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Corporate Social Responsibility and Brand Value in Luxury

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Submitted in Fulfillment of the Requirements for the Degree of Doctor of Philosophy

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Abstract

With a combined annual revenue of approximately $250 billion dollars, the luxury industry is highly significant, from a financial and commercial point of view. Within luxury, an area that is becoming increasingly important due to the visibility of this industry is Corporate Social Responsibility (CSR). While consumers are still not actively demanding CSR in luxury products and services, and there is evidence that CSR is not a key area of interest for the luxury industry; the luxury industry is becoming the target of non-governmental organizations (NGOs) and other stakeholders interested in environmental and ethical practices. Thus, it is essential that luxury companies explore CSR implementation, as neglecting to do so, is likely to affect their brands and their brand value.

One of the most important assets that luxury firms have is brand value, an intangible asset influenced by consumer and company-led actions. CSR is a company-led action, which depending on how it is managed, can either increase or decrease brand value. It is important to note that to understand the role of CSR within luxury and how it can influence brand value, it is not possible to study CSR in isolation, as this would not fully reveal its importance in the wider context of brand value overall. Thus, CSR needs to be studied alongside other factors affecting brand value.

Despite the fact that CSR can influence brand value in luxury, CSR is still overlooked by the industry. Due to the increasing relevance of CSR within luxury, this research explores the role of CSR within luxury and how it, together with other factors, contributes to brand value in luxury. An additional consideration is that despite the importance of brand value in luxury, the industry does not normally measure, manage and leverage brand value. As a result, it is also necessary to examine how brand value is perceived within luxury.

To meet these research goals, a mixed methods approach was selected. More specifically, a theoretical framework was built with input from the literature.
and interviews with key interviewees from the luxury industry. Then, the theoretical framework was tested quantitatively. The quantitative analysis was conducted with a dataset based on consumer panels, and additional secondary data including Bloomberg, CSRHub, Dow Jones Sustainability Index (DJSI), Interbrand, and company reports. The results were subject to ‘credibility checks’ with interviewees from the industry. It is noteworthy to highlight that for the statistical analysis, one of the largest datasets with US consumer data was used. Similarly, for the qualitative interviews, representatives from some of the largest luxury companies in the world in terms of brand value, and luxury stakeholders were recruited.

The results from this research suggest that despite the importance of brand value within luxury; brand value is not widely understood by the industry and it is not measured, managed or leveraged. This research also suggests that CSR, company size, having controlled distribution, country of origin, marketing and research and development (R&D)/design, energized differentiation, esteem, and relevance; are critical factors to brand value. Consequently, luxury brands need to manage all these determinants to be able to create and preserve brand value. Nevertheless, while all these determinants are important, their importance can vary by brand; depending on brand size, brand category, target market, and whether the brand is heritage or non-heritage.

With regard to CSR, an outcome from this research is that CSR is becoming an increasingly important contributor to brand value in luxury. Still, the luxury industry is not fully aware that CSR implementation is consistent with key luxury values such as high-quality and service and luxury’s long-term vision; and that stringent CSR policies and practices constitute a potential strategy to anticipate future regulatory and social constraints.

Furthermore, CSR implementation within luxury is generally limited to discrete actions, such as collaboration with the arts, compliance, local production, philanthropy/voluntarism, and use of environmentally friendlier materials. It is crucial that luxury companies incorporate CSR into the DNA of their brands and choose a CSR strategy aligned with their brand vision. Luxury brands may be
able to positively change consumer perceptions of CSR and, thus, drive consumer demand. Also, engagement with CSR may result in a competitive advantage to them and in a potential increase in their brand value.

Moreover, the results suggest that brand knowledge is overemphasized by the luxury industry, although it does not appear to be essential for brand value in luxury. Additionally, with respect to brand relevance, this research makes a case to consider brand desirability as a potentially more appropriate determinant of brand value within a luxury context.
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Dedication

To my late mother and grandmother Alicia.
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Finally, I would like to thank anyone who in one way or another, helped me during this journey, especially: Jonathan and Susan Gledhill from Policy Navigation Group; Ramona, Sasha, IJ and all my friends; Cleopatra Velotsou; my former professors Luis Felipe Juarez, Isabel Burguete and Alberto Ibarra; and anyone who was unintentionally excluded from this list.
Author’s Declaration

I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

Signature

Printed Name: Ramón Bravo González
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>BIV</td>
<td>Brand, Investment and Valuation</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>COO</td>
<td>Country of Origin</td>
</tr>
<tr>
<td>CRM</td>
<td>Customer Relationship Management</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>DJSI</td>
<td>Dow Jones Sustainability Index</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, Social and Governance</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FMCG</td>
<td>Fast-Moving Consumer Goods</td>
</tr>
<tr>
<td>GRI</td>
<td>Global Reporting Initiative</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IVSC</td>
<td>International Valuation Standards Council</td>
</tr>
<tr>
<td>LVMH</td>
<td>Moët Hennessy Louis Vuitton</td>
</tr>
<tr>
<td>MVA</td>
<td>Market Value Added</td>
</tr>
<tr>
<td>MoMA</td>
<td>Museum of Modern Art, New York City</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-Governmental Organizations</td>
</tr>
<tr>
<td>NYC</td>
<td>New York City</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>P[number]</td>
<td>Proposition</td>
</tr>
<tr>
<td>PETA</td>
<td>People for the Ethical Treatment of Animals</td>
</tr>
<tr>
<td>PPR</td>
<td>Pinault-Printemps-Redoute</td>
</tr>
<tr>
<td>PR</td>
<td>Public Relations</td>
</tr>
<tr>
<td>QDAS</td>
<td>Qualitative Data Analysis Software</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>RO</td>
<td>Research Objective</td>
</tr>
<tr>
<td>RQ</td>
<td>Research Question</td>
</tr>
<tr>
<td>S&amp;P</td>
<td>Standard &amp; Poor’s</td>
</tr>
<tr>
<td>TIP</td>
<td>Technical Information Paper</td>
</tr>
<tr>
<td>DOE</td>
<td>US Department of Energy</td>
</tr>
<tr>
<td>USD</td>
<td>United States dollars</td>
</tr>
<tr>
<td>WWF</td>
<td>World Wide Fund for Nature</td>
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Chapter 1: Introduction

This thesis explores the topic of Corporate Social Responsibility (CSR) in luxury and how CSR, together with other factors, can impact brand value. Section 1.1 below discusses the rationale for this research. This discussion is followed by a statement of contribution, the research questions and their corresponding research objectives. The chapter then concludes with a summary of how the thesis content is organized.

1.1 Research Rationale

1.1.1 Why Luxury?

With approximately $250 billion dollars in revenue in 2014 (Bain & Company, 2015), the luxury industry is highly significant from a financial and commercial point of view. To put the size of the luxury industry within context, its annual revenue is similar to Finland’s Gross Domestic Product (GDP) in 2015.

The luxury industry has a number of characteristics that sets it apart from non-luxury. Among these characteristics is that luxury does not follow the laws of demand and supply. Thus, when the demand of luxury goods increases, the price increases as well (Bastien and Kapferer, 2013). Another key characteristic of luxury is that it has both, physical and psychological attributes. For example, in terms of physical attributes, luxury has elements of high-quality, functionality/usage value and design which can be observed in the actual product (See: Chevalier, 2012; De Barnier et al., 2012; Hoffmann and Coste-Maniøre, 2012; Kapferer, 2009; Vickers and Renand, 2003). With regard to its psychological attributes, luxury is predominantly associated with prestige (Godey et al., 2013; Tynan et al., 2010) and social status (Hansen and Wänke, 2011; Heine and Phan, 2011; Walley and Li, 2014). This association of luxury with prestige and social status has been historically prevalent, since luxury has been used by societies to create differentiation (Okonkwo, 2009). For instance, luxury brands are sold at prestigious locations at high prices (Kapferer, 2014),
and many luxury items can only be afforded by the wealthiest echelons of society (Walley et al., 2013).

In addition to these attributes, another characteristic of luxury is the pursuit of strategies such as country of origin (COO), marketing or controlled distribution which are mainly dominant within a luxury context (Kapferer, 2009). By pursuing these types of strategies, luxury brands are able to create attributes such as excellence, quality, design, as well as prestige and upper class perception.

Due to the economic importance of the luxury industry, its visibility in the world’s marketplace, its ability to influence consumers, and the fact that it does not share the same characteristics as non-luxury; the luxury industry is worthy of further study.

1.1.2 Why CSR?

Within luxury, an area that grants research attention is CSR. This is not just because the issue has not been widely researched, but because the industry, unlike other industries, is a late adopter of CSR. (Pessanha Gomes and Yarime, 2014). As discussed below, luxury companies are increasingly facing external pressures to adopt CSR policies and practices. However, it is not known how CSR can impact brand perceptions and investment decisions. Therefore, this requires in-depth research and analysis.

CSR is the most common term used in the literature to refer to ethical actions undertaken by firms (Galbreath, 2010). Because of its low CSR adoption and due to its high visibility, the luxury industry is becoming the target of non-governmental organizations (NGOs) and stakeholders interested in environmental and ethical practices (Kapferer and Michaut, 2015). Furthermore, the industry is also experiencing regulative and legislative pressures, and new industry standards requiring the pursuit of social and environmental practices (Carrigan et al., 2016; D’Souza et al., 2011). These practices form part of CSR (Dahlsrud, 2008; Idowu, 2009; Torres et al., 2012). However, despite these pressures, CSR
is still overlooked by the luxury industry (Bendell and Kleanthous, 2008; Pessanha Gomes and Yarime, 2014).

To add complexity to this topic, within luxury, as in other industries, environmental and ethical practices range considerably, from the use of recycled materials in products (Finn and Fraser, 2014), social and environmental practices within the supply chain (Towers et al., 2013) to philanthropy (Pessanha Gomes and Yarime, 2014) or even the comprehensive implementation of sustainable strategies within the social and environmental domains of CSR (Carcano, 2013). A key consideration is that within luxury, CSR is not actively demanded by consumers (De Pierro Bruno and Barki, 2014; Kapferer and Michaut, 2015), although there is increasingly more consumer interest in CSR (Carrigan et al., 2013).

CSR has been extensively considered in non-luxury, but it has been overlooked within luxury. This lack of adoption brings a range of considerations in relation to CSR in addition to other criticisms of the industry such as conspicuous consumption, hedonism, or materialism. In summary, all these factors outlined above, but more specifically the visibility of the luxury industry, increased pressures from non-consumers (e.g. government, NGOs, and industry groups) to be more socially responsible. The inherent characteristics of this industry, which are not present in non-luxury, make it essential to explore the topic of CSR in luxury, from a luxury perspective.

1.1.3 Why Brand Value?

For luxury to exist it is essential to have an excellent product, but also to be able to create a dream around that product (Kapferer, 2009). Luxury relies on intangible attributes based on consumer perceptions to create value. This value, which can be referred to as brand value, is considered the most important asset within luxury (Okonkwo, 2007). Thus, a brand will create brand value depending on how successful it is in building these attributes and perceptions. Despite its importance, is not clear how brand value is actually perceived by the luxury industry.
CSR can affect luxury brands, as implementing it can help brands reduce risk (Kapferer and Michaut, 2015) as it can help brands ameliorate the effects of stakeholders and government demands to become more socially responsible. Additionally, while CSR is not actively demanded by luxury consumers, CSR awareness is increasing, which creates a possibility of higher CSR consumer demand in the future. A lack of CSR policies and practices can impact brand reputation, access to capital and brand value (Drews, 2010). Consequently, it is essential that luxury brands look into CSR, especially because not having it is something that could impact brand value (Kapferer and Michaut, 2015).

Still, brand value is a complex construct which is influenced by multiple factors, not only CSR. Brand value is determined by both consumer- and company-based factors (Christodoulides et al., 2015; Davcik et al., 2015). For example, brand value can be influenced by company-controlled actions such as company size or research and development (R&D) (Melo and Galan, 2011; Torres et al., 2012), but also by how consumers perceive a brand (Ambler and Banvise, 1998). Thus, the value of a brand will not only be contingent on the actions undertaken by a brand (e.g. CSR or R&D) but, as stated by Keller and Lehmann (2006), will also depend on what customers think about a brand and how they communicate about it.

This thesis seeks to understand CSR in luxury. However, since CSR is a contributor to brand value, it is not possible to look at CSR in isolation from brand value and the other determinants of brand value. Rather CSR needs to be understood within the context of brand value overall to reveal its importance relative to other elements. Additionally, CSR cannot be isolated from the internal aspects of a company (Deakin and Whittaker, 2007; White, 2006; Woermann, 2013). CSR is created based on company-specific contexts and, therefore, it reflects the business strategies of organizations (Dahlsrud, 2008), as well as organizational values, beliefs and firm culture (Galbreath, 2010).
1.1.4 Why Focusing on the Entire Luxury Industry Rather Than a Single Company?

This thesis explores CSR and brand value in luxury from an industry-level perspective rather than from a company-level approach. Research already exists that looks at single companies to identify which elements can contribute to brand success (see Cavender and Kincade, 2014; Cohen, 2009). Existing research, however, has not looked at brand value in luxury from a more holistic approach by considering company- and consumer-based factors contributing to brand value through an industry-level approach. Within luxury there are multiple ways to categorize brands, including, the extent of their core trade, quality, product usage, or manufacturing process (see Ahuvia et al., 2013; Kapferer, 2009; Nueno and Quelch, 1998; Urde and Greyser, 2015). While all luxury brands share common values, such as the presence of physical and psychological attributes in the products and services they offer; luxury brands are not identical. Thus, the utility of exploring CSR and brand value of single brands such as Prada, Tiffany & Co. or Gucci would hinder the relevance of this research in terms of its theoretical and practical contributions for the whole luxury industry. As a result, this research takes a more inclusive approach to the exploration of brand value by approaching CSR and brand value in luxury from an industry-level perspective rather than from an individual company level perspective. The unveiling of how CSR and other factors contribute to brand value in the luxury industry creates a foundation for the understanding of this complex topic. Furthermore, it makes it possible for academics and practitioners to conduct follow-up research and analysis to determine how the importance of these factors can change at the company level, depending on the specific characteristics of a brand.

1.1.5 Gap in Knowledge

In the literature, there is evidence that brand value is the most important asset in luxury (Okonkwo, 2007; Wood, 2000). There is also recognition that CSR can contribute to brand value in luxury (Cavender and Kincade, 2014; Kapferer and Michaut, 2015). Nevertheless, it is not clear which CSR-related policies and
practices undertaken by luxury companies can influence brand value within this industry. Furthermore, there is no empirical research on CSR and brand value in luxury and, therefore, it is unknown which determinants of brand value can be influenced by CSR, if any. Also, while there is literature looking at CSR and luxury, and there is also non-luxury research on CSR and brand value (Melo and Galan, 2011; Torres et al., 2012; Wang, 2010); it is not evident from the literature the role that CSR has within the luxury industry.

In addition, it should be noted that there is no agreement in the literature as to what exactly constitutes brand value (Davcik et al., 2015; Knowles, 2008; Simon and Sullivan, 1993; Stahl et al., 2012; Torres and Tribó, 2011). It is also not clear which factors can create and preserve brand value in luxury. The non-luxury literature has proposed and analyzed a number of factors that in addition to CSR can create brand value. However, these elements have not been analyzed all together within a luxury context. Moreover, it is not clear how brand value is perceived by executives and stakeholders within the luxury industry, which strategies can create value, and if it is something they actively manage and leverage, given the apparent importance that brand value has for the industry. To be clear, in this thesis, leverage of brand value refers to the action of strategically managing this asset by luxury brands.

1.2 Statement of Contribution

The study of CSR in luxury within the context of brand value seeks to address the key gaps in knowledge discussed in the section above. This thesis makes a contribution by identifying the determinants of brand value that can be influenced by CSR, how CSR is perceived within luxury, and what elements constitute brand value in luxury. In addition to help address these theoretical gaps, this thesis also contributes to the luxury industry by identifying how CSR can be approached within luxury, and unveiling the key determinants of brand value that need to be pursued by the industry. The following subsections outline the theoretical and practical contribution of this thesis. Then, these contributions are recapitulated and discussed in more detail in the conclusion chapter (see section 7.2).
Theoretical Contributions:

- Provided an understanding of how CSR was perceived within luxury by:
  - Identifying how CSR was understood by the industry; and whether it was considered by the industry to be a key contributor to brand value. This contribution added a new perspective to existing research on CSR and brand value by analyzing this topic from within the industry (see Kapferer and Michaut-Denizeau, 2014; Melo and Galan, 2011; Torres et al., 2012)
  - Identifying how CSR was pursued within luxury. Existing research on CSR positioning (See: Crane, 2014; Visser, 2012) had not explicitly addressed CSR positioning within luxury and how it was mainly pursued as a branding activity by luxury brands

- Brand value was analyzed within a luxury context from a holistic perspective by including company- and consumer-based factors. Existing research had only concentrated on either, company-based or consumer-based factors, without looking at both (see Ailawadi et al., 2003; Melo and Galan, 2011; Stahl et al., 2012; Torres et al., 2012). By conducting this research, it was possible to identify the most relevant factors for brand value in luxury: Company size, Controlled Distribution, Country of Origin, CSR, Energized Differentiation, Esteem, Marketing and R&D/Design, and Relevance

- A luxury construct based on consumer perceptions of upper class and prestige was proposed. Further, changes to two consumer-based constructs, esteem and relevance, were suggested to make them more relevant within a luxury context. These factors had not been used in the literature in empirical analyses related to luxury. Thus, this set a precedent for their inclusion in future studies related to luxury and brand value

Practical Contributions:

- Identified key factors for the industry to create and preserve brand value. In addition, this research unveiled which factors were overemphasized and overlooked by the industry. By identifying which determinants of
brand value mattered the most, the luxury industry could redirect its efforts into the determinants with a greater impact.

- Analyzed the consistency between luxury and CSR. In addition, this researched looked into how CSR could be approached by the industry.

1.3 Research Questions

Given the complexity of the topic of CSR and brand value in luxury it was necessary to craft research questions (RQ)s, in order to give direction to this research. Thus, three RQs were for formulated for this thesis. The questions address the role of CSR in luxury, brand value perception and brand value creation. These questions are presented below. To enhance clarity, RQ1 and RQ3 were divided into two subquestions:

**RQ1: What is the role of CSR in luxury?**
- RQ1a) How is CSR perceived by the luxury industry?
- RQ1b) Do CSR actions undertaken by luxury companies contribute to brand value?

**RQ2: How is brand value perceived by the luxury industry?**

**RQ3: What other factors create and maintain brand value in luxury?**
- RQ3a) What consumer-driven factors create and maintain brand value in luxury?
- RQ3b) What company-driven factors create and maintain brand value in luxury?

