firm. This was seen in the fashion industry in Paris during the 70s and in the Swiss watch industry in the 80s.

The location:

- The value of luxury firms often comes from their location because it allows them to be close to valuable partners. For example, fashion firms rely on specialists near Paris or Florence, and watchmakers need to be in Switzerland.
- The story of Cristobal Balenciaga illustrates this point. He became globally recognized not just for his talent but also because he moved his business to Paris, the fashion capital, which provided access to skilled labor, important contacts, and media attention.
- In contrast, Manuel Pertegaz, another talented designer, stayed in Spain and did not gain the same international fame, partly because he was not located in a major fashion hub like Paris.
- This example shows how being in the right location can connect a firm with skilled partners, enhance its ability to create value, and contribute significantly to its success.
- Location can also be key for accessing unique resources, as seen in the wine industry, which thrives in areas with the best soil conditions.
- The concept of "clusters" is important in luxury industries, where the geographical concentration of firms can foster better collaboration and innovation, enhancing the creative output and value of luxury products.

2. Appreciation and its 3Ts:

- Transfer-value information
- Translation-the message
- Teaching-needed for its understanding

The 3T's of VALUE APPRECIATION

Value appreciation is a fundamental piece in the achievement of extraordinariness.

Extraordinariness and creativity are interrelated, and complex to be assessed since:

- Extraordinariness is difficult to be conceive and achieve (as described in Chapter 3).
- Creativity is complex to be appreciated (as described in Chapter 4).

Value appreciation as a 3 stages process: The 3T's

Three different stages in the appreciation of extraordinariness or creative value. The transfer of valuable information, the translation of the message, and the teaching needed for its understanding.

Transfer, translate and teach are the three requirements for value appreciation, the 3T's of value appreciation framework.



TRANSFER

TRANSLATE

TEACH

a. Transfer:

- Awareness is essential for value creation because if people don't know about a company, they can't buy from it. Thus, communicating effectively to make the audience aware is crucial.
- Traditionally, many different entities such as intermediaries, distributors, and various communication methods have been used to spread messages.
- Luxury firms, however, need to be very careful about how and through whom they communicate. Since the value they offer is often based on emotional or expressive qualities, it's vital that their messaging captures this uniqueness.
- Unlike typical firms that may use mass media to reach a wide audience with simple messages, **luxury firms avoid mass media because it tends to dilute the sophistication and complexity needed in their communications.**
- Instead, luxury brands prefer to use specialized intermediaries or media that cater to a more select audience, ensuring the message aligns with the brand's exclusive image and emotional appeal.

b. Translate:

- Understanding is Key: For luxury brands, simply receiving a message isn't enough; the audience often needs additional explanation to fully appreciate the value being offered.

- **Complexity Requires Translation:** Messages from luxury brands can be complex due to their unique nature and the high level of creativity involved. Thus, translating these messages into clearer terms is crucial for enhancing their appreciation.
- **Role of Opinion Leaders:** Experts and specialized media, known as opinion leaders, play a significant role in translating complex messages for the general public. They help people understand the sophisticated elements of luxury products.
- **Shift in Communication Channels:** The evolution of media, from traditional magazine editors to social media influencers, reflects a shift in how fashion and luxury are communicated and understood. Young bloggers and influencers can now occupy influential positions once held by seasoned editors.
- **Expertise vs. Emotional Connection:** Opinion leaders don't always need traditional expertise. Sometimes, their influence is based on emotional connections or aspirational qualities they share with their audience.
- **Example of Wine Industry:** Opinion leaders like Robert Parker in the wine industry have significantly shaped consumer perceptions by simplifying and organizing complex information about wine quality and characteristics.
- **Critiques and Challenges:** While opinion leaders are valuable for their ability to clarify and endorse products, there is a risk of bias or overly simplifying complex qualities to fit their personal preferences or the preferences they perceive in their audience.

The main takeaway is that in luxury markets, the value of a product is not just in its inherent quality but also in how well its uniqueness and complexity are communicated and understood by potential customers. Opinion leaders play a crucial role in this process, though their influence must be carefully managed to maintain authenticity and true appreciation of the luxury goods.

Capsule 5.2: What makes an opinion leader? The fashion industry: from magazine editors to Instagrammers

- In 2009, an article in The New York Times highlighted a shift in the fashion industry: young bloggers began occupying front row seats at fashion shows, traditionally reserved for influential, seasoned magazine editors like Anna

Wintour. This marked a change in who is considered an opinion leader in fashion.

