



## Is luxury valuable?

Does luxury  
create  
“real” value ?

- Luxury historically perceived as a threat to social order or as superficial, non-basic phenomena (Chapter 1).
- These negative perceptions, have installed the misperception (clarified in Chapter 1) that luxury does not create “real” value.

Assessing value through the observation of the type of benefits (Aaker and Joachimsthaler’s, \*)

### FUNCTIONAL BENEFITS

#### “WHAT THE OFFERING CAN DO”

Those intrinsic benefits the offering provide. These are the benefit obtained by its function or functionality.

### EMOTIONAL BENEFITS

#### “WHAT THE OFFERING MAKES ME FEEL”

Those benefits which refer to the emotions the offering can provide.

### EXPRESSIVE BENEFITS

#### “WHAT THE OFFERING SAYS ABOUT ME OR HELPS ME SAYING”

Refer to the message I want to say with the offering. This is a communication act, an expression.

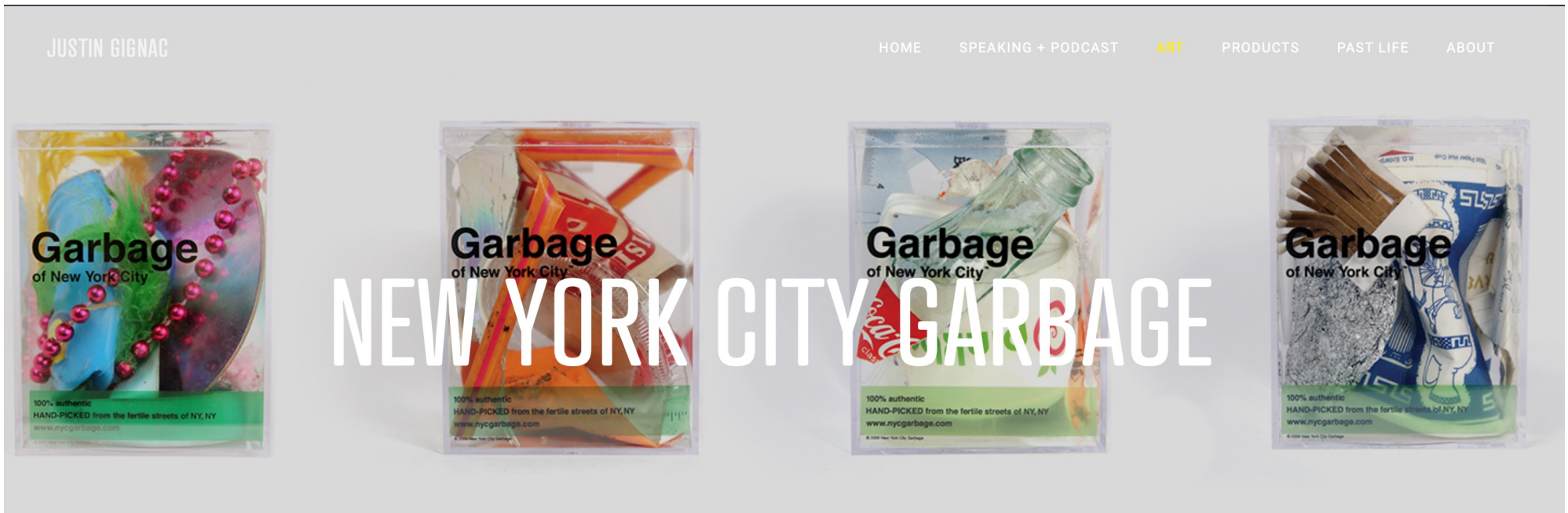




## Is luxury valuable?

### The Functionality TRAP

- The unique association between value and functional benefits is a limitation.
- Focusing on a single type of benefits leave opportunities that might arise from the combination of the other different types of benefits.
- It is the same mistake as placing science and art in different spaces (Capsule 3.2 Horacio Paganí).
- The problem is to simplify benefits by functions as seen on Capsule 3.1 (New York City Garbage)



Source: justingignac.com





# Is luxury valuable?: Normal vs. Excess Competition

## Normal Competition

- Two different “competitive spaces”: Normal and Excess. Each of them characterized by a different way of value creation.
- “Normal Competition” is not aimed to convey a negative, simple or basic connotation. It refers to the most common or frequent market characteristics.

<b>Functionality is key</b>	<ul style="list-style-type: none"> <li>• Functional benefits are fundamental and dominate the assessment of value.</li> </ul>
<b>Normal does not mean basic</b>	<ul style="list-style-type: none"> <li>• The product or service is not necessarily simple or basic. It represents any kind of offering, including sophisticated and innovative ones.</li> <li>• Normal refers to value creation and does not describe the product or service.</li> </ul>
<b>Emotional and expressive benefits are relevant, but not dominant.</b>	<ul style="list-style-type: none"> <li>• Emotional and expressive benefits are present, but not dominant in the assessment of value.</li> </ul>
<b>“Common sense”: the importance of logic and rationality</b>	<ul style="list-style-type: none"> <li>• Together with the importance of functional benefits, we find the importance of logic and rationality.</li> </ul>
<b>Competition sets normality.</b>	<ul style="list-style-type: none"> <li>• Competition takes place among many players providing a similar value offering where supply meets demand.</li> <li>• Differentiation is complex to achieve. This refers to the “normality” of the segment/market.</li> </ul>
<b>Breaking normality: price premium &amp; economic logic.</b>	<ul style="list-style-type: none"> <li>• Breaking “normality” is complex. As companies try to differentiate the functionality tightens prevent price from escaping (significantly) normality.</li> <li>• Premiums refer to the normality conditions (or average price). The limitation to increase price is influenced by the economic logic (price and cost must be related).</li> </ul>