1.4 Research Objectives

The research questions introduced above provide general direction to this research, in terms of what needs to be answered to be able to respond the research questions. Additionally, to keep the research within focus, it is important to define research objectives (RO)s for each of those RQs. Then, by achieving these ROs, it will be possible to respond to the RQs. This section outlines the ROs that were set for this thesis. To add clarity, the numbers of the ROs correspond to the numbers of the RQs.
RO1
- RO1a) To identify how luxury companies and luxury stakeholders perceive the concept of CSR, and their approaches to implement CSR
- RO1b) To identify if luxury companies and luxury stakeholders consider that the CSR actions undertaken by brands contribute to brand value in luxury

RO2
- To identify how luxury companies and luxury stakeholders perceive the concept of brand value
- To explore the actions taken by luxury brands to manage brand value

RO3
- RO3a) To identify consumers’ role in creating brand value
- RO3b)  
  - To identify companies’ role in creating brand value
  - To identify how brand value can impact luxury brands
  - To provide insight into what factors companies need to focus on to increase and maintain their brand value
  - To identify if there are differences within the luxury industry that could affect how brand value is managed

1.5 Organization of the Thesis

To address these RQs, a mixed methods approach was selected. After conducting the literature review, a conceptual framework of brand value in luxury was proposed. This conceptual framework was refined with input from qualitative interviews with industry participants. Then, a database was built with data based on consumer panels, and from additional publicly available sources. The framework was tested statistically using linear modeling and correlation matrices. Finally, the results from the statistical analysis were discussed with industry experts during the ‘credibility checks’, so that it was possible to refine the model with the most significant determinants for brand value in luxury.
This thesis was structured in seven chapters, inclusive of this introduction. The following is a summary of how this thesis was organized:

- **Chapter 1: Introduction**
- **Chapter 2: Literature Review.** This chapter explored the concept of luxury, the differences between luxury and non-luxury, as well as the complexity of the luxury industry. Furthermore, this chapter explored CSR and how it related to other terms related to ethical actions undertaken by firms, such as stakeholder theory or corporate citizenship. Moreover, it explored the association between CSR and luxury, as well as how CSR was connected to brand value. Finally, the chapter explored the construct of brand value and how it could be studied from a company or consumer perspective. This chapter provided working definitions of CSR, brand value and luxury which will were used throughout the thesis. Moreover, after a review of the literature on brand value in luxury, the chapter concluded with a theoretical framework identifying key potential determinants of brand value in luxury.
- **Chapter 3: Methodology.** This chapter discussed the research approach selected for this thesis. Since a mixed-methods approach was chosen to conduct this work, this chapter further discussed the qualitative and quantitative methodology selected; the research propositions guiding the quantitative analysis; and methodological limitations of these approaches.
- **Chapter 4: Results, Analysis and Discussion of Qualitative Phase.** In this chapter, the results from the qualitative interviews with industry experts and stakeholders were presented. These results were presented around three key themes: CSR, luxury and brand value. The chapter concluded with a revised version of the theoretical framework introduced in Chapter 2.
- **Chapter 5: Results, Analysis and Discussion of Quantitative Phase.** The results were analysed and discussed around three research propositions: brand value and consumers; brand value and market capitalization; and brand value and luxury perception. The chapter concluded with a list of statistically significant determinants for brand value based on the quantitative analysis.
• Chapter 6: Results, Analysis and Discussion from ‘Credibility Checks’. The results from Chapter 4 were subject to ‘credibility checks’ with representatives from the luxury industry and stakeholders. The data obtained from the ‘credibility checks’ were used to analyse and discuss the results, and thus determine which determinants of brand value were more important within the sample.

• Chapter 7: Conclusion. This chapter discussed the outcomes of this research and how the research objectives outlined earlier in this introduction were fulfilled. Then it elaborated on how this research advanced the understanding of CSR and brand value in luxury and how it made a theoretical contribution to the literature. The chapter concluded with potential areas for future research in the areas of CSR and brand value.
Chapter 2: Literature Review

As discussed in the Introduction, this thesis seeks to explore the role of Corporate Social Responsibility in luxury by contextualizing it within the other factors influencing brand value in luxury. This chapter is structured as follows. First, to get an understanding of the luxury industry, a literature review was conducted on what luxury means, its main attributes, and how different the luxury industry is from non-luxury. Second, considering that CSR actions may have an impact on brand value, and brand value is an important asset within luxury, a literature review on CSR was conducted, including what it is, how it is related to brand value, and what are the main research gaps from a luxury perspective. Third, since brand value is a complex construct, and does not only comprise CSR, it is also necessary to explore the construct of brand value in the literature. These three elements; Luxury, CSR and Brand Value in Luxury are discussed in the sections below.

2.1 Luxury

2.1.1 What Is Luxury

Since this thesis is centered around luxury; first, it is important to understand the concept of luxury. There is an extensive literature attempting to address the concept of luxury. However, as stated by Miller and Mills (2012), researchers have proposed multiple attributes and dimensions to define it, but there is absolutely no agreement as to what luxury is (Godey et al., 2013; Kim et al., 2016). In fact, luxury is often perceived as a “complex, ambiguous and ambivalent concept” (Walley and Li, 2014, p. 1) and a “diversified construct” (Godart and Seong, 2014, p. 15). Thus, the sole objective of this section is not to make a case against or for those definitions but to outline the main attributes luxury is associated with. To make it easier to understand the different attributes associated with luxury, Chandon et al (2015) propose three main dimensions: Motivations to consume luxury products; values that luxury products represent to consumers; and perceptions of exclusivity conveyed by those products. For example, a motivation that may drive consumers to buy luxury...
products is to highlight a connection with a certain social group; while a value to consumers could be hedonism or self-indulgence; and a perception of exclusivity would be how rare the luxury item is.

There are considerable differences in the literature with regard to what constitutes luxury. The following section provides an overview of the different definitions of luxury and their attributes.

According to Godart and Seong (2014, p. 14) luxury originates from “the desires of powerful, high status consumers who want to assert their status and power”. For Hoffmann and Coste-Maniôre (2012), luxury has four important principles: Excellence, authenticity, value and quality. For Vigneron and Johnson (2004) luxury needs to have a factor of human involvement, be valued by others, and have limited supply. Luxury can also be defined as a combination of key components, which should always be present in a luxury product: Exclusivity (rarity), quality (high-quality and design), hedonism (the product is pleasant to use and gives satisfaction), and brand image (renowned, different and strongly positioned) (Chevalier, 2012). De Barnier et al (2012) consider that luxury has superior quality, has a hedonic factor, a high price, it is rare, it has a selective distribution, an important level of creativity, and it is prestigious. Phau and Prendergast (2000) consider that luxury must have four characteristics: Brand identity, customer awareness, exclusivity and quality. Kapferer (2009) proposes that three key elements must be present in a luxury good: Usage value (functionality of a product), exchange value (a competence to distinguish it, besides the price level) and work value (an intangible such as a concept created by the founder of a firm and applied to a production process to create a unique product). A key difference between non-luxury products and luxury is that in the former, only usage and exchange values are present, but not work value.

Nueno and Quelch (1998) consider that luxury has four characteristics: Premium quality, a heritage of craftsmanship, a recognizable style or identity and limited production/scarcity.
According to Kapferer (2009), for Veblen (a Norwegian economist from the XIX century), luxury is the most desirable (from a social perspective), as it places the consumer at the top of the hierarchy. This concept derives in the creation of Veblen goods, which are goods where the price increases as the demand increases. Therefore, luxury goods are Veblen goods (Ibid, 2009). For Godey et al (2013), based on the results of an empirical study, luxury is mainly associated with exclusivity, prestige and elite perception. Along the same lines, Okonkwo (2009) states that the reason for the existence of luxury has been, through centuries, to highlight social class distinction, and to mark differentiation by possessing luxury goods.

Berry (1994, pp. 5, 40) defines a luxury good as “an indulgence. It is a good that is thought desirable or pleasing by an individual...it is a good that it would be nice to have or experience”. Berry also states that luxury has four subcategories: Sustenance, shelter, clothing and leisure. To illustrate these subcategories, he provides the example of a weekend holiday in a luxury hotel. Sustenance would be related to food and drink, for example caviar and champagne. Shelter would be related to the accommodation provided by the establishment as well as the luxury services provided (e.g. Spa or health center). Clothing would be related to, for example, apparel or jewelry offered in the hotel. Leisure would be the fact that the weekend stay is a holiday and the hotel will provide an array of leisure activities.

Vigneron and Johnson (2004, p. 486) present a different definition of luxury, which incorporates elements related to product use. For them, luxury goods can be defined as “goods for which the simple use or display of a particular branded product brings esteem on the owner apart from any functional utility”. Besides this definition, Vigneron and Johnson also developed a framework to define the different elements that must be present in ‘lasting’ luxury. Based on this framework, luxury attributes can be divided into two broad categories: Non-personal perceptions and personal perceptions. Within non-personal perceptions, the three elements present in luxury are conspicuousness (price or status linked to the brand), uniqueness (scarce or difficult to obtain) and quality (a more superior product than a non-luxury product). Within personal
perceptions, the two elements present in luxury are hedonism (obtain personal fulfillment by purchasing a product) and the extended self (distinguish oneself or link luxury goods to own identity). It is important to note that in this model, all the sub-elements (i.e. conspicuousness, uniqueness, quality, hedonism and the extended self) are correlated (Vigneron and Johnson, 2004).

Vickers and Renand (2003) propose that luxury is characterized by three dimensions of performance: Functionalism, experientialism and symbolic interactionism. Functionalism refers to the utilitarian function of a product, while experientialism relates to how a customer senses it. Symbolic interactionism is related to the self-enhancement or sensory pleasure provided by a product and how that product allows the consumer to belong to a social group.

Heine and Pan (2011) define luxury as products with characteristics that go beyond the ordinary and necessary; including high price levels, quality and aesthetics; rarity, and a symbolic meaning. Liu et al (2014) consider that luxury products have five sets of values; conspicuous, unique, social, hedonic, and quality. Tynan et al (2010) list key identifiers of luxury which are: High-quality, expensive, non-essential, rare, exclusive, prestigious, authentic, provide a customer experience and are high in symbolic and emotional value. Furthermore, they state that luxury goods have a considerable utilitarian value which is expected for all luxury goods. However, the most important value for a consumer is the symbolic and experiential component of a luxury good. Beverland (2004) incorporates social values in his definition of luxury, stating that luxury brands need to have the following attributes: Value driven emergence, culture, marketing, history endorsement, and product integrity.

Moreover, other authors have incorporated many of the elements presented above into their own definitions of luxury. Based on a study aimed at identifying the key elements in a luxury fashion brand, Fionda and Moore (2009) conclude that a luxury fashion brand has nine elements: Clear brand identity, culture, environment and service, heritage, exclusivity, premium price, design signature, product integrity, and marketing communications. While these elements were
aimed at describing luxury fashion brands, these characteristics can be applicable to all luxury-goods brands and not just to fashion brands.

Furthermore, according to Chevalier (2012), luxury can be defined in terms of perception, production, and social and individual behavior. Perception is influenced by the consumer (the consumer determines whether a good is luxury or not), while in production it is the manufacturer who decides which products constitute luxury. From a social perspective, a luxury good can be defined as an item that makes his/her owner stand out; and from an individual perspective, luxury can be defined in hedonistic terms, as something that provides individual satisfaction and pleasure (Ibid, 2012). This definition is aligned with Gardetti and Torres (2014, p. 2) who consider that luxury is about “seeing and being seen”.

Chevalier (2012, p. 3) also defines luxury in relation to branding. Thus, a luxury good is the one that “carries a brand that is well known, credible and respected”. A challenge in terms of this definition is that while it can be applied to most luxury-goods, it can also be applied to prestigious non-luxury goods (e.g. Apple products) and, thus, it can create confusion regarding what constitutes luxury.

In summary, there are multiple definitions of luxury. Table 1 below presents a summary of the different attributes presented in the definitions of luxury in this section.
<table>
<thead>
<tr>
<th>Author</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berry (1994)</td>
<td>Indulgence, desirable or pleasing, nice to have or experience</td>
</tr>
<tr>
<td>Beverland (2004)</td>
<td>Value driven emergence, culture, marketing, history endorsement, product integrity</td>
</tr>
<tr>
<td>Chevalier (2012)</td>
<td>Exclusivity, quality, hedonism, brand image</td>
</tr>
<tr>
<td>De Barnier (2012)</td>
<td>Superior quality, hedonic, high price, rare, selective distribution, creativity, prestigious</td>
</tr>
<tr>
<td>Fionda and Moore (2009)</td>
<td>Clear identity, culture, environment and service, heritage, exclusivity, premium price, design signature, product integrity, marketing communications</td>
</tr>
<tr>
<td>Godey et al (2013)</td>
<td>Exclusivity, prestige and elite perception</td>
</tr>
<tr>
<td>Heine and Phan (2011)</td>
<td>Characteristics beyond the ordinary and necessary including high in price, quality, and aesthetics; rarity, extraordinary, and a symbolic meaning</td>
</tr>
<tr>
<td>Hoffmann and Coste-Maniore (2012)</td>
<td>Excellence, authenticity, values, quality</td>
</tr>
<tr>
<td>Kapferer (2009)</td>
<td>Usage value, exchange value, work value</td>
</tr>
<tr>
<td>Liu et al (2014)</td>
<td>Conspicuous, unique, social, hedonic and quality values</td>
</tr>
<tr>
<td>Nueno and Quelch (1998)</td>
<td>Premium quality, heritage of craftsmanship, style/identify, limited production/scarcity</td>
</tr>
<tr>
<td>Okonkwo (2009)</td>
<td>Social class distinction and differentiation</td>
</tr>
<tr>
<td>Phau and Prendergast (2000)</td>
<td>Brand identity, customer awareness, exclusivity, quality</td>
</tr>
<tr>
<td>Tynan et al (2010)</td>
<td>High-quality, expensive, non-essential, rare, exclusive, prestigious, authentic, provides a customer experience, high in symbolic and emotional value</td>
</tr>
</tbody>
</table>
As presented in Table 1, the attributes included in definitions of luxury are diverse. However, it is possible to distill these attributes into two main categories: Physical and psychological attributes (see Figure 1).

In terms of physical attributes, luxury products have elements of excellence, quality, functionality/usage value and design that can be perceived in the actual product (See: Chevalier, 2012; De Barnier et al., 2012; Hoffmann and Coste-Manière, 2012; Kapferer, 2009; Vickers and Renand, 2003). For example, a Van Cleef & Arpels timepiece is produced with the best materials and the best technology and skills, factors that result in a product of excellence. This excellence is reflected in the actual quality of the product, which can normally last for generations. Despite its high price tag, a Van Cleef watch will have a functional value, which in this case, is to tell the time. Finally, a Van Cleef watch will also have an element of design; as it will not only be elegant and sophisticated, but it will also have distinctive elements characteristic of the Van Cleef brand.

With regard to the psychological attributes of luxury, luxury brands have their own identity, they are valued by people, they are exclusive and prestigious, they provide a hedonic or experiential feel to users, they have limited access, and can be considered extraordinary or occasional items, that are not precisely necessary. So going back to the previous example, a Van Cleef watch will give pleasure to its users. This pleasure starts from the time when someone sees the watch at a window of a Van Cleef boutique, to when it is purchased and, every time it is worn. Van Cleef boutiques are located in world-class cities and, therefore, if someone is, for example, in New England, then it will be necessary to travel to New York City (NYC) to be able to visit a store. Also, with a value of

<table>
<thead>
<tr>
<th>Author</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vickers and Renand (2003)</td>
<td>Functionalism, experientialism, symbolic interactionism</td>
</tr>
<tr>
<td>Vigneron and Johnson (2004)</td>
<td>Human involvement, be valued by others, limited supply, Conspicuousness, uniqueness, quality, hedonism, extended self</td>
</tr>
</tbody>
</table>

Table 1: Attributes in Definitions of Luxury
over $20,000 dollars, the purchase of a Van Cleef watch would be something occasional as well as unnecessary. In other words, if someone just wants a watch to know the time, it is not necessary to buy a Van Cleef watch as a Swatch watch valued under $100 dollars would suffice. Similarly, there can also be an aspirational element in a Van Cleef watch, as their high price limits access to that product.

As a note of caution, it is important to highlight that the attributes presented in Figure 1 below should be seen together as a group, and not individually; as from a standalone point of view, elements such as quality, design, functionality, or being valued by people could also be present in non-luxury products. Additionally, it should be noted that while these attributes are generally included in most luxury products, there can be cases where some attributes such as excellence or quality may not be present.

An additional consideration in luxury is that, as shown in Figure 1, most luxury values rely on psychological aspects than on actual physical characteristics. Given the weight of those psychological aspects, which form part of the consumer mindset, the definition of luxury is going to be subjective, as the
meaning of luxury for one person, is likely to be different for someone else. This may explain the lack of agreement as to what this concept actually means. Despite this subjectiveness, upper class and prestigious appear to be two predominant elements in the concept of luxury. Prestigious is included in the definition of luxury provided by Tynan et al. (2010) while Heine and Phan (2011) consider that upper classes have a role in the aesthetics of luxury goods. In other words, luxury goods reflect the taste of the upper classes. To elaborate on what is meant by upper classes, Piff et al. (2012) state that upper social classes are the ones that rank higher than others in society with respect to financial means, occupation, or prestige. Other authors like Hansen and Wänke, (2011), Nueno and Quelch (1998) or Walley and Li (2014) discuss how there is a link between upper class and luxury; while Godey et al. (2013) link it to prestige. Okonkwo (2009, p. 303) considers that luxury’s reason for existence is different from other sectors, as its function is “rooted in the social classes of the past civilizations and societies when royals, nobles and aristocrats used ostentatious consumption to stamp their superiority and maintain their distance from the lesser privileged”. So it can be said that it is about upper class. Moreover, from a consumer perspective, consumers usually associate with luxury brands that are sold in prestigious locations at high prices (Kapferer, 2014). For example, owning expensive items that can only be owned by the wealthiest individuals in a society can confer social status (Walley et al., 2013).

2.1.1.1 Working Definition of Luxury

As discussed in the previous section, luxury is subjective, as it has different meanings to different people. However, despite this subjectiveness, luxury can be associated with an upper class and prestige perception (Liu et al., 2016). It should be noted most of the definitions of luxury span from 1994 to 2014. However, emerging research looking at the definitional elements of luxury argues that traditional values of luxury such as exclusivity or uniqueness are no longer commonplace within the industry, given that luxury brands are becoming more accessible (Cristini et al., 2017).
Kapferer and Laurent (2016, p. 338) state that each consumer has a different perception of luxury, which is “heterogeneous across consumers”. They exemplify that for a watch, the ‘frontier of luxury’ could fluctuate from $100 dollars to over $3,000 dollars. This means that the concept of luxury is asymmetric and does not need to fulfill all the conditions related to luxury (e.g. excellence, creativity or exclusivity) to be considered luxury (Cristini et al., 2017).