- The tension between traditional fashion media and new digital influencers showcased differing approaches to communication. Traditional editors presented carefully curated reviews, while bloggers offered real-time, accessible opinions.
- The article raised questions about what defines an opinion leader. Traditionally, expertise and experience were seen as necessary. However, the influence of bloggers shows that emotional connection and the ability to resonate with an audience can also make someone an influential figure.
- Influence doesn't solely come from expertise. Celebrities, for example, can influence areas outside their expertise based on their emotional connection with the audience.
- This change reflects broader societal shifts. As society evolves, so does the concept of luxury and influence. Digital communication has become a new standard, reflecting these changes and impacting how younger generations are influenced.
- The transition from traditional media to digital platforms shows that opinion leadership can stem from engaging an audience emotionally and authentically, beyond just possessing formal expertise or experience.

Capsule 5.3: Opinion leaders. Robert Parker and Wine

- **Role of Opinion Leaders:** The wine industry heavily relies on opinion leaders like Robert Parker, who created the Wine Spectator with its influential 100-point wine ranking system. These rankings help consumers understand and appreciate the complex qualities of different wines.
- **Consumer Guidance:** Rankings and notes from wine experts assist consumers in distinguishing between various wine attributes such as grape

type, blend, aging process, and soil type, which are essential for making informed choices beyond just price considerations.

- **Impact of Recognition:** Opinion leaders can greatly influence market success, as seen with a Spanish winery that sold out its production immediately after being rated as the best wine under \$20 by Robert Parker.
- **Criticism of Influence:** The influence of opinion leaders can lead to biases in the wine industry. The term "parkerized" refers to wines tailored to meet the preferences of Robert Parker to achieve higher rankings, which can neglect other high-quality wines that might not align with his taste.
- **Simplifying Wine Language:** Opinion leaders transform the complex terminology of winemaking into more accessible language, allowing ordinary consumers to appreciate wine without needing deep expertise.
- **Filtering and Organizing Information:** They also curate and organize vast amounts of information about wine, highlighting the most relevant aspects to aid consumers in their journey of wine appreciation.

Overall, while opinion leaders like Robert Parker play a crucial role in educating and guiding consumers, their influence also brings challenges and responsibilities, particularly concerning the authenticity and diversity of wine appreciation.

C. Teach:

- **Learning Curve Importance:** In luxury industries, appreciating the full value of products often requires a learning curve where consumers gain understanding of the complex emotional and aspirational benefits that these products offer.
- **Teaching Role of Luxury Firms:** Luxury firms play a critical role in educating consumers about the unique value and craftsmanship of their products. This teaching isn't about imposing knowledge but rather enhancing understanding through exposure to the firm's choices and philosophies.
- **Experience Enhances Appreciation:** As consumers become more familiar with luxury goods—whether it's fine wine, high-end watches, or designer

clothing—their appreciation of these items tends to grow. This is because they learn more about the manufacturing techniques, artistic choices, and materials used.

- **Interactive Learning Experiences:** Luxury brands often facilitate learning through real experiences, such as demonstrations at stores (like constructing a leather bag at Hermès) or tours of manufacturing facilities (like Patek Philippe's tours).
- **Value of Shows in Fashion and Watchmaking:** Fashion and watchmaking shows play multiple roles in value appreciation. They serve as platforms for transfer (spreading information), translate (clarifying complex messages), and teaching (sharing the brand's unique characteristics and expertise).
- **Digital Evolution and Shows' Relevance:** While digital platforms offer new ways to achieve similar goals, traditional shows still hold significant value. They provide a unique environment for personal interactions that can deepen appreciation and understanding.
- **Segmentation of Luxury Consumers:** Traditional segmentation of luxury consumers into connoisseurs and status-driven buyers oversimplifies the complexity of value appreciation. The actual distinction should be based on different levels of appreciation, which can evolve over time as consumers gain more experience and knowledge.

This discussion underscores the importance of teaching and experiential learning in luxury industries, where the understanding and appreciation of unique and extraordinary qualities are crucial for recognizing the true value of luxury goods.

Capsule 5.4: Are shows still relevant? Fashion shows versus Watch shows

1. **Commercial and Promotional Platform:** Fashion shows function as crucial commercial events where firms showcase their latest collections and interact with industry stakeholders. They serve as centralized platforms for promoting new products, enhancing brand visibility, and facilitating business interactions.
2. **Gathering of Opinion Leaders:** Fashion shows bring together influential figures such as media personalities, editors, collectors, and enthusiasts. This convergence simplifies the complexity of the fashion industry, making it more accessible and understandable to consumers, thus influencing market perceptions and trends.

3. **Educational Opportunities:** In addition to promotion, fashion shows provide educational settings for firms to demonstrate their expertise, unique techniques, and brand identity. They enable direct communication with opinion leaders and the media, fostering a deeper understanding and appreciation of brands' philosophies and craftsmanship among attendees.

4. **Relevance in the Digital Age:** Despite the challenges posed by digital alternatives, fashion shows remain relevant due to their multifaceted roles beyond mere promotion. They serve as platforms for translating complex industry details and educating consumers about brands' distinctiveness, contributing to their enduring significance in the fashion landscape.