Table 3.1 The characteristics of a normal competition





## Is luxury valuable?: Normal vs. Excess Competition

### Excess Competition

- Etymology of luxury. "luxury" comes from "luxus", which ultimately means excess.
- Excess competition takes places whenever we exceed normal competition.
  - Excess is not a way to "improve" normality but to "go beyond" normality.
- Excess competition is a situation where
  - The assumptions of normal competition simply do not apply.
  - There is value creation

	How do we exceed (go beyond) normality?	Value creation?
Breaking functionality	Unneeded, stupid	Not necessarily
Breaking logic / rationality	Illogic, irrational, crazy, extravagant, exaggeration.	Not necessarily
Breaking social order	Unfair, superficial	Not necessarily
Achieving extraordinariness	Through a combination of Benefits: where Emotional, Expressive benefits are dominant	Potentially yes

Table 3.2 The characteristics of an excess competition





NORMAL	EXCESS
<ul style="list-style-type: none"><li>• Logic / rationality</li><li>• Functionality</li><li>• Segment &amp; Differentiation</li><li>• Price Limit</li><li>• Economic Logic</li></ul>	<ul style="list-style-type: none"><li>• Breaks Logic: Illogic, crazy, Extravagant</li><li>• Breaks Function: Unneeded, stupid, irrational</li><li>• Breaks Social order: Unfair</li><li>• Offer Extraordinariness: Combination of benefits (Emotional and Expressive dominant)</li></ul>

Table 3.3 Main assumption of normal and excess competition





A requirement for any luxury strategy: to own a sound and valuable form of extraordinariness.

The analysis of the source of extraordinariness is based on:

### How to conceive extraordinariness

**Understating better the sources of Extraordinariness:**

- **Is not an improvement and is hardly measured**
- **Is not “only” about quality**
- **Is hard to assess and it requires a learning curve.**
- **Requires leadership. The creator effect.**
- **Is a choice not a goal.**
- **Can be learned by examples, not by imitation.**

### How to achieve extraordinariness

• **Achieving extraordinariness requires extraordinary organizational capabilities:**

- What organizational capabilities support or enable the firm's beliefs?
- What organizational capabilities support or enables the firm's creation?

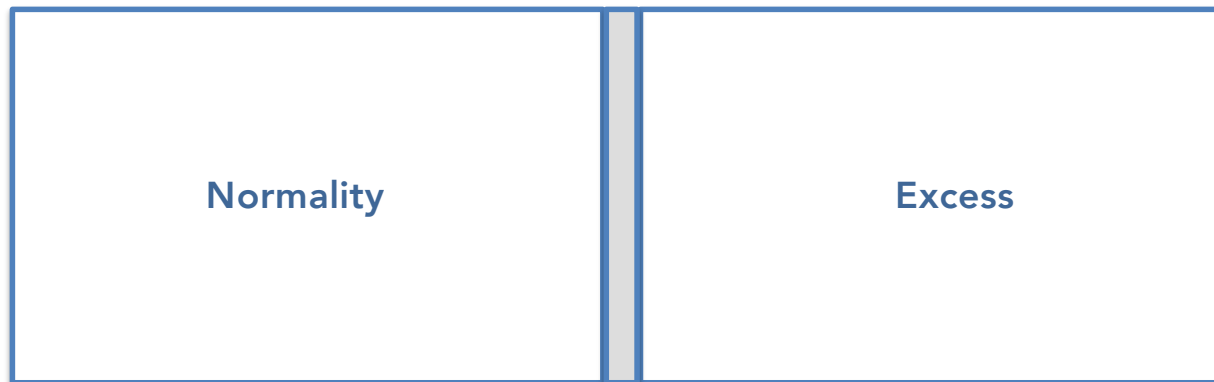
• **Achieving extraordinariness takes time, a lot of time.**

• **Being extraordinary is based on capabilities. Looking extraordinary is not based on realities.**





Sometimes is complex to place the line between the normality and excess.  
Where is the limit between normality and excess?



Consistency is hence needed to ascertain the boundaries of excess



The importance of Consistency is seen on CAPSULE 3.3 "Is Coach a luxury firm? "





### MANAGING THE ENTRY-LEVEL CATEGORY

#### POTENTIAL

#### ENTRY LEVEL CATEGORIES CAN BE VERY ATTRACTIVE

Lower segments provides room for expansion, scale, business development, and access to future core clients.

#### RISKS

#### BUT PLENTY OF RISKS AS WELL...

Source of extraordinariness can be threatened, the firm can accept risky trade-off (inconsistencies in terms of distribution or firm values for instance).

Consistency is hence needed to ensure source of extraordinariness  
As seen for instance on the Porsche Macan (see case study)