Given these developments, to study luxury, it is necessary to have an inclusive working definition of the concept which reflects the key characteristics of the industry, the increasingly broadness of the concept in terms of what can be considered luxury, and the association of luxury with upper class and prestige in terms of consumer perception. As a result, from all the definitions discussed in the previous section, Chevalier’s definition of luxury is favored due to its simplicity and inclusiveness. Chevalier (2012, p. 3) defines luxury as something that “carries a brand that is well known, credible and respected”. This definition can capture the physical and psychological attributes of luxury and the fact that luxury brands need to be well known, credible and respected. Moreover, it can capture the consumers’ perception that a luxury product can have a wide price range. A luxury watch can range, for example, from $100 dollars to over $3,000. This implies that for a certain type of consumer, a Swatch watch would be at the lower frontier of what can be called luxury, while for a wealthier individual that frontier could start at Tag Heuer watch valued $3,000.

A caveat to Chevalier’s definition is that it can also be applied to certain non-luxury brands as long as they are well known, credible and respected. Another limitation is that it does not specify whether it is applicable to luxury products or services. Therefore, a working definition of luxury based on Chevalier’s definition is proposed for this research, which addresses these limitations. As a result, for this thesis, luxury will be defined as:

“A well-known, credible or respected product or service that consumers can associate with upper class or prestige”.
This working definition is in line with Walley and Li’s view (2014, p. 3) who consider that “what represents luxury to one person may not represent luxury to another”. Furthermore, this approach is also consistent with Cristini et al (2017) who consider that the concept of luxury is asymmetric, and for luxury to exist, it is not necessary that all definitional characteristics of luxury are present.

2.1.2 Luxury – A Business Model of Its Own

As discussed in the section above, the concept of luxury has very specific characteristics such as exclusivity, social status conferral, experientiality, or excellence, which are not seen in non-luxury products. Because of these specific characteristics, it is necessary for the luxury industry to create its own business models, marketing approaches, corporate values, financial measures and targets so that they can incorporate these particular aspects of the industry. To better understand how luxury management differs from non-luxury, Kapferer (2009) proposes a number of anti-laws of marketing. This term refers to strategies that in non-luxury could be considered counterintuitive, but within luxury it is something brands need to do in order to succeed.

Table 2 outlines Kapferer’s anti-laws of marketing, which provide an overview of the specific characteristics of the luxury industry and how it differentiates from non-luxury.
<table>
<thead>
<tr>
<th>Anti-Law</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forget about positioning, luxury is not comparative</td>
<td>In traditional marketing, a firm will identify a unique selling position and a competitive advantage. In luxury, brand identity is what matters, as each firm is unique and is not comparable</td>
</tr>
<tr>
<td>Does your product have enough flaws?</td>
<td>Product excellence is a core part of luxury. However, luxury brands are interested in the character or personality of their products, and on the symbolic and hedonistic values they convey. Thus, the utilitarian or functionality of their products becomes secondary in relation to the symbolic and hedonistic characteristics, which become primary</td>
</tr>
<tr>
<td>Don’t pander to your customer’s wishes</td>
<td>Luxury is interested in its customer’s opinions, but at the same time, it has an identity. This identity needs to be maintained through consistency over time, as it is the basis of the brand’s authenticity and attraction</td>
</tr>
<tr>
<td>Keep non-enthusiasts out</td>
<td>In luxury, trying to make a brand more relevant (increase the number of people interested in a brand) would dilute its value. Wider availability reduces the dream potential of a brand among the elite. Therefore, growth is achieved by penetrating new markets and not client segments</td>
</tr>
<tr>
<td>Don’t respond to rising demand</td>
<td>Traditional marketing seeks volume growth, while in luxury, rarity value sells (as long as the customer understands why the product is rare and is willing to wait)</td>
</tr>
<tr>
<td>Dominate the client</td>
<td>The relationship between a luxury brand and a customer can be compared to that of parents and children. A luxury brand should play a role of advisor, educator and sociological guide</td>
</tr>
<tr>
<td>Make it difficult for clients to buy</td>
<td>The less accessible a brand is, the greater the appeal it has. Unlike traditional marketing, luxury creates obstacles for a client (financial, cultural, logistical and time). Within the industry, the sense of rarity contributes to the desire of luxury goods</td>
</tr>
<tr>
<td>Protect clients from non-clients, the big from the small</td>
<td>Luxury brands have to differentiate their products and their customers (i.e. offerings may be tailored for different segments or type of customers). For example, only certain customers will receive invitations to prestigious events organized by a brand</td>
</tr>
<tr>
<td>Anti-Law</td>
<td>Description</td>
</tr>
<tr>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>The role of advertising is not to sell</td>
<td>Unlike traditional marketing, advertisements in the industry are not to provide a sales proposal, but a way to project the dream of a brand. In luxury, advertisements are a tool that is complemented by other activities such as private events, product placements and art exhibitions</td>
</tr>
<tr>
<td>Communicate to those whom you are not targeting</td>
<td>Luxury has two faces; one for oneself and one for others. Therefore, it is important that the brand is known to others outside its target group (e.g. who cannot afford it) in order to keep its value</td>
</tr>
<tr>
<td>The presumed price should always seem higher than the actual price</td>
<td>In luxury price is secondary and should be avoided. The result is that the imagined price for a luxury good will be higher than its actual price. This occurrence contributes to create value</td>
</tr>
<tr>
<td>Luxury sets the price, price does not set luxury</td>
<td>In luxury, a product is designed/created first, and then, a price is decided. The higher the perception of luxury a good creates, the higher the price it should have</td>
</tr>
<tr>
<td>Raise prices as time goes on in order to increase demand</td>
<td>In luxury, when the price increases, demand increases. Reasonable pricing can reduce a product to its tangible characteristics and deny its intangible value</td>
</tr>
<tr>
<td>Keep raising the average price of the product range</td>
<td>In luxury, brands must keep raising the bar to act as an agent of meritocracy. Growth is not linked to making a product more accessible, but to targeting new affluent customers in new markets</td>
</tr>
<tr>
<td>Do not sell</td>
<td>In luxury, not trying hard to sell is an important value in customer relations. The customer is made aware of the qualities of a product, but pressure is not put on them to buy</td>
</tr>
<tr>
<td>Keep stars out of your advertising</td>
<td>In luxury, the use of stars/celebrities to promote a product can reduce the product to an accessory. Luxury must dominate (even a celebrity). Thus, a luxury product is usually portrayed as a witness of an exceptional moment and not as the protagonist</td>
</tr>
<tr>
<td>Anti-Law</td>
<td>Description</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cultivate closeness to the arts for initiates</td>
<td>Luxury brands are promoters of taste; art. Many leaders in industry foster relationships with the arts. Doing this can be seen as a way of showcasing luxury brands as objects that are the work of contemporary art.</td>
</tr>
<tr>
<td>Don’t relocate your factories</td>
<td>In luxury, reducing costs is not vital. When purchasing luxury, a customer is buying a product related to a culture and a country. These roots increase the perception of luxury in a product. If production is relocated, creativity can also be affected, as the process that transforms raw materials into a luxury product occurs in a different country than where the design and development phase take place.</td>
</tr>
</tbody>
</table>

Table 2: Kapferer’s Anti-Laws of Marketing

Kapferer (2009)

Table 2 above, elaborates on the elements commonly found in luxury (see Figure 1 earlier in this chapter), but translates them into an industry context. For example, the anti-law “Does your product have enough flaws?” reinforces the excellence and the hedonic values of luxury, plus its usage value (which is lower in importance than other intangible attributes). It is important to highlight that since luxury is all about excellence, this anti-law does not imply that customers are expecting flaws in luxury products; but instead, they may be willing to compromise in the utilitarian attributes of the products they buy, as long as the hedonic component is higher. “Don’t pander to your customer’s wishes” relates to brand identity; “Keep non-enthusiasts out” refers to how luxury needs to be valued by people; “Make it difficult for clients to buy” can be associated with limited supply and scarcity; “Luxury sets the price, price does not set luxury” captures the non-essential nature of luxury; “Don’t respond to raising demand” refers to scarcity and exclusivity. In sum, all the attributes of luxury included in Figure 1, are reflected in the anti-laws of marketing, something that illustrates how, within luxury, product values are aligned with company values.

In addition, there are other elements arising from the anti-laws of marketing that are not directly linked to the attributes of luxury, but instead are reflective of strategies that luxury brands need to pursue. For example, the anti-law “Communicate to those whom you are not targeting” clearly stresses the
importance that marketing has within luxury to drive awareness. “Don’t relocate your factories” introduces the importance of COO, and how associating a luxury product to a certain country can drive desirability. Also, this anti-law highlights the importance of R&D/Design, as investing in materials, production and design processes are key to be able to produce excellent products. This anti-law also creates a link to CSR, where relocation of factories to countries with poor working conditions constitutes a key ethical issue. Additionally, “Don’t pander to your customer’s wishes” highlights the term consistency, which is further complemented with “Make it difficult to buy” by creating logistical restrictions to purchase products. These two elements can be reinterpreted as controlling the distribution of luxury goods. If a brand is responsible for the distribution of its products in its own outlets, then it would be easier for a brand to sell its products in a consistent way across its store outlets.

Furthermore, an element associated with consistency and controlled distribution is counterfeiting. Counterfeiting is a phenomenon linked to luxury goods. According to Wilcox et al (2009), luxury is an industry with high consumer demand for counterfeit goods, something that can be related to the price, and the social and cultural context of a counterfeit brand. Kapferer and Michaut (2014) state that counterfeiting is a considerable issue within luxury as it violates the intellectual property of a brand, and can decrease the perception of exclusivity that a luxury brand has. For example, one person may be attracted to a Chanel handbag due to the fact that it is an exclusive item and it is worn by A-list celebrities. However, if a person cannot afford to pay $5,000 dollars for an authentic Chanel bag, and wants to participate in the exclusivity and social standing provided by that bag, then that person would have an incentive to buy a counterfeit Chanel bag, which could be available in the market for $100 dollars. So when hundreds of thousands of individuals buy counterfeit Chanel bags, the brand and the design itself can become ubiquitous and, thus, could affect the exclusivity image of the brand. This is similar to what happened in the UK with Burberry in the 1990’s when the brand was favored by lower social classes, something that created ubiquity and decreased their sales figures (Power and Hauge, 2008).
Based on the above discussion, it is possible to conclude that to create luxury, three main steps are needed, as shown in Figure 2. The figure shows how the pursuit of luxury strategies by brands will result in a product with certain physical and psychological attributes that will then be considered luxury.

![Figure 2: The Luxury Creation Process](image)

In other words, the pursuit of strategies such as COO, marketing, or controlled distribution; will create products with attributes such as excellence, quality, design, hedonic value, prestigious and upper class perception, and brand awareness. All these elements, together, will create luxury.

To recap, based on the literature reviewed above, unlike non-luxury, the luxury industry incorporates physical attributes such as product excellence and R&D/Design. Those attributes, together with elements such as COO, marketing, and controlled distribution, help drive the psychological elements of luxury such as exclusiveness, prestige, scarcity, or upper class perception.

### 2.1.3 Complexity of the Luxury Industry

As discussed earlier in the section 2.1.1, which addresses the attributes commonly found in luxury, there are significant differences among the elements that constitute luxury. In addition to these definitional differences, there are also differences at the industry-level. The understanding of these differences is important, as it helps understand that the luxury industry is not homogeneous, and that the luxury strategies undertaken by luxury brands may need to be adapted, depending on those differences. These differences make luxury a complex industry, despite its relatively small size as compared to non-luxury. In terms of complexity, it is important to highlight that this characteristic is not exclusive to luxury, as complexity also occurs in non-luxury. However, it is
striking to find in such a niche industry so many differences, including differences by category and type of product; by degree of luxury; and how it is perceived by consumers and luxury managers. These differences are discussed in the sections below.

2.1.3.1 Differences by Category and Type of Product

Luxury products can be categorized according to how they are used or the service category they fall into, in the case of intangible products. According to Kapferer (2009), within the luxury industry, companies can be categorized into four main groups:

a) Luxury products
   - Luxury products with a profitable core trade
   - Luxury products with a too-restricted core trade

b) Perfume

c) Luxury services

d) Luxury high-tech

Examples of luxury products with a profitable core trade could be Dior sunglasses, which could be considered ‘gateway’ products, as they introduce new consumers to the brand (Ahuvia et al., 2013), because they are relatively easy to find and can be afforded by a large number of customers. In terms of luxury products with a too-restricted core trade we could have Chopard’s haute jewelry line where a pair of diamond earrings could easily cost $50,000 dollars. With regard to perfume, there are dozens of brands available, ranging from Chanel or Hermès to Hugo Boss or Diesel. It is important to note that in the case of brands such as Diesel, which is not necessarily considered luxury, the price of a bottle of perfume could be similar to the one of a luxury brand such as Dior; so that is why this category is a segment in its own. With regard to luxury services, we can have haute cuisine such as Alain Ducasse’s Louis XV in Monte-Carlo; or hotels like the Armani Hotel in Dubai or the Conrad in Maldives. Finally, on luxury high-tech, we have brands like Vertu that produce cellphones.
Nueno and Quelch (1998) categorize luxury using a similar approach to Kapferer (2009). They classify luxury brands into three categories, based on brand awareness, and their accessibility:

a) Limited awareness brands with narrow product lines and an exclusive niche (Van Cleef & Arpels and Chopard)
b) Well-known brands inaccessible to a broad market because of their high price (Rolls-Royce or Hermès clothing)
c) Well-known brands with high-quality but with more accessible items that are available to a larger spectrum of customers (Dior sunglasses or Chanel perfume)

Two considerations in Nueno and Quelch’s classification are that two categories, affordable indulgencies and non-luxury premium brands are excluded from luxury. Therefore, under this categorization a brand like Häagen-Dazs or a wallet from Coach would not be considered luxury.

Moreover, authors such as Bruce et al (2004) and Chevalier and Mazzalovo (2012) do not classify luxury based on price points or awareness; but categorize it based on the functionality it provides. The categories proposed by these authors include: Fashion, (couture, ready-to-wear and accessories); perfumes and cosmetics; wines and spirits; watches and jewelry (Bruce et al., 2004); luxury automobiles, hotels, tourism, private banking, home furnishing and airlines (Chevalier and Mazzalovo, 2012).

Luxury can also be classified based on product discriminators such as price, quality, or its manufacturing process. For example, Vigneron and Johnson (2004, p. 488) state that “not all luxury brands are equally luxurious”. Additionally, Vigneron and Johnson state that there is a difference between upper and lower luxury brands, and among product lines within the same brand. Based on the rationale that all brands are not equally luxurious, a Cartier watch would not be considered as luxurious as a Patek Philippe watch. Patek Philippe watches are significantly more expensive and can be used for generations. Patek Philippe offers lifetime specialized customer care and restoration services for all Patek Philippe watches (Urde and Greyser, 2015) In contrast, in haute joaillerie (high jewelry), Cartier may rank higher than Tiffany & Co, as it is a brand with a
strong association with royalty, has worked on high-level commissions for several royal houses; and has held royal warrants because of its long tradition with haute joaillerie.

A further classification of luxury brands is based on the strategies pursued by brands. According to Chevalier (2012), luxury can be divided into four major categories: Authentic, intermediary, eccentric and sensible luxury. Table 3 outlines the main elements each of these categories.

<table>
<thead>
<tr>
<th>Category</th>
<th>Main Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authentic luxury</td>
<td>Craftsmanship, Timelessness, Aesthetic components that bring emotional value to its owner, High price and identity, provides more than the economic value it represents</td>
</tr>
<tr>
<td>Intermediary luxury</td>
<td>Creativity, communication, and coherence in management of brand identity, Not the result of individual craftsmanship, Positioned in upper middle price range, Produced in relatively large quantities</td>
</tr>
<tr>
<td>Eccentric luxury</td>
<td>Products that are individual creations and truly distinct from the standard, Brand decides without any constraints what it wants to do, Selects its customers and promote them as individual promotion agents</td>
</tr>
<tr>
<td>Sensible luxury</td>
<td>Creative products changing rapidly in an efficient way, Customers get psychological satisfaction in buying and using these products, Reasonable price, Brand identity is carefully managed and promoted</td>
</tr>
</tbody>
</table>

Table 3: Chevalier’s Luxury Categories
Source: Chevalier (2012)

In brief, as discussed above, luxury brands can be categorized based on the strategies they pursue; on their functionality; on the use or service they provide; and on their brand awareness and price. Table 4 summarizes the main elements proposed under these categories.
<table>
<thead>
<tr>
<th>Author</th>
<th>Category</th>
<th>Main Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chevalier (2012)</td>
<td>Strategies undertaken by the brand</td>
<td>Authentic luxury, intermediary, eccentric, and sensible luxury</td>
</tr>
<tr>
<td>Chevalier and Mazzalovo, (2012) and Bruce et al (2004)</td>
<td>Functionality</td>
<td>Fashion; perfumes and cosmetics; wine and spirits; watches and jewelry; automobiles; hotels; tourism; private banking, home furnishing and airlines</td>
</tr>
<tr>
<td>Kapferer (2009)</td>
<td>Based on service or use provided by brand</td>
<td>Products, Services, Perfume and High-Tech</td>
</tr>
<tr>
<td>Nueno and Quelch (1998)</td>
<td>Based on awareness and price</td>
<td>Limited and well-known brands (more and less accessible)</td>
</tr>
</tbody>
</table>

Table 4: Different Classifications of Luxury Brands

To summarize, as discussed throughout this section, there are different approaches to classifying luxury brands. Some of these approaches differ considerably but some overlap, making it difficult to classify luxury brands into a specific group. For example, a brand like Dior has a wide assortment of offerings, ranging from make-up, perfume, to haute-couture or timepieces. Thus, based on the previously listed elements, it would be fairly impossible to classify Dior within one of those single categories. Based on Chevalier and Mazzalovo’s (2012) approach, Dior could be classified within fashion; perfumes and cosmetics; watches and jewelry. Then, based on Kapferer’s (2009) approach, Dior would be classified within luxury products and perfume. Moreover, following Chevalier, Dior products could be positioned between authentic and intermediary luxury. Finally, if Nueno and Quelch are followed, Dior would fall within two different categories; accessible well-known brands; and inaccessible well-known brands. Due to its size, and to the fact that some categories within a brand are more profitable than others, Dior and similar luxury brands are aware that different strategies are necessary to manage each category. For example, Dior ready-to-wear line can feed their perfume line. A
person may not be able to afford a Dior coat seen in the runway, but instead, can easily afford a small bottle of J'Adore. In the end, as long as brand offerings maintain a luxury edge and do not become ubiquitous, having a diverse offering can contribute to the financial health of luxury brands.

In sum, each type of luxury category has a different implication in terms of business models and brand management approaches (Kapferer, 2009). However, it is not clear from the literature if luxury categories actually matter to the industry or consumers, or if the industry uses different approaches to categorize luxury brands.