5. **Strategic Importance of Milan:** The emergence of Milan as a fashion capital underscores the strategic role of fashion shows in consolidating industry efforts and fostering a unified approach to fashion marketing and appreciation within a geographic cluster. Milan's success exemplifies how shows can shape the trajectory of fashion hubs worldwide.

6. **Future of Shows:** While digital platforms present competitive alternatives, the unique combination of promotion, education, and industry networking offered by fashion shows continues to hold significant value. However, the evolving landscape suggests the potential for alternative methods to supplement or replace traditional shows if they effectively fulfill essential roles in the fashion industry.

Creative versus non-creative markets. The three types of business environments:

Three distinct types of business environments:

- **Creative Market:** Focuses on unique, innovative products and services, as previously discussed.
- **Traditional Market:** Operates under conventional business norms and values, as introduced in earlier chapters.
- **Networked Market:** Dominated by platform markets like Amazon, Google, and Facebook, which leverage network effects for competitiveness.

Table 5.2 The three types of business environments

	Traditional	Networked	Creative
Competitive mindset	Substitutive (zero-sum game) Winning over competitors Focus on efficiency Market need Economic logic	Focus on large user base Aggregation, volume	Focus on creativity Collaborative
Type of benefit	All but functional dominate	All but functional dominate	All but emotional & expressive dominate
How Value is created? (Source of CA)	Competitive advantage own key activities Own key R&C	Network externalities driven by: – User base – Complementary goods	Extraordinariness
Who takes part in value creation?	Mainly firm Efficiency—value chain	Firm and complementors	Creative value system

- **Learning from Market Characteristics:** Understanding the specific traits of these different markets can enhance a company's competitiveness. Managers can apply this knowledge to make more informed decisions and potentially adapt successful strategies from one market type to another.
- **Practical Guidance for Executives:** The differences between these markets provide valuable lessons for executives, especially those transitioning into the luxury market. Recognizing these distinctions can help them navigate challenges more effectively.
- **Cross-Market Learning:** While the fundamental aspects of value creation vary across markets, there are opportunities for firms to learn from each market type to uncover potential improvements in their operations and strategies.

1. **Creative market:**

- **Creativity in Business:** Creativity isn't just about one person's work; it involves everyone in the company.
- **What Makes Luxury Different:** Luxury items are special because they offer extraordinary qualities that normal markets don't. These qualities come from the type of benefits luxury goods provide, making them stand out.
- **Role of Others in Creativity:** It's not just the company that creates value. Partners, the location of the company, and how people appreciate the company's products also play big roles.
- **Competition in Creative Markets:** In creative industries, companies don't just try to beat each other. Instead, they work together to create something truly unique and extraordinary. Success comes from being able to stand out in this way, not just from winning over competitors.

In short, in creative markets like luxury goods, success is about working together to create unique, emotionally appealing products.

2. **Traditional market:**

- **Traditional vs. Creative Markets:** Traditional markets use well-known marketing and strategy ideas to understand how to compete and who helps create value.
- **Strategies in Traditional Markets:** In these markets, strategies focus on competitive advantage, understanding the value chain, and knowing the company's main strengths. Marketing mainly looks at meeting the basic needs of consumers and how to beat competitors to make a sale.
- **Competition Style:** In traditional markets, companies compete directly with each other for the same customers and needs. This competition is intense, as each company tries to outdo the others.
- **Challenges for Managers:** Managers who are used to traditional markets might find it tough to adjust to luxury markets because the styles of competition and value creation are so different.
- **Learning Opportunities:** Even in traditional markets, there are lessons to be learned about creating value. For example, Apple stores and Starbucks offer

unique customer experiences that stir emotional responses, helping them stand out from competitors.

In short, traditional markets focus on winning against competitors by meeting consumer needs directly, but they can still teach us about creating unique experiences that enhance a company's appeal.

3. **Networked market:**

- **Networked Market:** This type of market, also known as platform-mediated markets, operates differently from traditional and creative markets. Companies like Amazon, Google, Facebook, and Apple are examples of businesses in networked markets.
- **Strategy and Value Creation:** Traditional business strategies don't easily explain the success of firms in networked markets. The key to understanding these companies lies in recognizing that they create value differently, mainly through network effects. This means the more users a platform has, the more valuable it becomes to each user.
- **Two-Sided Platforms:** These markets often involve platforms that serve two groups—sellers and buyers. The interactions between these two sides are crucial and are often facilitated by the platform, enhancing value for both sides as the user base grows.
- **Examples and Strategies:** In networked markets, strategies may include focusing on expanding the user base rather than immediate profitability, offering subsidies to one side of the market, or even owning complementary products (like gaming consoles and video games or streaming services and exclusive shows).
- **Competition:** Competition in these markets can involve tactics like envelopment, where a platform broadens its service offerings to include features that competitors cannot match, thus drawing users away from them. A historical example of this is Microsoft incorporating Internet Explorer into Windows, which impacted Netscape's market share.
- **Understanding Differences:** It's important for business managers, especially those in luxury, to understand the distinct characteristics of networked markets compared to more traditional or creative industries. This understanding helps in crafting appropriate strategies that align with how value is created and maintained in their specific market environment.