2.1.3.2 Company and Consumer Perception of Luxury Brands

In addition to the categories discussed in the previous section, luxury can also be categorized based on how it is perceived by others. For the most part, it appears that perceptions of luxury can differ between brand management and consumers.

Chevalier illustrates the difference between consumer and company perception within luxury by providing examples of two firms, Hugo Boss and Zara. The management of Hugo Boss perceive their brand as a “very sophisticated way of manufacturing and selling slightly upscale fashion products” (Chevalier, 2012, p. 4). Instead, Zara, is considered by its managers luxury due to its prime retail locations and the fact that it delivers new designs every two weeks (Ibid, 2012). Zara’s management perceptions can contrast with consumer perceptions of the brand. Zara’s products are likely to be considered non-luxury by most consumers, while Hugo Boss can be perceived as luxury (Truong et al., 2009). This may be because Zara’s products have non-exclusive features and have lower quality, while Hugo Boss has higher quality and a more affluent customer base.

These differences in the perception of luxury are also acknowledged by Vigneron and Johnson (2004) who state that luxury can be perceived differently, depending on the people involved and the context when it is assessed. Likewise, in their research, Amatulli and Guido (2012) identify differences in the
perception of luxury and state that these differences are relative; as they can take various forms depending on the people involved (mood or experience); or on social contexts. In other words, what luxury is for some may not be luxury for others.

A potential explanation as to why luxury brands are perceived differently may be given by the rationale of consumers to purchase luxury brands. According to Amatulli and Guido (2012), external luxury is associated with the interest to show-off or demonstrate status to others (elements of external luxury include ostentation, materialism and superfluosness). With regard to internal luxury, Amatulli and Guido argue that this type of luxury is related to the pleasure or hedonic feeling provided by buying or consuming a luxury good (elements of internal luxury include individual lifestyle, emotions/hedonism, and culture).

Finally, an additional difference to consider within luxury perceptions, is that they are likely to vary from country to country (Aiello et al., 2009). According to De Pierro Bruno and Barki (2014), in France, luxury is more intimate and valued due to its heritage. In Italy, luxury is inspired by art, beauty and fashion. In Japan, luxury is more about social status recognition. The implication of both the internal and external perception of luxury and these geographical differences, is that, luxury brands need to take these factors into account to be able to cater to different types of customers with their offerings. However, based on the existing literature, it is not clear whether, in the view of luxury managers, these differences are considered to be important within the industry and/or if they are addressed strategically by brands.

In conclusion, there are various elements arising from this literature review on luxury. While there are different views on which elements define luxury, luxury is made up of both physical and psychological attributes; but consumers and the industry rely more on psychological attributes than on physical ones. Another outcome is that because of characteristics such as exclusivity, conferral of social status, experiential nature or excellence, luxury needs its own business models to be able to incorporate and leverage those factors. A further consideration is that luxury is not homogenous, and there are brand differences
based on types of products or services offered by a brand; the level of accessibility a brand has, or the price, quality, or availability of luxury products. Finally, there are also differences between consumers on how they perceive a brand. Still, due to the lack of agreement in each of the characteristics outlined above, it is still not clear whether these different attributes of luxury, or categorizations, impact luxury brands. Moreover, it is also not known if within the physical and psychological attributes of luxury there are attributes that are more relevant for the industry than others. Lastly, it is also not known whether potential consumer perceptions of the categorization of luxury brands may have an effect within the industry.

Thus, based on the review of the literature on luxury, three main uncertainties emerge: There is no agreement on the definition of luxury; there are different categories of luxury; and luxury can vary by country/culture. These uncertainties are presented in Table 5.
Table 5: Key Uncertainties and Gaps in Literature Regarding Luxury

With regard to the concept of luxury and despite the lack of agreement as to its meaning, this thesis proposes a working definition of luxury as: “a well-known, credible or respected product or service that consumers can associate with upper class or prestige”. See section 2.1.1.1 earlier in this chapter for further discussion on this adopted definition.

In addition to the prior, there is an aspect that appears to be relevant within luxury, which is not addressed in the literature discussing the main attributes of luxury, luxury business strategy or industry categorization. This aspect is CSR.
There is emerging literature on luxury addressing concerns about the environmental and social performance of the luxury industry (Janssen et al., 2013). This is an interesting consideration, as in non-luxury, brands have been pursuing CSR strategies and activities as a way to generate benefits for their brands (Liu et al., 2014). The pursuit of CSR in non-luxury can be associated with the fact that CSR issues have been scrutinized by consumers and stakeholders (D’Souza, 2015). It is important to note that this scrutiny has also expanded to luxury. Luxury brands can be seen almost everywhere; in stores, advertisements, and in people using these products. Thus, because of its high visibility, and the potential concerns about the impact of its activities, the luxury industry has become a target of NGOs and stakeholders interested in the environment and a better world (Kapferer and Michaut, 2015).

Based on this perceived level of CSR scrutiny seen in luxury, and that CSR could result in brand benefits; CSR is a topic that deserves further attention from a research point of view. In other words, there is a need to understand the potential implications of CSR in luxury. Therefore, the following section of this thesis will address this topic.

### 2.2 CSR and Luxury

As discussed earlier in this chapter; it is important to explore the topic of CSR in luxury, as it can have implications for luxury brands. As stated above, there is increasing attention to CSR within luxury, and the notion that CSR implementation could result in benefits to luxury brands. This section provides an understanding of what CSR is. To explore this concept, an introduction to ethical concepts in business is provided, followed by how CSR is seen in luxury, and the status of knowledge on how CSR can affect luxury brands.

#### 2.2.1 Introduction to Business Ethical Concepts

First, it is important to mention that there are various concepts associated with business ethics. CSR is one of these concepts, but there are others such as stakeholder theory and corporate citizenship; and all of them share attributes
among themselves. Therefore, to be able to understand business ethics, and CSR, it is also necessary to be aware of these other ethical concepts. The sections below discuss these three concepts.

2.2.1.1 Stakeholder Theory

Stakeholder theory is based on the social contract concept, which relates to the reciprocal set of implicit responsibilities borne by business and society (Melo and Galan, 2011).

According to Clarkson (1995, p. 513) organizations “manage their relationships with their stakeholders and not with society”. Hence, it is possible to assess and analyze the performance of an organization by looking at how it manages its organizational responsibilities and its stakeholders. Moreover, Clarkson highlights the importance of preserving the participation of all stakeholders in an organization (e.g. employees, customers or shareholders) as a balance among all these groups is essential for a firm’s survival.

Maignan and Ferrell (2000) elaborate further on the organization’s responsibilities to stakeholders. They make a distinction between primary and secondary stakeholders. Primary stakeholders include shareholders/investors, employees, customers, suppliers and public stakeholders (all levels of government). Secondary stakeholders consist of non-core groups (e.g. media and non-governmental organizations) that are not involved in everyday transactions with the organization.

Carrigan et al (2013) take a more practical approach to stakeholder theory and suggest that exploring positive and negative value chains can help analyze business impacts and at the same time uncover business practices in need of improvement. More specifically, they argue that business activities result in both positive and negative impacts. Examples of positive value chains include policies that result in increased employee motivation, or better relations with the community. Examples of negative value chains include the harm associated
with business operations, such as environmental damage, or human rights deficiencies.

To recap, the authors cited above consider that firms have social responsibilities but they do not position this concept as a separate construct. However, other authors consider this as part of CSR. Taghian et al (2015) state that to make sure management actions are effective; companies need to understand stakeholders’ interests and respond accordingly. Stakeholders can be internal (unions and employees) and external (media, the government). By working closely with stakeholders before designing and implementing strategies, managers may be able to pursue more effective CSR efforts. The authors make a case that by working with stakeholders, companies will be perceived more positively from a reputational point of view, which in turn, will have a positive impact on firm’s performance. For example, Godart and Seong (2014) state that the luxury industry together with stakeholders such as the government and consumers could develop best practice codes aimed at achieving CSR enforcement. A similar view is shared by Russo and Perrini (2010) who see CSR as a more comprehensive version of stakeholder theory. In their view, stakeholder theory is more about good firm practices and management; while CSR is more about establishing strategic efforts to implement socially responsible and ethical policies such as reporting, which will make firms accountable to stakeholders.

In summary, the literature suggests that stakeholder theory is part of CSR, as the responsibilities of a firm are likely to fall within the social, environmental or economic domains of CSR (see section on CSR below). Therefore, the study of CSR rather than stakeholder theory is more appropriate for this thesis, as the former is more comprehensive.

2.2.1.2 Corporate Citizenship

In addition to stakeholder theory, corporate citizenship has also received prominent attention in the literature to define the social role of business.
Matten et al (2003) state that corporate citizenship is normally used to refer to voluntary actions such as community involvement and charitable giving pursued by firms. In addition, corporate citizenship is also seen as a more comprehensive concept which centers around the role of a firm in managing rights from stakeholders, employees, customers, shareholders and external entities not directly linked with an organization (Matten and Crane, 2005).

According to Valor (2005), corporate citizenship is a term proposed by practitioners to link social accountability with business operations, and draws on stakeholder literature. Interestingly, Valor states that corporate citizenship has even been used to refer to social and environmental practices undertaken by a firm. Thus, as it will be discussed later in this chapter, there is an overlap with CSR. In fact, in an empirical study, Evans and Davis (2011) found that corporate citizenship perceptions could influence CSR perceptions. These results suggest that CSR is a more overarching concept, and that corporate citizenship is embedded in CSR through its social dimension (see section on CSR below).

Moreover, the literature on corporate citizenship raises questions about the adequacy of corporate citizenship for business. For example, Bhanji and Oxley (2013) consider that company investments in public goods (goods that create public benefits) may be viewed with suspicion and, therefore, it is better for companies to work with other stakeholders such as NGOs and the government in these type of undertakings. A similar view is shared by Valor who considers that “CSR presents more advantages to advancing the social control of companies and should be considered a superior theory vis-à-vis achieving social control of companies” (Valor, 2005, p. 205). This suggests that the study of CSR may be able to provide a more holistic view of ethical practices.

It is important to highlight that CSR is not free from criticism. Bair and Palpacuer (2015, p. S9) refer to how CSR is an ongoing process and is in constant improvement as:

\[
\textit{Corporations and their critics iteratively develop, evaluate, criticize and revise CSR policies and practices... this governance is never a fait}
\]
accompli because a variety of non-firm actors are continually developing new arguments and tactics to contest and/or transform it.

Still, despite these criticisms, for this research, it seems more appropriate to focus on CSR than in stakeholder theory or corporate citizenship, as CSR encompasses most ethical practices. The following sections address why CSR is relevant within luxury.

2.2.1.3 CSR

Despite the fact that CSR is viewed by many authors as a comprehensive construct to refer to ethical practices, there is no single definition of CSR, and for instance, there are opposing views in the literature as to whether CSR has similarities with other ethical concepts. According to Idowu (2009, p. 14), CSR “overlaps with other concepts such as corporate citizenship, sustainable business, environmental responsibility, the triple bottom line, social and environmental accountability, business ethics, and corporate accountability”. Conversely, other authors such as Silberhorn and Warren (2007) consider that CSR has evolved to become a collection of most of these terms. Moreover, CSR has strategic and process-related aspects which fall under corporate social responsiveness. According to Matten and Crane (2005), CSR’s outcomes fall within corporate social performance, while stakeholder theory addresses organizational responsibilities to society. Van Marrewijk (2003) argues that CSR refers to voluntary company activities that include social and environmental concerns in business operations and in how they interact with stakeholders.

These divergences in the literature on the definitional nature of CSR seem to be a consequence of how the concept of CSR has evolved over time. Over more than six decades, various models have been developed with the objective of integrating the various notions of CSR (e.g. social performance, responsiveness or social issues) (Sotorrio and Sánchez, 2008).

There are references to CSR in the literature before the 1950s. However, it is in the 1950’s with the publication of Bowen’s book “Social Responsibilities of the
“Businessman” that defines the beginning of the ‘modern era’ of CSR. From 1970-1990 an important number of developments occurred in the field of CSR.

The 1970’s saw further development in the number of contributions to define CSR. In that decade, aspects such as corporate social responsiveness and corporate social performance were incorporated into the concept. Then, during the 1980’s, a number of new CSR definitions emerged as an attempt to measure CSR and find alternative thematic frameworks. Later, during the 1990’s, CSR transitioned to new themes including stakeholder theory, business ethics, corporate social performance and corporate citizenship (Carroll, 1999).

To exemplify how the concept of CSR has been evolving over time, Joyner and Payne (2002) identify definitions of CSR formulated by authors that, in their view, are considered foundational authors of CSR. Table 6 below presents a summary of those foundational definitions of CSR which span from 1938 to 1984 and range from a simple analysis of environmental, social or economic aspects of a firm; to the obligations of businesses to satisfy stakeholders.

<table>
<thead>
<tr>
<th>Author</th>
<th>Year</th>
<th>Definition of CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barnard</td>
<td>1938</td>
<td>Analyze economic, legal, moral, social and physical aspects of environment</td>
</tr>
<tr>
<td>Simon</td>
<td>1945</td>
<td>Organizations must be responsible to community values</td>
</tr>
<tr>
<td>Drucker</td>
<td>1954</td>
<td>Management must consider impact of every business policy upon society</td>
</tr>
<tr>
<td>Selznick</td>
<td>1957</td>
<td>Enduring enterprise should contribute to maintain community stability</td>
</tr>
<tr>
<td>Andrews</td>
<td>1971</td>
<td>Firm should have explicit strategy to support community institutions</td>
</tr>
<tr>
<td>Freeman</td>
<td>1984</td>
<td>Business must satisfy multiple stakeholders</td>
</tr>
</tbody>
</table>

Table 6: Historical Perspective of CSR

Source: Table Created with Data from Joyner and Payne (2002)

It is noteworthy to add that in addition to the perspectives of CSR presented in Table 6 above, the model proposed by Carroll, is one of the most influential and widely cited models on CSR in the literature. Figure 3 illustrates how the CSR model evolved over time.
As shown in Figure 3, Carroll’s initial model proposes that organizations have four main responsibilities: Discretionary responsibilities, ethical responsibilities, legal responsibilities and economic responsibilities. These responsibilities are presented in order of importance (from least important to most important). The discretionary responsibilities of the firm have the lowest magnitude, while the economic obligations have the highest magnitude. The model also considers six social issues (not shown in Figure 3): Consumerism, Environment, Discrimination, Product Safety, Occupational Safety and Shareholders; and four elements related to the philosophy of social responsiveness: Reaction, Defense, Accommodation and Proaction (Carroll, 1979).

In 1983, four years after proposing his original model, Carroll made some modifications, replacing the discretionary responsibilities in the model and substituting them with voluntary or philanthropic responsibilities (Carroll, 1999). Carroll’s model was modified further in 1998. The updated model assumes that corporate citizenship has four faces and that good corporate citizens are expected to be: Profitable, ethical, compliant with the law, and give back
through philanthropic activities. With regard to ethics, Carroll makes a distinction between knowing and doing ethics. An organization does not only need to develop ethical concepts and practices but needs to apply those concepts in its operations and dealings. In terms of compliance with the law, compliance constitutes “the minimum level of acceptable conduct. Thus, the upright corporate citizen must go beyond compliance with the law” (Carroll, 1998, p. 5). This suggests how the ethical component of CSR has been a key part of CSR since it was proposed. Moreover, the economic component has evolved into profitability. The economic goal of a firm is to be profitable; but as part of achieving this profitability, companies need to be ethical, they need to comply with laws and regulations, address environmental, social or economic issues, and contribute to the communities they operate in.

Other authors define CSR as a concept to address social problems. Orlitzky (2015) refers to how CSR is often associated with actions undertaken by companies to achieve a social good. Under this view of CSR, Orlitzky considers that companies are the actual agents of change instead of the government or NGOs. CSR can be seen as an activity were global corporations fill an institutional gap left by the lack of participation of the state in issues such as the environment or social welfare (Brennan, 2014).

It is important to mention that while there are differences in how CSR is defined, there are key elements shared across the different definitions of CSR. Dahlsrud (2008) conducted an analysis of 37 definitions of CSR. The analysis identifies five dimensions associated with this concept: Environmental (natural environment), Social (society-business link), Economic (CSR in respect of business operation and financial aspects), Stakeholder (stakeholder groups), and Voluntariness (actions not prescribed by law). Dahlsrud’s research is useful to understand how CSR is perceived differently by different organizations. While there are distinct perceptions of CSR and the various components of this concept in CSR definitions, Dahlsrud suggests that the five dimensions of CSR are normally used to define the concept (although not systematically). Thus, all five dimensions are relevant to understand and define CSR. This view is shared by
Torres et al (2012) who consider that all the components of CSR are important for global brands.

In addition to academic definitions, there are a few organizational definitions worth outlining, as they complement the ones discussed in the academic literature:

- Companies taking responsibility for their impact on society (European Commission, 2016)
- Corporate responsibility involves the search for an effective “fit” between businesses and the societies in which they operate. The notion of “fit” recognizes the mutual dependence of business and society -- a business sector cannot prosper if the society in which it operates is failing and a failing business sector inevitably detracts from general well-being. “Corporate responsibility” refers to the actions taken by businesses to nurture and enhance this symbiotic relationship (Organisation for Economic Co-operation and Development, 2016a)
- Take account of how business operations may impact on people, the environment and society (Government of the Netherlands, 2013)
- The voluntary activities undertaken by a company to operate in an economic, social and environmentally sustainable manner (Government of Canada, 2016)
- The work companies do that has a positive impact on society, the environment or the economy (Swedish Institute, 2016)
- The continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large (World Business Council for Sustainable Development, 2016)

These definitions reinforce the voluntary nature of CSR, and how it is important for businesses to have a positive impact on society and the environment, but by keeping in mind that there should be a fit between these practices and a company. This reflects that CSR can shape the bottom line performance of a company (Lee, 2008). This view of CSR, which is aligned with the profit driven interpretation of CSR proposed by van Marrewijk (2003), considers the implementation of social, ethical and environmental considerations into a company, as long as this has a possible impact on the financial viability of a company, either, in monetary terms, or in intangible benefits (e.g. reduced risk or improved reputation).
In addition to how CSR definitions differ, there are also differences in terms of how CSR is implemented. Halme and Laurilla (2009) state that there are three types of CSR approaches; Philanthropic, Integrative, and Innovative:

1. Philanthropic CSR mainly refers to the conduct of activities outside a firm’s core area of business such as, for example, Prada making a donation to Save the Children.
2. Integrative CSR occurs within the core of a company and includes the adoption of environmental or social standards. For example, if Armani decides that it will only use recycled paper in their offices and will use electricity from renewable sources.
3. Innovative CSR refers to the creation of new business lines or brand extensions aimed at achieving social and environmental benefits. For example, if Dolce & Gabbana launches a low-cost line made in Africa, which will only be sold locally in deprived communities, and the profits will be reinvested in the communities where the clothes are made.

Furthermore, Argandoña and Hoivik (2009) argue that CSR emanates from moral and social responsibilities, and that there are various positions a firm can take to implement CSR (see Table 7).
Responsibility

<table>
<thead>
<tr>
<th>Type</th>
<th>Positions</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moral Responsibility</td>
<td>Responsibility as attribution</td>
<td>An action and its effects are attributed to an organization (either by the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>organization itself or by a third party)</td>
</tr>
<tr>
<td></td>
<td>Responsibility as a duty</td>
<td>Act in an ethically desirable way. This type of responsibility can also be</td>
</tr>
<tr>
<td></td>
<td></td>
<td>associated with an organization’s legal role</td>
</tr>
<tr>
<td></td>
<td>Responsibility as responsiveness</td>
<td>The organization’s sensitivity or willingness to respond to other’s demands</td>
</tr>
<tr>
<td></td>
<td>Responsibility as accountability</td>
<td>The organization is capable of accounting for its own actions, accepts its</td>
</tr>
<tr>
<td></td>
<td>or answerability</td>
<td>consequences and justifies its actions</td>
</tr>
<tr>
<td>Social Responsibility</td>
<td>An organization has responsibilities towards internal (e.g. shareholders,</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>management, employees) and external (customers, consumers, suppliers, local</td>
</tr>
<tr>
<td></td>
<td></td>
<td>community, interest groups and the whole society)</td>
</tr>
</tbody>
</table>

Table 7: Responsibilities of the Firm

*Source: Argandoña and Hoivik (2009)*

Based on these ethical/moral responsibilities, it is possible to define CSR internally and externally. Internally, CSR is defined as a: “Set of moral duties towards other social actors and towards society that the firm assumes”. From an external perspective, CSR can be defined as: “The set of moral duties that the other agents and society attribute to the firm” (Argandoña and Hoivik, 2009, p. 225).

This is a core distinction, as there is a clear difference between what a firm chooses to do, and what a firm is expected to do. In other words, CSR is not just about what a firm decides to do in terms of social responsibility, but the level of CSR implementation can be contingent with what other social actors expect from the firm. Another key consideration arising from this categorization is that
companies can take a leader role in CSR (responsibility as a duty) but can also have a more passive role towards it (responsibility as responsiveness).

Visser (2012, pp. 14-15) proposes a ‘new’ approach called CSR 2.0, which is based on four principles: value creation, good governance, societal contribution and environmental integrity. These four principles are presented below:

- **Value creation.** To contribute to the economic context is which a company operates by looking beyond the “enrichment of shareholders and executives”. Actions under a value creation process include investments in infrastructure, job creation and human capital. The strategic goal of value creation is to achieve economic development

- **Good governance.** This principle seeks to achieve institutional effectiveness by increasing transparency. Under this view, if there is no transparency, the other goals that CSR is trying to achieve will be undermined. Examples of transparency include CSR performance reporting in social media, or public databases

- **Societal contribution.** This principle seeks to orientate a company towards stakeholders. For example, engaging in philanthropy, or having fair labor practices, supporting community participation and being involved in supply chain integrity

- **Environmental integrity.** The goal is to maintain and improve ecosystems by supporting the ecosystem protection, the use of renewable resources and zero waste

In his paper, Visser questions the ability of current approaches to CSR to tackle the world’s social and environmental problems. His own proposals under CSR 2.0, however, include elements such as societal or environmental which are already present in other authors’ approaches to CSR (See Carroll et al., 2012; Crane, 2014). Moreover, it should be noted that while ambitious and a step in the right direction, these principles and their corresponding goals are unlikely to solve the world’s problems if they are not tackled together by companies and stakeholders. CSR is a shared responsibility (Hartman et al., 1999) and to bring real change, it is necessary that the industry, the government, the civil society, and consumers work together to achieve common goals.
Criticisms of CSR

While much of the literature in the area of CSR discusses the contribution companies can make to society, CSR is not without criticism. This subsection provides a discussion of the following criticisms of CSR: unsuitability to address complex social and environmental issues; the imposition of stakeholder interests on others; the pursuit of CSR policies and practices and limited business accountability; and business rhetoric on giving back.

With regard to the unsuitability of CSR to address key issues, Orlitzky (2015) states that CSR is considered by some researchers to be a meaningless concept, as it is simplistic and it does not reflect complex social and environmental phenomena. Along the same lines, Milne and Gray (2013, p. 5) argue that companies often ignore “major social issues that arise from corporate activity such as lobbying, advertising, increased consumption, distributions of wealth”. Thus, while a company may make reductions in carbon dioxide emissions on corporate transport or sources its raw materials using socially responsible practices, questioned is if this is enough to direct address major problems such as environmental degradation or earth overcrowding issues. Barkemeyer (2009) supports this perspective by stating that even companies with stronger CSR practices tend to focus their CSR efforts in programs benefiting their home markets. For instance, most CSR initiatives undertaken by companies take place in advanced economic and larger emerging markets. This means that countries in deprived regions such as sub-Saharan Africa are normally neglected in CSR efforts. Due to this limitation, it can be argued that CSR is not making an impact towards improvements globally (Barkemeyer, 2009).

Moreover, from a pure free market approach, CSR could be perceived as welfare redistribution, because funds from one group such as investors, flow unwillingly to others (e.g. stakeholders) in order to fund initiatives that will benefit that group (Orlitzky, 2015). Banerjee (2014) highlights that an important constraint of CSR is that social initiatives undertaken by firms need to be assessed based on the economic benefits they provide to firms. Because of this, CSR can be perceived as a concept that does not seek to address the negative effects of
business on society. Instead, CSR could be considered by its critics as a public relations effort to convince others that businesses can be profitable and do good (Brennan, 2014).

A further limitation of CSR is that there can be disparities between the values of a company and the values of society (Thorne et al., 2014) in terms of how CSR is pursued. For instance, NGOs may be interested that a major jewelry brand uses Fairtrade gold for all their gold products. However, that company may want to cut costs on its supply chain and may decide to source cheaper gold without a Fairtrade certification.

Other critics of CSR challenge the business advantages of CSR, or its ‘business case’. Lee (2008) argues that business-driven CSR is biased with respect to how companies select their CSR practices, as not all CSR actions have the same potential profitability or market impact. According to Lee, companies can neglect urgent social issues such as fighting poverty and instead, they focus on less costly social causes. Thus, the fact that CSR practices are discretionary can dilute the social purpose of CSR (Ibid, 2008). Barnett (2016) discusses views in the literature arguing that companies do not normally profit from CSR practices responding to the needs of society. Instead, CSR practices addressing the demands of primary stakeholders can be more profitable for a firm.

Another criticism of CSR is the limited accountability of businesses in terms of social responsibility. Banerjee (2014) states that increased NGO and public pressure on corporations has not been translated into legal requirements to force companies to change irresponsible practices. Thus, the absence of CSR monitoring and enforcement results in a system with deficient accountability (Ibid, 2014). Hess (2014) complements this view by stating that the lack of mandatory CSR standards can result in firms arbitrarily selecting what to pursue and report, so that they can prioritize standards and activities that will result in positive impressions of the company.

Lastly, with regard to how companies engage with CSR, it is commonplace among businesses to state that companies need to give back. According to
Littler (2008), the business rhetoric that companies must give back is based on the assumption that they take something away. Consequently, for companies using this rhetoric, CSR actions are pursued with the intention to offset some of the negative practices they conduct as part of their regular operations.

Based on the views outlined in this section, it is evident that CSR is not free from criticism, and its adoption by companies will, arguably, not eliminate the key environmental and social problems we face today. However, CSR is a step in the right direction to tackle some of these problems. From a CSR perspective, there are critical interdependencies among the employees, customers, investors, communities and other stakeholders of a firm (Hess, 2014). Thus, based on this interdependence, firms need to work together with all these actors in order to make their CSR programs more meaningful and make a more positive social, environmental and economic impact.

**Working Definition of CSR**

To summarize, as discussed in the previous sections, there is considerable variability in the multiple components of CSR, together with a lack of integration among them (Argandoña and Hoivik, 2009). Still, from all the ethical concepts outlined earlier in this chapter, CSR is the most common term used in the academic literature (Galbreath, 2010) to refer to ethical actions undertaken by firms.

Given the diversity in CSR definitions and the debate surrounding them, some authors have decided to depart from an attempt to define CSR and instead, have decided to focus on analyzing and discussing its characteristics as a concept. For instance, in a recent book looking at CSR from a global perspective, Crane (2013, pp. 8-9) stated the following:

> In this book we will not seek to simply follow one of these [CSR] definitions, nor will we provide a new improved one that will simply add to the complex jungle of CSR definitions. In the contested world of CSR, it is virtually impossible to provide a definitive answer to the question of what CSR ‘really’ is.
Following Crane (2013), it is not within the scope of this thesis to enter in the debate of which CSR definition(s) is/are more appropriate for luxury. As in any industry, it is fundamental that CSR policies and practices pursued by companies keep a balance between their business mission and their environmental, economic and social efforts. Taking into account the definitions of CSR discussed earlier in this chapter, the following definitional elements of CSR were considered by the researcher to be aligned with the company level perspective of this research. The last names in the parentheses refer to the definitions of CSR where these elements are present:

- Refers to ethical practices undertaken by firms (Argandoña and Hoivik, 2009; Galbreath, 2010)
- Positive economic, social and environmental impact (Carroll, 1999; Dahlsrud, 2008)

Based on these elements the following working definition of CSR will be used to refer to ethical actions taken by luxury firms in this thesis:

*Voluntary or mandatory policies and practices undertaken by companies, that seek to make a positive social, environmental and/or economic impact*

This definition of CSR is suitable for this research due to its inclusive nature. As stated in section 4.1.2, within luxury, CSR activities vary significantly (from ‘getting started’ to ‘more comprehensive’ CSR implementation). Thus, any policies or practices that seek to create a positive economic, social or economic impact would be part of CSR. By including the wording ‘positive impact’, actions classed as greenwashing (see section 2.2.3) will not necessarily be considered CSR, as they are misleading and do not seek to create a positive impact. With regard to the motivation behind why these policies or practices are undertaken by companies, this definition allows for both, mandatory and
voluntary practices. Traditional definitions of CSR have stressed the voluntary nature of this concept (see section 2.2.1.3). However, recent regulatory developments such as Directive 2014/95/EU on Disclosure of Non-Financial and Diversity Information and the UK’s Modern Day Slavery Act mean that all aspects of CSR are no longer voluntary (see section 6.1.4). For example, under the EU Directive, all companies over 500 employees will need to have at least minimal CSR standards, track their progress and report on them accordingly.

In addition to CSR, the term sustainable is also used throughout this thesis. Wheland and Fink (2016) define sustainable practices as those that do not harm people or the planet; and seek to improve environmental, social and governance performance in areas where a company has a social or environmental impact. Accordingly, a company engaged in this type of practices will be making a contribution towards being more sustainable.

### 2.2.2 CSR in Luxury

As discussed earlier in this chapter, the luxury industry has special attributes that differentiates it from other industries. In terms of CSR, the luxury industry has been considered to lag behind other sectors (Bendell and Kleanthous, 2008). However, CSR seems to be becoming more relevant in today’s luxury marketplace and, therefore, it is essential to understand it (Towers et al., 2013). Pessanha Gomes and Yarime (2014) argue that the luxury sector was a late adopter of CSR, and that CSR adoption within luxury started as a response to stakeholder pressures, notably actions initiated by People for the Ethical Treatment of Animals (PETA), Global Witness, Greenpeace, and other organizations. According to Moraes et al (2015), in addition to stakeholder pressure, government regulation and trade standards have also contributed to more responsible practices within the luxury industry. Thus, the luxury industry has started to implement CSR with the sole objective of preserving brand image and company reputation.

Despite the increased relevance of CSR within luxury, the luxury industry still faces criticisms for not being ethical (Davies et al., 2012). Opponents of CSR
within luxury may support Milton Friedman’s view that the purpose of businesses is to create wealth (Garriga and Melé, 2014). Based on this view, it can be argued that luxury does not fulfill a social mission, other than providing prestige, self-pleasure, and social status to luxury consumers. Nevertheless, even if luxury companies take a free market and wealth creation view to justify their lack of engagement with CSR, CSR cannot longer be ignored. In fact, even Friedman recognizes the importance of integrating ethical aspects in business and responding to some social demands, as long as organizations are profitable (Garriga and Melé, 2014).

Moreover, it can also be argued that only a relatively small percentage of the population has access to luxury, and that core luxury consumers constitute just a small percentage of the population who are willing to pay high margins. These characteristics make luxury a lower-impact industry, as compared to non-luxury; given that the luxury industry as a whole has limited production output, and many of its products do not require large-scale industrial processes that can result in significant environmental or social impacts. Another consideration is that luxury brands sell ‘non-essential’ products; and given their high price and superior quality, consumers tend to keep them for a longer time, something that reduces their environmental footprint.

It is important to note that there is currently limited research analyzing the question of CSR in luxury. While CSR in non-luxury has been studied more extensively, the findings of the studies cited earlier in this section are not generally applicable to luxury, given the significant differences between the luxury and the non-luxury industries (Davies et al., 2012). Thus, due to the specific characteristics of the luxury industry, in order to understand the role of CSR within luxury, it is necessary to study it from a luxury perspective.

### 2.2.2.1 Compatibility of CSR and Luxury

Despite the apparent relevance of CSR in luxury, it is important to highlight that there are opposing views in the literature in terms of the compatibility between CSR and luxury.
Godart and Seong (2014) consider that from a moral perspective, luxury can be associated with both positive and negative connotations. On a positive side, they argue that luxury could be perceived as a source of pleasure and economic contribution; while from a negative side it could be considered morally inappropriate. This moral inappropriateness could be associated with the view that luxury is often perceived as an excess (Kovesi, 2015). It is interesting to note that these opposed views about luxury are not new, as there is evidence that the morality of luxury has been questioned historically over the centuries (Godart and Seong, 2014). For example, in the Roman Republic luxury was seen as negative, as it was associated with ruin and decadence (Zanda, 2013). During the mid-1700s, in Pre-Revolutionary France, wealthy communities faced restrictions to avoid displaying jewelry and clothing due to the negative connotations that doing this could have in society (Berkovitz, 2001).

In terms of the unethical connotations associated with luxury, Kapferer and Michaut (2015) highlight that there are views considering the luxury industry as unsustainable. Examples of criticisms against the industry cited by Kapferer and Michaut include a wide spectrum of issues; namely their supply chains (knowing the source of raw materials such as gold, diamonds, or rare earths); animal rights (use of skin from endangered species or force feeding to produce foie gras); worker rights (unfair working conditions, hiring of illegal immigrants); or environmental issues (depletion of water resources and pollution by the hospitality industry, use of mercury in leather manufacturing). Along the same lines, Carrigan et al (2013) highlight additional negative views towards luxury within a CSR context. The authors conducted an extensive review of the literature and identified that ethical issues can occur during the entire lifecycle of luxury goods, from cradle to grave. Examples of these issues can occur during the production, consumption and post-consumption, as presented in Table 8.
<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>Advertising and marketing can result in unnecessary consumption</td>
</tr>
<tr>
<td>Consumption</td>
<td>Racial discrimination by using Caucasian models</td>
</tr>
<tr>
<td>Consumption</td>
<td>The use of thin models contributes to eating disorders</td>
</tr>
<tr>
<td>Post-Consumption</td>
<td>Fashion cycles result in waste due to frequency on which collections are released</td>
</tr>
<tr>
<td>Post-Consumption</td>
<td>Discarded clothing ends in landfills</td>
</tr>
<tr>
<td>Production</td>
<td>Fashion is associated with sweatshops</td>
</tr>
<tr>
<td>Production</td>
<td>Consumers do harm by purchasing products made irresponsibly and under abusive conditions</td>
</tr>
</tbody>
</table>

**Table 8: Negative Perceptions Associated with Luxury**

*Source: Carrigan et al (2013)*

In sum, while there is definitively negative behavior in relation to ethical concerns that can be associated with luxury, it is possible to argue that many of the negative connotations mentioned in the literature could be linked to any industry, and not just luxury. For example, it is common to see Caucasian models in many types of ads, ranging from cheese to dishwasher detergent; the existence of dollar shops makes available thousands of low quality goods that can only be used a few times before they fall apart; household waste can include high amounts of food and clothing that ends in landfills. In contrast, it needs to be noted that luxury has a number of attributes that can counterbalance its negative connotations. For example, due to its higher quality, timeless design, and knowledge of craftsmen and artisans involved in the production process of luxury, luxury products can last and can be used longer, without having to be replaced. Also, because of their higher price, they are less likely to be treated as disposable goods once consumers want to replace them. In fact, they can be donated to charity shops or sold online, so that their usage life may be considerably longer than for non-luxury products.

Another consideration is the compatibility between luxury and ethical consumers. McEachern et al (2010) define as conscious consumers those who make sensible consumer choices by making ethical choices. For the sake of clarity, being ‘sensible’ in this thesis will refer to make consumer choices taking into consideration ethical alternatives (Szmigin et al., 2009). For example, a
consumer looking for a pair of sunglasses will be ‘sensible’ or ‘conscious’ by selecting a pair of bio-based Gucci sunglasses over a pair of standard Prada sunglasses, as the former are made with sustainable natural materials. According to McEachern et al (2010), this type of consumer is interested in the quality and authenticity features of products. This characterization of conscious consumer is relevant to luxury, first, because it incorporates two key attributes of luxury, quality and authenticity (See Table 1 earlier in this chapter). Moreover, McEachern et al’s characterization of conscious consumer provides a balanced view between anti-consumerism and conspicuous consumption. In other words, within a luxury context, this approach suggests that there is nothing wrong with buying a Louis Vuitton bag, a Cartier watch, or a Dior leather coat, as long as consumers are ‘sensible’ while making purchasing decisions. For example, if customers are aware that Dior is involved in controversies related to leather suppliers, they may decide to buy a coat from another brand with strong policies towards animal rights and welfare. Thus, it is possible to question the arguments against the compatibility between CSR and luxury.

2.2.2.2 Consumer Perspectives

It is important to mention that from a consumer point of view, there is still low interest in CSR in luxury (Kapferer and Michaut, 2014). A study conducted among French consumers, found that consumers of luxury goods give CSR a low priority in their purchasing decisions, especially in the case of less enduring luxury products (Janssen et al., 2013). Another study showed how luxury consumers in Portugal are engaged in practices such as non-conspicuous consumption and recycled materials purchasing, but still, for those consumers, sustainability is not a discriminator in their purchasing decisions (De Pierro Bruno and Barki, 2014). A further study analyzing the UK chocolate confectionery industry found that CSR features are becoming more relevant for some consumers in their purchasing decisions, but CSR is still not the most relevant factor in those decisions (McEachern, 2015).