Overall, networked markets focus on building and maintaining a broad user base to leverage network effects, which significantly influences competition and value creation strategies.

Case study: Maximilian Busser and Friends (part 2)

- Starting MB&F: Maximilian Büsser founded MB&F to create unique luxury watches with a focus on artistic creativity rather than just shareholder value. He named his products "Horological Machines" to emphasize their role as pieces of kinetic art that also tell time.
- Company Philosophy and Goals: Büsser started the company with the goal of having a small team, producing a limited number of watches, and achieving significant annual revenue. He invested his personal savings to launch MB&F in Geneva in 2005.
- Initial Challenges: Starting a new company in the luxury sector was difficult. Büsser faced challenges with funding and had to creatively present his first product to potential retailers using a hand-painted 3D model to save costs and speed up the process.
- Early Success and Obstacles: After traveling and meeting with watch dealers, MB&F secured enough pre-sales to begin manufacturing. However, they faced delays and financial strain that almost led to bankruptcy.
- Continued Efforts and Growth: Despite the tough start and the impact of the 2008 financial crisis, Büsser kept the company afloat by personally meeting with retailers and promoting his products. His persistence paid off, and by the end of 2009, MB&F began to stabilize and grow.
- Long-term Perspective: Initially thinking it would take five years to reach his goals, Büsser realized it would likely take at least ten years due to the challenges faced.

This story highlights the challenges and dedication involved in creating a new luxury brand from scratch, emphasizing creativity, direct engagement with retailers, and resilience in the face of financial difficulties.

Questions:

1. Why do firms need to perform an external analysis?

- Firms need to perform an external analysis to understand the factors outside their control that significantly affect their ability to compete. This includes evaluating the influence of partners, location, and market dynamics. Such analysis is crucial for crafting effective strategies that leverage external resources and navigate competitive challenges.

2. The creative value system does not refer to suppliers, but partners. What is the difference between a supplier and a partner in the luxury arena?

- In the luxury arena, a supplier is typically seen as a replaceable entity providing generic resources or services. A partner, however, brings unique skills, knowledge, or materials that are crucial for creating distinctive value. Partners are integral to the luxury firm's success and not easily substituted because they contribute significantly to the product's uniqueness and excellence.

3. Select a luxury firm and identify different entities that can help the firm achieve the 3T's of value appreciation.

- For a luxury firm like Chanel, different entities that can help achieve the 3T's of value appreciation include:
 - Transfer: Specialized luxury fashion magazines and influencers who can communicate Chanel's brand story and product offerings to a broad audience.
 - Translate: Fashion critics and luxury market analysts who clarify the uniqueness and craftsmanship of Chanel products to consumers.
 - Teach: Collaborations with fashion schools or exhibitions at fashion shows where Chanel can directly engage with customers and educate them about the brand's heritage and craftsmanship.

4. How do you see fashion shows and watch shows in the next ten years?

- In the next ten years, fashion and watch shows may increasingly integrate digital technologies to reach a global audience. Virtual reality (VR) and augmented reality (AR) could become common, allowing remote attendance and interaction. Sustainability and ethical considerations might also drive more virtual shows to reduce the environmental impact. Additionally, these shows might become more consumer-focused rather than industry-only events.

5. Why is a creative market so different from a traditional market? What are the key differences?

- A creative market is different from a traditional market mainly in its focus on collaboration and uniqueness rather than competition over price or market share. Creative markets value innovation, artistic expression, and emotional engagement, whereas traditional markets often prioritize efficiency, scalability, and mass appeal. The competition in creative markets is for uniqueness and innovation, not just for customer acquisition.

6. Why is a creative market so different from a networked market? What are the key differences?

- Creative markets focus on creating unique, high-value products through artistic collaboration, emphasizing quality and exclusivity. In contrast, networked markets focus on maximizing platform utility through user base expansion and network effects, where the value of the service increases as more people use it. Creative markets are about depth and authenticity, while networked markets are about reach and connectivity.

7. Can you think of potential lessons that a luxury firm can learn from how firms compete in networked markets?

- Luxury firms can learn from networked markets the importance of creating and maintaining strong user communities that enhance brand loyalty and engagement. Implementing technology to better understand consumer preferences and tailor experiences can also be beneficial. Additionally, exploring innovative revenue models such as subscription services or membership exclusives can offer new ways to engage and retain customers.