In a different study conducted in France, Achabou and Dekhili (2013) found that luxury consumers care about attributes such as brand quality and brand
reputation, but the environmental commitment of luxury brands is not a factor those consumers consider in their luxury purchases. Similarly, the findings of this study suggest that for menswear, customers would be reluctant to purchase shirts manufactured with recycled materials. The findings of this study support the view that CSR demand within luxury is still in its infancy. However, the fact that in this study consumers were not interested in buying shirts made of recycled materials should be taken with caution, as the market for high-quality textiles made of recycled materials is virtually non-existent; and other environmentally friendly solutions such as organic textiles could be more appealing from a quality perspective, and from an environmental point of view. For example, to produce recycled cotton, it would be necessary to have a reliable collection system in place with a continuous supply of high-quality recycling materials, so that these textiles could be recycled and then used to produce high-quality luxury products. Since the entire point of doing so would be to produce a more environmentally friendly product, recycling cotton does not make business sense; especially when luxury brands have access to organic textiles which are widely available and are not detrimental for the environment.

Despite the limited demand for CSR in luxury, if luxury brands would adopt CSR values, it is possible that consumer perceptions could change and then consumers could see CSR as a value within luxury (Kapferer and Michaut, 2014). According to Davies et al (2012), luxury goods have a potential for growth in the field of CSR. In the view of the authors, a luxury product can have three different views, and within each of them, it is possible to leverage CSR:

a) Economic. This view considers that luxury-goods have two values, an utilitarian and an exclusive value premium. In this view, ethical premiums are paid by the consumer

b) Psychological. This is the primarily value of a luxury good. Consumption of luxury goods is based on a combination between social and individual factors

c) Marketing. This view includes the economic and psychological view of a luxury product and aims to maintain the perception and motivation for luxury
Under the economic view, CSR can grow if the incorporation of CSR attributes into the brand and the product increase the exclusive perceptions of those goods. According to Guercini and Ranfagni (2013), CSR can increase the exclusivity of luxury brands. For example, if Louis Vuitton produces a $4,000 dollar bag solely made with certified environmentally friendly materials, and this bag gets high awareness within consumer circles; luxury consumers may be willing to pay that high price, as the bag would be considered more exclusive.

Under the psychological aspect, consumers may be interested in that bag because it is made with environmentally friendly materials, and they personally have high regard for the environment and other CSR values. Also, if they do not necessarily care about CSR, but they are within a social circle that cares about these values; then they may decide to buy luxury products with CSR attributes as it would allow them to fit in. Finally, under the marketing perspective, luxury brands should be able to market the CSR attributes of their products to both types of clients, the ones interested in CSR because of its exclusive value premium; and the ones consuming these products because of the social or individual value they confer.

Moreover, consumer interest in CSR may also be driven by whether consumers are interested in the internal or external components of luxury (this concept was introduced in the section ‘Company and Consumer Perception of Luxury Brands’ above), which seems equivalent to the psychological factor proposed by Davies et al. For example, if someone is purchasing an Hermès bag with the sole intention of showing it off during an upcoming social function (external luxury), then that consumer may not be interested in the ethical components of the brand; unless the brand is associated with unethical behavior, or the brand is perceived negatively by the people attending that function. However, if a consumer interested in ethical/responsible values purchases a luxury product (internal luxury), then it may be more likely that the purchase made takes into consideration the ethical features of a brand or product.

While in the previous examples it is assumed that customers could be willing to pay more for getting certain benefits associated with CSR, there could also be a
case where luxury companies implement widespread CSR practices, irrespective of whether their customers see a reason to pay a price premium. For example, if Chanel decides to source only organic cotton for the products they normally manufacture with standard cotton, this is likely to lead to increased product costs, which in turn can increase the price of those articles. In this case, there are opposed views in the literature on whether consumers would pay a premium for products with CSR attributes. Riley et al (2004) state that price is not a primary issue for consumers of luxury goods as is usually the rule in non-luxury. Thus, if a Chanel customer buys a bag made with organic cotton, but that customer does not care about whether it is organic; she would still not question the additional price premium charged by Chanel for using an organic fabric. An additional consideration is that, as stated by Campbell et al (2015), sometimes non-luxury customers consider CSR-related price premiums to be fair, as occurs with Fairtrade products. In their view, these price premiums do not have an impact in consumer demand.

Furthermore, there is evidence in the literature supporting the view that CSR features such as Fair Trade labels can increase the luxury perception of products (Schmidt et al., 2016). It is important to note that in the view of other authors, consumers are not yet willing to pay a price premium for CSR (De Pierro Bruno and Barki, 2014; Kapferer and Michaut, 2015). A potential reason why consumers may be hesitant to pay price premiums for CSR in luxury is provided by Janssen et al (2013), who consider that CSR practices may be more appropriate for more lasting products such as jewelry, as consumers could see CSR practices more favorably. Following Janssen et al (2013), this has to do with the fact that consumer perceptions regarding CSR can change by type of product. If a product is more ephemeral, then its CSR perception could be lower than if it is perceived as scarce and long-lasting. For example, consumers would have a lower CSR perception of a t-shirt (even if it is made of organic cotton) than of a diamond ring. A t-shirt may only be worn for a year or two, while a diamond ring can last generations.

An additional consideration as to why CSR is not widely demanded in luxury could be that, despite CSR not being a new concept, there is low consumer
awareness of CSR (Gordon et al., 2011) paired with a lack of consumer understanding of this concept (Kapferer and Michaut, 2015). This is a similar finding to De Pierro Bruno and Barki (2014) who state that consumers are more aware of the environmental side of CSR, but not of the social aspect. Still, for the most part, luxury and CSR practices are compatible (Godart and Seong, 2014), as ethical attributes or socially responsible policies can be implemented across luxury’s three different areas - economic, psychological and marketing.

Likewise, despite the low level of interest in CSR and the lack of understanding of this concept, consumers are starting to look into ethical practices. In the view of Carrigan et al (2013) consumers are becoming more ‘considered’ in their consumption patterns and more sensitive towards social and environmental causes. Furthermore, research shows that luxury consumers are also interested in learning more about CSR practices undertaken by luxury brands, as they believe that luxury brands have environmental and social responsibilities they need to fulfill (De Pierro Bruno and Barki, 2014).

Macchion et al (2015a) even argue that CSR efforts undertaken by luxury firms are being driven by consumer expectations. A note of caution about this argument is that consumer expectations do not necessarily equal consumer demand. In other words, consumers may expect that firms have a level of CSR standards and implementation (Green and Peloza, 2014), but that does not mean that they are actively looking at whether or not the brands they purchase actually have CSR practices in place (Du et al., 2010).

As outlined above, there are variations in the level of CSR awareness and interest among consumers. However, it is important to highlight that these variations also occur within the definition of ethical or socially responsible consumption. Ethical consumption can encompass a broad spectrum of activities ranging from purchasing fair trade or environmentally friendly products to avoiding or even boycotting certain brands (Carrigan et al., 2004; Szmigin et al., 2009). Thus, being ethical (or socially responsible) can mean different things to different people, as there is no agreement among consumers on what elements constitute a responsible company (Carrigan et al., 2004).
In addition to these definitional differences among ethical or socially responsible consumers, another fact to consider is that basically all human actions are likely to have an environmental or social impact. To put it simply, “the environmental impact of products cannot be zero” (D’Souza et al., 2011, p. 52). Therefore, it is important not to set unrealistic goals in terms of socially responsible consumption. Everything we do is likely to have an impact, however, it can be possible to reduce some of that impact through meaningful CSR policies and practices.

From a consumer perspective, as put by McDonald et al (2012), there are no green consumers but, instead, there are consumers who try to green their consumption. For the sake of clarity, green consumption is defined as: “Consumer behavior that is predominantly driven by consumers’ environmental concerns and their attempts to reduce, reuse, and recycle consumer goods and produce” (Moraes et al., 2012, p. 104). This approach contrasts with the more inclusive concept of ethical consumption, which includes societal and animal welfare, environmental issues, corporate responsibility, development, Fairtrade issues, and global and systemic risks (Ibid, 2012). This suggests that there are different levels of socially responsible behavior among consumers, ranging from ‘ordinary’ consumers not interested in CSR at all, to consumers seeking to green their consumption and then to ethical consumers. The cited research in this section does not make a distinction among these consumers, but they are likely to have different expectations in terms of CSR.

Irrespective of these differences, it appears that, in general, consumers are increasingly showing non-apathetic attitudes towards CSR and are starting to look into CSR initiatives, and are becoming more sensitive towards environmental and social causes. These attitudes may mean that there is a real possibility for CSR in luxury. Luxury brands are considered aspirational in nature, and as such, they are well positioned to influence social change; thus the pursuit of CSR by luxury brands could result in wider CSR adoption (Muratovski, 2014). Also, due to an increased familiarity with CSR, luxury consumers may start demanding more social responsibility from luxury brands.
Therefore, luxury firms need to be prepared to respond to this increased demand in CSR.

2.2.2.3 Company Perspectives

While the previous section discussed the existing views of consumers on CSR, there is also a need to understand what actions are being taken by luxury brands within this area.

As discussed in the section on CSR in luxury earlier in this chapter, there are doubts in the literature regarding the sustainability of the luxury industry. In their Deeper Luxury report, Bendell and Kleanthous (2008) highlighted how the industry lagged behind other leading brands from other industries in terms of CSR. Furthermore, Bendell and Kleanthous stated how CSR was not a focal point within luxury from a strategic perspective. This raises the question as to how much luxury brands are doing in terms of CSR; and how much CSR information they are actually disclosing. These issues are discussed below.

*Disclosed CSR Efforts*

Despite existing negative views on the unsustainability of the luxury industry (Carrigan et al., 2013; Godart and Seong, 2014; Kovesi, 2015), there are emerging sources in the literature questioning the view that the luxury industry is not socially responsible. For example, Cherny-Scanlon (2014) highlights how luxury brands such as Burberry, Cartier, Gucci and LVMH (Moët Hennessy Louis Vuitton) have joined forces to create the Luxury Working Group, which has set minimum standards to source raw materials including leather, fur and exotic skins. According to the author, CSR efforts have even expanded into more comprehensive projects. For example, Loro Piana and Zegna worked together to obtain legal permission to farm and trade vicuña by ensuring the sustainability of the process. This project not only resulted in the reintroduction of vicuña-made products in the world, but supported the conservation of this endangered species by increasing the vicuña population from about 6,000 to over 190,000 (Cherny-Scanion, 2014).
Moreover, some brands such as France-based Martin Margiela have incorporated the use of linings from recycled materials into their products (Finn and Fraser, 2014). The brand has taken an extra step in the use of these types of textiles by even encoding the use of recycled materials within its brand DNA (Menkes, 2015). In other words, for Martin Margiela the use of recycled materials has been incorporated throughout the story of the brand and it is now one of the values of the brand.

Along the same lines, Pessanha Gomes and Yarime (2014) found a high degree of CSR implementation across leading luxury groups. After analyzing a number of luxury brands, the authors found that some of the most renowned names in luxury including Kering and LVMH had high CSR scores. More interestingly, these groups were not just complying with CSR standards, but were even pursuing innovative strategies within the area of sustainability. Examples of CSR pursuits included eco-design, communication of CSR issues to consumers and integrated CSR policies across their organizations. In addition, groups such Compagnie Financière Richemont (Richemont), Hermès and Tiffany & Co. were found to have moderate CSR scores as their CSR activities were focused on preserving their brand reputation. Examples of these activities include maintaining an ethical image to avoid being criticized, managing environmental impacts, engaging in philanthropic activities and controlling risk in their supply chain by setting codes of conduct. This study shows that CSR implementation in luxury is more widespread than it was originally considered to be as it is something that can lead to a competitive advantage to luxury brands (ibid, 2014).

In brief, it seems that the current status of sustainability in luxury differs somewhat from what was reported in World Wide Fund for Nature (WWF)-UK’s report on luxury back in 2008. While this well-known report may still be in the minds of consumers, stakeholders and the luxury industry; it is worth mentioning that CSR implementation within luxury has improved. For example, PPR (Pinault-Printemps-Redoute), now Kering, was rated badly in terms of CSR (grade D out a maximum of C+). In the report, the highest ratings (C+) were awarded to L’Oréal, Hermès, and LVHM. Eight years later after the publication
of that report, things have changed, and now, based on CSR rankings from CSRHub (2015), luxury groups such as L’Oréal and Kering are now leaders in CSR. Moreover, the CSR rankings of Kering, L’Oréal and LVMH are now significantly higher than the average across all industries.

In a study focused on Italian luxury companies, Macchion et al (2015a) found that over 50 percent of the firms who were part of the study undertook a number of CSR efforts in the environmental domain of CSR. Projects cited by the authors ranged from the inclusion of organic materials in collections, to getting an ISO 14001 certification (which was obtained by creating well-defined environmental protocols and devising plans to reduce emissions). Other luxury companies launched new green brands and collaborated with suppliers to create greener processes.

Similarly, in a study conducted by Carcano (2013, p. 41), she found that the three largest luxury conglomerates in the world; LVMH, PPR, and Richemont, had “a deep connection with sustainability in their core values and company culture”. As part of the study, the author reviewed sustainability reports of these groups and looked at CSR scores provided by CSRHub, a company specializing in assessing the level of CSR implementation across leading industries. Carcano’s paper highlights how these luxury groups are deeply involved in CSR undertakings.

The findings from the previous study are complemented by Carrigan et al (2013), who indicate that various luxury companies have launched environmentally-friendly brands and that they also have made acquisitions of socially responsible brands. An example cited by Carrigan et al is Edun, a brand producing some of its clothing lines in Africa, with African materials. Kapferer and Michaut (2015) made a comment in the same direction, referring to how more socially responsible brands such as Stella McCartney (the brand has a policy not to use real leather in its products), are able to drive brand desirability and prestige; confirming that it is possible to have, both luxury and sustainable policies and practices. With regard to the combination of luxury and sustainability, Karthik et al (2015) refers to the term ‘eco-chic’, by mentioning that there are luxury
consumers interested in luxurious clothes that are eco-friendly like sustainable cashmere.

In a recent edition of Departures Magazine, an American Express publication for Platinum and Centurion cardmembers, an article highlighted how sustainable chic or environmental sensitivity was now a global trend. The article showcased various luxury brands, and grouped them into affordable ethics (Eileen Fischer or Filippa K); discreet luxury brands with the highest ethical standards (Loro Piana, Ermenegildo Zegna or Brunello Cucinelli); brands using artisanal fabrics (Vivienne Westwood, Renli Su); timepieces manufacturers (Chopard, IWC or Blancpain); and leading sustainable brands/groups (Stella McCartney and Bottega Veneta (Kering) and Edun (LVMH). The highlighted CSR practices within those groups ranged from using recycled leather and brass in bags, setting up a profit system for Mongolian cashmere goat farmers to avoid overgrazing, or using lotus-fiber fabrics from Myanmar; to using fair-mined gold and certified exotic skins, supporting a wildlife foundation, and having carbon-neutral headquarters (Groom, 2015).

Based on the articles outlined above, the luxury industry seems to have made progress in terms of CSR implementation. However, as these articles indicate, the scale of CSR efforts varies incredibly among luxury brands, as efforts can range from low impact practices such as the use of recycled leather in a bag collection or donating money to philanthropic causes, to holistic CSR implementation within a luxury conglomerate.

Undisclosed CSR Efforts

Taking into account the evidence provided by the literature discussed above, it is possible to conclude that there is at least a level of CSR implementation within luxury. Something to note is that, in general, these views of CSR implementation are derived from reports, websites, and public information released by luxury brands pursuing those efforts. Thus, a remaining question to consider is what happens with CSR efforts undertaken by luxury brands that are not disclosed?
The public perception of CSR implementation is contingent with the fact that CSR implementation is actually communicated. Thus, if a luxury brand conducts CSR efforts but it does not communicate them, then consumers and stakeholders are likely to assume that the given brand is not socially responsible. This particular situation occurring in luxury is highlighted by Kapferer and Michaut (2014). Kapferer and Michaut argue that luxury brands tend to avoid disclosing information about their CSR practices. This is specially the case with family owned and/or not publicly listed companies, as they do not have a legal requirement to disclose financial or business-related information. In their paper, the authors state how many luxury firms have as a strategy to remain silent about their CSR efforts, even if brands are not necessarily engaged in poor environmental, or social practices. A potential explanation of this phenomenon is that it is not clear for luxury brands how consumers may react to CSR practices (McEachern, 2015); and that, for instance, CSR disclosure has been associated with lower brand evaluations (Torelli et al., 2012). As stated by Kapferer and Michaut (2015), luxury is about creating a dream and, therefore, communicating ethical concerns to consumers could put a cloud on that dream.

Communicating CSR Through Green and Social Marketing

As discussed in the previous subsection, not all CSR efforts undertaken by luxury brands are communicated publicly (Carcano, 2013; Kapferer and Michaut, 2015; Macchion et al., 2015a). While some luxury brands may have concerns regarding the disclosure of CSR information, it is important to highlight that consumer perceptions can be changed. According to Torelli et al (2012), consumer perceptions towards CSR can change, and actually, CSR efforts undertaken by a brand can be seen more favorably when the brand is associated with conservation efforts.

As mentioned by Godart and Seong (2014), luxury brands can undertake actions to change consumer perceptions. Examples of some of these actions discussed by Godart and Seong include promoting the purchase of sustainable fashion as socially acceptable; working with the rest of the industry to develop sustainable
luxury products; and making changes to their brand DNA, so that it can fully support CSR.

Gordon et al (2011) state that marketing has been focused on selling goods, increasing consumption and company revenue and, therefore, its potential to drive CSR awareness has been overlooked. The authors refer to two marketing approaches to communicate CSR: Green marketing and social marketing. Green marketing is related to the development of products and services where sustainability efforts take a key role. Social marketing refers to encouraging sustainable behavior not only among consumers, but among businesses and decision makers.

From a more practical perspective, green and social marketing can be pursued through two strategies: Upstream and downstream. Upstream approaches focus on promoting CSR through changing consumer behavior by giving incentives, promulgating legislation/regulation, or by working on R&D/Design for the environment (Gordon et al., 2011). Downstream approaches focus on providing information to consumers when consumer practices are vulnerable to change (Carrigan et al., 2011).

Despite the need to implement both upstream and downstream efforts in order to achieve real change in terms of CSR (Carrigan et al., 2011), most CSR actions within luxury appear to be focused on downstream approaches, and in many cases, they involve addressing scandals that have already occurred, or preventing future ones. For example, the release of the movie Blood Diamond, which influenced consumers to avoid purchasing diamonds from unknown sources, resulted in the implementation of basic responsible sourcing measures by the jewelry industry (Godart and Seong, 2014). Therefore, many jewelry brands now convey to consumers how gemstones like diamonds are sourced through schemes such as the Kimberley Process (See: Kimberley Process, 2016) which is aimed at stopping trade of conflict diamonds.

Still, it is important to note that despite the proliferation of CSR initiatives within jewelry, the industry still faces challenges to full CSR implementation
Carrigan et al., 2015). These examples are certainly not an isolated case. According to Janssen et al (2013), luxury brands such as Prada, Gucci and Dolce and Gabbana have been involved in scandals because of unfair employee treatment. As a result, other luxury brands like Armani and Chanel have implemented CSR practices to avoid experiencing similar scandals at their brands in the future and, thus, can insulate their brands against potential conflicts with stakeholders. This example is particularly interesting, considering that Armani and Chanel are privately held and, therefore, do not have any legal obligation to disclose their results or practices. Nevertheless, these reactive approaches to CSR are far from being considered downstream actions, as they are not intended to change consumer behavior towards CSR, but instead, they are only pursued to avoid associating luxury brands to negative practices.

In terms of upstream approaches, given the relatively small size of the industry in comparison to non-luxury, the idea of undertaking upstream approaches seeking to modify consumer behavior towards CSR is more challenging. The luxury industry, as a whole, has a combined revenue lower than Wal-Mart (Bain & Company, 2015; Wal-Mart Stores, Inc., 2016). Because of the fragmentation, within luxury, it is possible to find several categories, ranging from cosmetics and food, to cars and private jets. This suggests that from a revenue perspective, the luxury industry has limited influence as compared to other industries. Carrigan et al (2013) consider that to improve CSR within luxury, it is necessary that industry groups work together with regulators to craft regulatory policies that can be validated by the industry. An example of upstream collaboration between the industry and regulators is the US Department of Energy (DOE)’s Appliance and Equipment Standards Program. Pursuant to Congress legislation, DOE is required to implement energy efficiency standards for covered consumer products and industrial equipment. These standards are aimed at reducing energy use. Since the standards have a significant impact on regulated industries, DOE has created an advisory committee with representatives from the industry to negotiate DOE rulemakings (US Department of Energy, 2016). For example, if DOE envisions the creation of a more stringent energy-saving standard for ceramic cooktops and ovens (the standards would also apply to luxury brands operating in this product category), then DOE would
make its intention public, allowing the public and the advisory committee to provide input on the proposed regulation, to try to reach agreement. For instance, a standard could be introduced so that the oven turns off automatically 10 minutes before the end of the cooking time in order to use the heat already in the oven. Such practice, at first, could create confusion among consumers, but later, it would be able to result in a change of behavior, and as consequence, in lower energy consumption while cooking. From an industry perspective, this program would decrease energy use without unreasonably increasing the regulatory burden to manufacturers; and ensuring that the proposed regulations are technically feasible and appropriate from an economic point of view.

With regard to regulation, it is necessary to highlight that while it can be helpful to drive CSR implementation, it does not necessary mean that it is free from faults. Carrigan et al (2016) state that there are many instances where business interests play a role. These interests can influence the regulatory/legislative agenda, and can have an impact on the intended purpose of these actions. Moreover, from time to time, government agencies promulgate regulations that generate social benefits, but their social cost is much higher than the benefits they provide. In those cases, regulatory action is not appropriate, as it just creates an unnecessary economic burden on affected entities. For example, a regulation requiring luxury brands in Europe to only use organic leather in their products could backfire as the demand for organic leather could exceed the offer of such material. This regulation could also have an impact on small businesses producing leather, as due to cost constraints, small suppliers may not have access organic certifications for their leather. Luxury consumers could also be affected as they would have to pay higher prices for such products. Similarly, luxury brands could also lose out as they may need to absorb increases in raw materials, which in turn could affect revenue and, potentially, employment levels within their companies. Thus, there is a delicate balance between the benefits and costs of regulatory action and, therefore, these benefits and costs should be understood before such action is pursued. Still, in cases where regulatory action is not appropriate, luxury trade associations, brands and
stakeholders could work together to enforce voluntary CSR standards aimed at promoting CSR practices among consumers.

In summary, the literature suggests that CSR perceptions can be shaped with the right CSR implementation and communication strategy. However, the development of integrated upstream and downstream practices is complex and its application is difficult within a luxury context. Still, despite this difficulty, there are luxury products such as hybrid or electric cars or fair trade products which provide satisfaction to consumers, and at the same time, result in benefits to society (Dibb and Carrigan, 2013).

Opportunities for CSR Improvement

Despite the positive progress made by the luxury industry in terms of CSR, it must be remembered that luxury, as a whole, still has a long way to go before it can be considered a sustainable industry. As an illustration, well-known luxury groups such as Armani, Prada and Ralph Lauren have low CSR scores, as their CSR efforts are mainly focused on philanthropic actions; and their company policies in social and environmental areas are mainly centered on law compliance (Pessanha Gomes and Yarime, 2014). This suggests that these companies have the lowest possible social and environmental standards to avoid violating the law.

Another area where CSR performance across the entire luxury industry is unsatisfactory is the supply chain. About eighty percent of luxury brands do not measure CSR within their supply chain (Cherny-Scanion, 2014). This is a serious issue, considering that some of the raw materials used in luxury such as exotic woods, precious stones and metals are sourced from developing or emerging countries with less stringent environmental and social standards than in the western world. For example, mining gold in Peru or sourcing Mahogany from old-growth forests from Brazil is certainly not a social issue from the perspective that these are not countries at war and with social conflicts. Still, from an environmental perspective, extracting gold without the appropriate
environmental standards, or conducting illegal logging activities in primary
trees can have severe effects on the local environment.

Additionally, there is a real need for the entire luxury industry to implement
more comprehensive sustainability strategies (Carcano, 2013) and, thus, move
from a philanthropic or integrative type of CSR to a more comprehensive
approach such as innovative CSR (Pessanha Gomes and Yarime, 2014). As stated
by Carrigan (2013), CSR in luxury cannot continue to be overlooked and luxury
brands need to do more to implement it across the industry.

**Challenges to Becoming More Socially Responsible**

An additional consideration to take into account regarding the adoption of CSR in
luxury is that the luxury industry is not free of challenges to becoming more
sustainable. As discussed above, some of these challenges may come from
uninterested luxury customers or from luxury customers unwilling to pay a
premium for responsible goods. Even so, these challenges could be addressed by
creating CSR awareness among luxury consumers.

However, it is important to take into account that the luxury industry faces
additional challenges to becoming more sustainable. Some of these challenges
can occur in the supply chain, or production process. According to Bonacchi et
al (2012), if a supplier engages in unsustainable practices that could have a
serious effect on a brand; then that brand would need to immediately terminate
its relationship with that supplier. For example, animal rights group PETA
reported animal right violations during the production of crocodile leather for
Hermès famous Birkin bag. Because of this report, Jane Birkin, the celebrity
whom the bags are named after, asked Hermès to disassociate her name to the
bag. Hermès responded quickly with an investigation highlighting how these
isolated violations to animal rights had been addressed with the supplier. As a
result, Birkin indicated that she was satisfied with the resolution to this issue
(Chrisafis, 2015). It is important to stress that in this case, Hermès was able to
address the issue without having to terminate its relationship with a key
supplier, as terminating that relationship could have had an impact on the
production process of its bags, potentially resulting in financial impact to Hermès and its supplier, due to lost revenue.

Furthermore, in a study exploring local garment manufacturing in San Francisco, California; Ulasewics (2014) found that companies experienced multiple difficulties in establishing socially responsible practices. Examples of these challenges included: Difficulty finding atelier staff with the right level of expertise; issues finding suppliers offering excellent quality; higher cost of sourcing from local suppliers who offer high-quality at a fair price; difficult to engage with an unsupportive local government; higher taxes. Besides that many of these potential challenges are more likely to be faced by smaller brands than by brands owned by a large luxury conglomerate. Ulasewics highlights how there are underlying challenges to sustainable production that could prevent luxury companies from becoming more socially responsible. An additional consideration is that these challenges are not exclusive to luxury, and could also occur in other industries. In reality, implementing CSR is generally difficult, as managers needs to incorporate social, economic and environmental concerns into their regular decision-making process (Neergaard and Pedersen, 2012).

2.2.3 How Can CSR Impact Brands?

As discussed in the previous sections of this chapter, CSR is important within luxury, because it has the power to change perceptions of a brand and, therefore, affect brand reputation (either positively or negatively). According to Betts (1994, p. 18) brands can help “establish a distinct identity for a product in relation to how the product is perceived by the consumer”. However, establishing a brand identity is not the only function of brands. In the view of Keller and Lehmann (2006), brands are valuable as they can allow customers to choose a product and associate a brand with trust and quality. Moreover, brands can be used to evaluate marketing efforts, and can also be assets from a financial perspective (ibid, 2006). Thus, considering that brands are assets, assets have value (Sinclair and Lane Keller, 2014), and CSR has an effect on brands; CSR may influence the value of a brand.
Based on the previous discussion on luxury and CSR, it is clear that key players within the luxury industry are embracing the idea of CSR and have already taken steps to make it a core component within their organizations. For instance, the three largest luxury conglomerates do not lag behind other industries in terms of CSR. In particular, for conglomerates like LVMH, CSR is one of the factors used across their entire brand portfolio to increase brand value (Cavender and Kincade, 2014). Similarly, Kapferer and Michaut (2015) stress how because of the high visibility of the luxury industry, luxury brands are impacted by CSR. The adoption of CSR in luxury suggests that the industry recognizes the importance of CSR. However, this recognition is not widespread, and not all luxury brands appear to be looking at CSR, despite the benefits or avoided costs associated with it.

There are key business advantages for business resulting from the implementation of CSR. Gordon et al (2011) considers that CSR can contribute to differentiation. Melo and Galan (2011) maintain that it is possible for firms to increase their reputation or image status through CSR, which, in turn, may lead to financial gains. Drews (2010) supports this view by stating that CSR provides a number of monetary and non-monetary benefits to businesses. These benefits, which can be either, quantitative or qualitative, are summarized in Table 9 below.

<table>
<thead>
<tr>
<th>Type of Benefits</th>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
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<tbody>
<tr>
<td>Monetary</td>
<td>Increase in brand value</td>
<td>Increased revenues</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduced risk</td>
</tr>
<tr>
<td>Non-Monetary</td>
<td>Improved access to capital</td>
<td>Improved customer attraction and retention</td>
</tr>
<tr>
<td></td>
<td>Secured license to operate</td>
<td>Improved reputation</td>
</tr>
</tbody>
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Table 9: Business Benefits of CSR

Source: Drews (2010)
These monetary and non-monetary benefits are highly relevant to the luxury industry, and especially brand value and reputation are especially important. With regard to reputation, authors like Hoffmann and Coste-Manière (2012) consider that reputation is a core asset within the industry. As a matter of fact, the adoption of CSR could be perceived as a way to reduce risk (Kapferer and Michaut, 2015). According to Bonacchi et al (2012), stakeholders such as NGOs or trade unions can put at risk the reputation of luxury firms. Because of this, the priorities of these groups need to be taken seriously by luxury brands. As discussed earlier in this chapter, there are consumers who are not necessarily interested in CSR, or even try to avoid CSR (Gardetti and Torres, 2014; Singh et al., 2008). However; most consumers, even those who do not care about or avoid CSR, are likely to change their brand perceptions if they find out that a brand they use appears in the news because of irresponsible practices (Kapferer and Michaut, 2015). Hence, there may be a real risk for luxury brands not having appropriate CSR practices, as these practices could lead to negative brand perceptions. Maximizing brand value is often considered the most important financial strategy of a luxury-goods firm (Kapferer, 2009). Thus, having a luxury brand associated with negative perceptions is something that could hinder this strategy.

Torres et al (2012) studied the relationship between CSR and brand value in global brands, and their findings concluded that there is a positive relationship between these two factors. Likewise, their research shows that CSR initiatives can influence global brand value. Examples of these actions include working with stakeholders such as the local community, customers and suppliers (Torres et al., 2012). Additionally, other authors looking at the relationship between CSR attributes and brand value concluded that brands with higher CSR attributes enjoy greater brand value (Wang, 2010).

It is important to highlight that the findings from Drews (2010), Melo and Galan (2011), Torres et al (2012) and Wang (2010) referenced above are not focused on the luxury industry. However, they are included in this literature review as there is a lack of literature addressing the issue of CSR and brand value in luxury. Still, there are certain elements that make these studies relevant to luxury,
considering that the data used in them include global brands, and many key luxury brands are global (Kapferer, 2009).

Based on these studies, due to the importance of CSR for global brands, it is critical for global managers (in this case, luxury-brand managers) to have an in-depth understanding of CSR. A global brand’s image is contingent on how it is evaluated against global standards in environmental and social areas; and global brands’ practices in other industries (Wang, 2010). That is to say, these results suggest that the image of a luxury brand could be affected if the brand is associated with negative CSR practices.

While CSR is recognized as a creator of brand value (Liu et al., 2014), and can pose significant advantages to firms; it is important to note that in certain cases, it could also impact a brand negatively and in fact, be detrimental to brand value. There is evidence in the literature that when a luxury brand associated with self-enhancement pursues a CSR strategy, a decrease in brand value can occur, which then can result in brand dilution (Loken and John, 1993 cited by; Torelli et al., 2012). This evidence does not suggest that luxury brands should neglect CSR, but instead, they need to be cautious in terms of the CSR actions they pursue and how they communicate them. A potential explanation of this negative link between CSR and brand value could be greenwashing. Greenwashing is a practice of misleading and making deceptive claims in terms of the environmental credentials of a firm (Nyilasy et al., 2013); and can result in criticism and scrutiny from consumers (McEachern, 2015). A luxury brand would be incurring greenwashing if they launch a product line made of organic textiles and highlight how environmentally friendly the brand is because of this initiative. However, in the rest of their operations the brand is engaged in poor environmental practices, namely the use and release of chemicals into the environment, lax air emission controls, or energy and water waste during their production process.

According to Kapferer and Michaut-Denizeau (2014), greenwashing is considered a prevalent issue that can backfire on brands. That is to say, if consumers are
receiving CSR information from luxury brands, but they do not trust it, then that information is not going to benefit a brand, but could affect it negatively.

Moreover, as discussed earlier in this chapter, there are also issues surrounding CSR in luxury such as low consumer interest in CSR or a lack of understanding of CSR. These issues are not surprising, as CSR can also be complex for the luxury industry, giving the multiple meanings that CSR has. However, these issues could be addressed with company-lead efforts aimed at increasing consumer awareness of CSR. CSR awareness could be created by including CSR attributes in luxury products. For example, Louis Vuitton could decide to produce a green bag. The bag could be made of organic cotton from Sri Lanka, and dyed in an environmentally friendly way. Then, the carbon emissions from its production and distribution process could be offset, as well as the water used in the product (water footprinting). In this product, the dream promoted by Louis Vuitton could be the respect for the environment. Its price would not be a primary question, even if the product is likely to be more expensive than a luxury bag without these environmental features. In terms of its distribution, it would be restricted (only in available in Louis Vuitton outlets). Also, with regard to communication, it would exist to recharge the dream and would not be focused on selling (selling is a natural step resulting from creating a dream). Finally, the item would be considered rare based on its non-intensive production (Kapferer, 2009). In any event, it could be possible to question the potential effect of this green approach in Louis Vuitton as compared to the rest of LVMH portfolio. In other words, what can happen if other brands within LVMH would not be perceived as green as Louis Vuitton? In this case, since CSR needs to be incorporated holistically, it would be necessary that all LVMH companies have comprehensive CSR and policies and practices in place, so that there is not a spillover effect from some LVMH brands being greener than others. It is important to note that based on the existing literature, it is not clear whether the luxury industry is willing to take such a comprehensive approach to CSR, as there is conflicting evidence regarding consumer interest and demand in this type of undertaking.
An additional consideration is that depending on how CSR is approached, the impact of CSR is likely to change. From the three types of CSR introduced by Halme and Laurilla (2009), see section 2.2.1.3, the most important benefits are likely to occur through innovative CSR (larger business core and social benefits); while integrative CSR can provide moderate benefits (improvements to social and environmental aspect of operations); and philanthropic CSR the least benefits (image improvement and reputation). Halme and Laurilla’s assessment is not based on empirical data and it is not focused on luxury; but makes a solid case for CSR implementation due to the business benefits it creates. For this reason, a brand like Cartier is likely to obtain a larger benefit by implementing a comprehensive CSR program across the company, than, by supporting an exhibit at the Denver Art Museum. Furthermore, following Halme and Laurilla (2009), the benefits from CSR could be more significant, for example, if Cartier would launch a new product aimed at contributing to the implementation of comprehensive social and environmental programs in the communities where it sources its precious stones. A note of caution is that such program would only be successful if it is perceived as authentic by others and that it was not created with the sole objective of increasing revenue for the brand. Thus, to make this work, Cartier would not only need to create an effective campaign to communicate this program, but would also need to establish the actual improvement of social and environmental conditions in those communities as a core component of the program. Additionally, actual program goals would be required, and they would need to be measurable and demonstrable, so that there is evidence of how the program is improving conditions at those communities.

A final thought is that despite the apparent hesitancy within luxury surrounding the concept of CSR, it must be remembered that luxury and CSR share common characteristics. Luxury is founded in the principles of craftsmanship high-quality; and a long-term vision (Godart and Seong, 2014). These values are aligned with CSR, as having high-quality craftsmen requires a level of technical expertise which grants good working conditions (ibid, 2014). Similarly, luxury’s long-term vision makes it crucial for luxury companies to implement CSR policies
in their organizations, as it is likely that a high-level of CSR compliance may be commonplace in the future.

2.2.3.1 Need for Further Research on Brand Value in Luxury

As discussed earlier in this section, the existence or the absence of CSR is likely to have an impact on brand value in luxury. With regard to how CSR can affect brand value in luxury, as part of the literature review it was not possible to identify any empirical studies on the topic. However, there were two studies from non-luxury looking at how CSR can impact brand value.

Torres et al (2012) studied how brand value can be generated by CSR through stakeholders (customers, shareholders, employees, suppliers and community). To conduct their analysis, the researchers gathered sustainability scores for brands included in Interbrand’s Best Global Brands list. By analyzing the results and the information provided in this paper it was not possible to conclude if any luxury-goods firms were included in the sample. However, considering that about 10 percent of the firms in Interbrand’s list are luxury firms, it is possible that luxury firms were included in this study. The results of the study supported the hypothesis that CSR affects brand value. To conduct the actual study, Torres et al considered that, in addition to CSR, company size, and investments on R&D could also influence brand value.

Melo and Galan (2011) conducted a similar study to Torres et al on CSR and brand value. In their study, they analyzed companies included in Interbrand’s Best Global list. They gathered CSR rankings for those firms, and modeled them together with company size, risk, R&D and market value added (MVA). The results from their study showed that CSR had an impact on brand value, and that company size was more important for brand value than CSR.

These two studies make it clear that, while CSR can be a contributor to brand value, CSR is not the only factor affecting it. In others words, following Melo and Galan (2011) and Torres et al (2012), there are other factors such as R&D, or company size that can influence brand value. Therefore, to study brand value in
luxury, and to be able to understand it, it is not possible to only focus on CSR, but it is necessary to look at other factors that, together with CSR, create brand value.

From the literature review on CSR and luxury, there are five main issues that arise: First, there is a lack of empirical research on CSR and brand value in luxury and on how it can impact brands; as most of the research within this area is based on non-luxury. Second, it appears that there are benefits associated with CSR implementation, particularly a potential increase in brand value. Third, the importance of CSR is recognized by key luxury firms. Key luxury groups have already implemented more comprehensive CSR practices, as evidenced by their CSR rankings in sources such as CSRHub. Fourth, consumers do not seem to understand CSR and do not seem to actively demand it. Still, there is evidence suggesting that consumers are open to knowing more about CSR and indeed, it is something that they may increasingly demand in the future. Fifth, there appears to be concerns within the luxury industry regarding the benefits of CSR disclosure, and whether CSR disclosure could affect firms negatively.

In brief, while the literature has been useful to gain an understanding of CSR and brand value, further questions remain:

- Does the evidence from the non-luxury industry supporting the view that CSR can influence brand value translate into luxury? As discussed at the beginning of this chapter, there are many differences between luxury and non-luxury and, therefore, what is true for non-luxury companies may not be true for luxury brands.
- Is there a difference in terms of how CSR is implemented in luxury? Existing evidence suggests that CSR has only been looked by large luxury groups. However we do not know if smaller brands tend to pursue CSR actions.
- How do luxury brands perceive CSR? The studies reviewed during the literature review were drawn mainly from CSR reports and publicly available information. Thus, they do not necessarily reflect the
knowledge or interest that luxury managers have on the topic and their opinion on whether it creates brand value for the industry.

All these relevant issues need to be explored so that it is possible to gain a better understanding as to how CSR can affect brand value. As stated throughout this section, CSR is not the only factor that can affect the value of a brand. Moreover, the construct of brand value itself is highly complex, and to be able to study it, first, is necessary to understand how it is defined, and what elements, in addition to CSR, can have an influence on it. The section below explores the construct of brand value and its determinants, so that it is possible to understand what contributes to brand value in luxury.

2.3 Brand Value in Luxury

Throughout this chapter the construct of brand value has been introduced and discussed. In the previous section, it was discussed how CSR could contribute to brand value. However, brand value is a complex construct, and cannot be studied in isolation from a CSR perspective. There are other elements, that in addition to CSR, create brand value in luxury. Therefore, it is necessary to understand what these elements are; the position or importance of CSR among these elements; and how these elements, together with CSR, contribute to create brand value. The following sections discuss what brand value is, how it is subdivided, and its main determinants.

2.3.1 What is Brand Value

Brand value has been widely studied in the literature. Existing studies on brand value address a number of research areas ranging from its dimensions, its determinants, to how it can be studied and measured (Ailawadi et al., 2003).

Brand value is considered a strategic asset for companies (Davcik et al., 2015), and, in fact, it is one of their most prized assets (Christodoulides et al., 2015). Therefore, it is highly important for brands, especially within luxury, as it constitutes a useful way to assess the long-term impact of marketing actions.
which cannot normally be measured with financial indicators. For example, financial indicators like short-term sales and profits are not able to capture the effect of actions pursued by a firm (Simon and Sullivan, 1993). In other words, if a company like Bulgari launches an exhibition in collaboration with the MAXXI Museum in Rome, it would be very difficult to quantify the economic benefit of this project to the Bulgari brand using standard financial measures. However, a construct like brand value is able to provide company managers, investors and stakeholders with a long-term metric to assess this type of action and, thus, use it to support their decision-making process.

2.3.1.1 Differences Between Brand Value and Brand Equity

First, it is important to state that brand value and brand equity commonly refer to how much a brand is worth. Both terms are often used interchangeably as there is no agreement on when each of these terms should be used.

According to Feldwick (1996, p. 2), the following three constructs are considered to be brand equity:

1. “The total value of a brand as a separable asset when it is sold or included on a balance sheet” (brand valuation or brand value)
2. “A measure of the strength of consumers’ attachment to a brand” (brand loyalty or brand strength)
3. “A description of the associations and beliefs the consumer has about the brand” (brand image or brand description)

Thus, according to Felwick, brand equity is a comprehensive construct encompassing not only the actual monetary valuation of a brand, but some of its attributes such as brand loyalty, strength and brand image.

Wood (2000) elaborates further on this topic by stating that the term brand equity first appeared in the marketing literature as an attempt to explain the relationship between consumers and brands. In this case, a financial term (equity) is used to support the belief that brands can have financial value (Knowles, 2008). Then, by explaining a relationship between brands and
consumer, it is also been implied that brand equity is made up of two main components, a consumer component and a company/financial component.

To help understand the difference between the consumer and the company/financial components of brand equity, Knowles (2008, p. 24) compares these approaches to potential energy (marketing approach) and kinetic energy (financial approach) and refers to the case of Gucci. In the late 1990’s, cash flow levels (kinetic energy) at Gucci were reducing rapidly, mainly because the brand had widespread licensing agreements which resulted in quality problems in the licensed products. While from a financial perspective the brand was “being written off”, its marketing value (potential energy) was still high. Given that the problems at the brand were mainly management-related, the brand was able to recover once they addressed their licensing policy, poor quality, updated their product range and addressed their distribution issues (ibid, 2008). Thus, in this example, Knowles implies that marketing actions which are aimed at the consumer have the ability to affect the financials of a brand. Similarly, it suggests that company-based actions can have a financial effect on the brand. However, the way consumers influence brand value is not clearly discussed.

For Jones (2005), brand value and brand equity are two different constructs; brand value is related to the study of how value is created, while brand equity is related to measuring it. Nevertheless, Jones’ distinction seems to be unnecessary, as it is possible to use the term ‘brand value measurement’ instead of ‘brand equity’ to refer to how brand value is quantified and avoid confusion.

Raggio and Leone (2007, p. 380) agree with Jones in terms of the view that brand value and brand equity are two separate constructs. Still, they propose a definition to describe them: “Brand equity moderates the impact of marketing activities on consumer’s actions... and represents one of the many factors that contribute to brand value.” Brand value is defined as “the sale or replacement value of a brand, and which implies a company-based perspective”. Thus, according to Raggio and Leone, brand equity is what a brand means to the consumer and brand value is what a brand means to a firm. However, an aspect to consider is that in this definition, the sale and replacement value of a brand
may vary considerably, which results in ambiguity. Using the Gucci example discussed above, the sale value of Gucci at the time when the brand was experiencing a significant crisis could be much lower than the cost of building the Gucci brand from scratch. This means that its brand value would fluctuate considerably, depending on how it is calculated (sale cost or replacement cost). Furthermore, Raggio and Leone’s definition attributes the sale value to a company-based action, which is not always the case. During an acquisition, third parties (e.g. the acquirer) are the ones setting up the price of the companies they acquire. Then it is up to the target company (company to be acquired) to accept or reject that price.

This characterization is similar to Blois (2004, p. 24) who suggests that a brand has two facets: “The value from the customer’s perspective; and the value to the owner”. Under this approach, while both perspectives are related to each other, it does not necessary mean that the customer and the owner perspective are aligned. Mulberry may believe that their brand has high brand value, and then attempt to sell a bag for $4,500.00 dollars. At that price point, customers can get bags at brands with higher brand value such as Louis Vuitton or Dior. Thus, if consumers believe that the brand does not have a high enough brand value, they would refuse to purchase at that price. This has to do with the fact that the higher brand value a brand has, the higher price consumers may be willing to pay for an item from that brand versus a comparative brand with a lower brand value. As a result, due to lower sales, Mulberry will realize that it is necessary to lower the price of their bags to an amount that will be reflective of the value that the brand has in consumers’ minds.

The difference between brand value and brand equity is illustrated by Raggio and Leone (2007) with a case from non-luxury. In 1994, Snapple was bought by Quaker Oats for $1.7 billion dollars. At the time of purchase, about 50 percent of Snapple’s sales were generated at small convenience stores and gas stations, while most sales of Quaker Oats were made at large supermarkets and drug stores. Given Quaker’s inability to grow Snapple’s sales at supermarkets and drug stores, Snapple was sold for only $300 million after just 3 years. According to Raggio and Leone (2007), during this time the brand value of Snapple
decreased, while its brand equity was likely to stay at the same level or even increase, due to the offering of the product in supermarkets and drug stores. In this example, brand value is related to the valuation of the brand, while brand equity is related to the value that the brand has for consumers. In brief, as these examples show, the distinction between brand value and brand equity is not clear in the literature as it can relate to the valuation of a firm, or to how much it is worth it to the owner, but also to what a brand is worth for consumers.

2.3.1.2 How Brand Value/Equity Is Defined

Brand equity can be defined as “outcomes that accrue to a product with its brand name compared with those that would accrue if the same product did not have the brand name” (Ailawadi et al., 2003, p. 1).

Ailawadi et al (2003) elaborate on these brand outcomes and state the limitations of each of them:

- Customer mind-set. Measures consider strengths and weaknesses in a brand. These measures may be useful to strengthen brand equity, but are not useful to measure brand performance (e.g. profitability or market share) (Keller, 1993)

- Product-market. These measures consider the firm’s marketing activities, but do not include its future potential (Kamakura and Russell, 1993 cited by; Stahl et al., 2012)

- Financial-market. Measurements usually consider both current and future brand potential. Future value relies on assumptions which may be subjective (Simon and Sullivan, 1993)

In this definition, Ailawadi et al depart from the previous categorization of brand equity, and use the term to refer to how consumers perceive a brand, but also to how non-consumers (e.g. the company or investors), perceive it.

These outcomes are also recognized by Keller and Lehmann (2006) who define brand equity as the value accrued by its impact on the customer, product
market or financial market. As a result, brand equity is contingent with three key elements: How it is perceived by customers, the marketing actions undertaken by a brand and how it is valued in monetary terms. Thus, following Keller and Lehmann (2006), the brand equity of Dior would be made up of the perception of Dior’s current and potential customers towards the brand. Consequently, their brand equity depends on how often customers buy Dior, what they buy, how they display it and how they talk about it. These customer perceptions can be influenced, in part, depending on how Dior markets its products. In other words, perceptions depend on what Dior boutiques or points of sale look like, where they are located, how the products are offered or promoted to the consumer. Additionally, Dior, as a brand, has intangible value, which could be monetized based on the current and future sales associated with the Dior brand name. This value can fluctuate, depending on how the products offered by the brand are marketed; and how consumer perceptions of the brand influence current and future purchases of Dior products.

It should be highlighted that in these two definitions, unlike the definitions outlined in the previous section, a single term, brand equity, is used to refer to this concept, irrespective of being company- or consumer-related. Still, the recognition of these elements is not universal. For instance, as discussed above, Knowles (2008) only differentiates between two types of brand value, marketing/customer-based and financial/firm-based brand value. However, Davcik et al (2015, p. 5) do not differentiate between various types of brand value, but consider that brand value is a unified construct made of multiple elements including quality and consumer- and company-based intangibles in their definition:

*The value of the brand that derives from high levels of brand loyalty, perceived quality, name awareness and strong brand associations, as well as assets such as trademarks, patents and distribution channels that are associated with the brand.*

In summary, while there is no agreement in the literature in terms of what brand value and brand equity are (Christodoulides et al., 2015); most of the existing definitions share two common aspects: Actions related to the consumer and
actions related to the firm. The implication of these considerations is that brand value is made up of two components; consumer- and company-based. Consumer-based brand value relates to consumer perceptions and actions; while company-based brand value relates to actions undertaken by a brand. Thus, in order to facilitate the understanding of this topic and to avoid confusion, the term brand value will be adopted in this thesis (instead of brand equity).

2.3.2 Consumer-Based Brand Value

Brand value is the reason why consumers can be attracted to or put off by a brand. At first, a brand may be identified with the product it manufactures, but over time, attachments and associations beyond that product can be developed. These attachments or associations are created by factors such as advertisements and usage experience (Keller and Lehmann, 2006).

Ambler and Barwise (1998, p. 370) define consumer-based brand value as “the marketing asset that exists in customers’ minds and is of continuing value to the brand owner because it influences future purchases by the buyer and the buyer’s network through word of mouth”. For example, if luxury consumers have a positive opinion of Lanvin and they desire their products, they are more likely to buy them. Similarly, these customers are more likely to talk about Lanvin to acquaintances and friends, which in turn, may drive interest into the brand. Ambler and Barwise’s definition does only refers to future purchases, despite the fact that current purchases are also likely to be dependent on customers’ perceptions of a brand. This definition also seems to exclude potential customers whose opinion of a brand will also depend on their own perceptions.

Srivastaya and Shocker (1991, pp. 91-124) define brand value as: “A set of associations and behaviors on the part of a brand’s customers, channel members and parent corporation that permits the brand to earn greater volume or greater margins than it could without the brand name and that gives a strong, sustainable and differential advantage”. In this definition, consumer brand value is created by consumers’ associations and behaviors related to a brand.
An illustration of this can be an unbranded Hermès bag. Even if the bag was produced by Hermès, and has the same quality and design as a branded Hermès bag; customers would not be willing to pay the same price for the unbranded bag just because it did not have a logo or label associated with the brand. An interesting consideration in this definition is that brand value is not limited to consumer perceptions and actions, but also to stakeholder views (channel members).

According to Knowles (2008, p. 22), consumer-brand value is perceived as a way of “developing approaches that more accurately characterized the nature and strength of a customer’s relationship with a brand”. This definition associates brand value with a brand relationship someone has with a brand, a concept not present in the other definitions outlined in this section. Furthermore, this definition ignores that not all consumers have a relationship with a brand, and still it can generate value. For example, aspirational customers may not be able to afford a Dior dress, but they may talk about the brand to their friends. Thus, aspirational customers will generate value for Dior should their friends purchase Dior products because of their recommendation.

In addition to these definitions, Aaker (1991) proposed a comprehensive model to explain consumer-based brand value. According to Christodoulides (2015), Aaker’s model of consumer-based brand value is the most commonly used in empirical analyses. Aaker (1991, p. 15) defines brand value as: “A set of assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or that firm’s customers”. Then, to complement his definition, Aaker proposes that brand equity (brand value) is based on five dimensions: Brand loyalty, brand awareness, perceived quality/leadership, brand associations/differentiation and market behavior (Aaker, 1996). Additionally, Aaker considers that brands provide value to consumers by enhancing customer’s interpretations, information processing, confidence in purchasing decisions, and satisfaction; which, in turns, provides value to the firm. Value to the firm is provided by enhancing marketing programs, brand loyalty, price margins, brand extensions, trade leverage and a firm’s competitive advantage (Aaker, 1996). An interesting
consideration of this model is that it recognizes the correlation between consumer- and company-based brand value; as consumer actions translate into actual brand value. This correlation is seen in Srivastaya and Shocker, and in Davcik et al in the previous section. An illustration of the correlation between consumer- and company-based brand value was provided in the Dior example in the previous section. Accordingly, following Aaker, what Dior decides to produce, the level of quality it sets, the price points it defines, the way it promotes its products, and creates customer satisfaction, will result in consumer impact. This suggests that consumer actions conducted by Dior will result in consumer awareness, loyalty, perceptions in terms of quality and brand leadership, and purchase decisions. Therefore, depending on how positive or negative these consumer actions and perceptions are, the brand value of Dior could increase or decrease. While Aaker’s model is comprehensive in nature, it places significant weight on perceptions. Further, it fails to consider that to some extent, perceptions need to be based on an actual reality. For example, for someone to have a valuable perception of Dior, he/she may need to be familiar with the customer experience provided by the brand, or with the design features of Dior products. In other words, it is not possible to create positive consumer perceptions if the brand is not offering something on which these perceptions can be based. This means that there are additional elements creating brand value.

In addition to the elements proposed by Aaker, Keller (2003a, p. 596) considers that brand knowledge is a source of brand value, as it can create different consumer responses and affect the outcome of “brand-building marketing programs”.

He actually defines customer-based brand value as: “the differential effect of brand knowledge on consumer response to the marketing of the brand” (Keller, 1993, p. 8). He elaborates on this definition by indicating that customer-based brand value is related to how consumers react to the marketing mix of a brand as compared to the marketing mix of an unbranded product or service. Thus, consumer-brand value only occurs “when the consumer is familiar with the brand and holds some favorable, strong, and unique brand associations in memory”
(Keller, 1993, p. 17). This definition, unlike the one provided by Knowles above, does not link brand value to a brand relationship, but to an association which can encompass potential and future customers.

Figure 4 below provides an overview of the different dimensions of brand knowledge and their components. Brand knowledge is defined in terms of brand awareness and brand image. Brand image relates to the brand associations that customers have in their memory; while brand awareness relates to brand recall and recognition (Keller, 1993).

Keller’s model of the dimensions of brand knowledge suggests that if consumers have knowledge of a brand, they will be able to recall and recognize that brand better. Similarly, due to brand knowledge, consumers will build in their minds an image of the brands they know. This image would be related to the particular links consumers have with a brand. Moreover, these links will be dependent on many aspects, including the type of benefits customers think they
get from a product, how they use it, and the physical characteristics of it. In practical terms, knowing a brand like Gucci implies that customers are going to recognize it whenever they see the Gucci logo or their traditional red and green interlock. Likewise, customers could be more receptive to brand-related aspects such as the high price of Gucci products, their brown and golden boxes, or the experience provided by wearing their products.

In addition to the dimensions of brand knowledge discussed above, Keller (2003a) also mentions that there are four secondary sources where brand knowledge exists, especially in competitive markets:

a) People. Employees and endorsers
b) Places. COO and channels
c) Things. Events, causes, third party endorsements
d) Other Brands. Alliances, ingredients, company, extensions

In other words, marketers in competitive markets need to relate their brands with other people, places, things or other brands in order to achieve brand knowledge, as marketing programs themselves may not achieve this (Keller, 2003a). This is to say, that in the case of Gucci, brand knowledge could be increased by employees and brand ambassadors promoting the brand; by associating the brand with a country (Italy); by supporting the arts through its Gucci Museo in Florence, and by engaging in non-profit causes like the Global Citizen Festival in NYC.

An additional approach in terms of consumer-based brand value is the approach proposed by Keller and Lehmann (2006, p. 745) who consider that the value of a brand ultimately depends on “the words and actions of consumers”. More specifically, they state that consumer-based brand value can be captured in the following five components:

a) Awareness - Ranges from brand recognition to brand recall
b) Associations - Includes tangible and intangible attributes in a product or service
c) Attitude - Ranges from brand acceptability to attraction
d) Attachment - Can range from brand loyalty to brand addiction
e) Activity - Comprises purchasing/consumption frequency and customer involvement with the firm’s marketing program, the company itself, or customer’s worth of mouth

Keller and Lehmann’s model includes many similarities to Keller’s model discussed above. However, the main difference relies on the inclusion of customer activities. To put it simply, when a customer engages with a brand such as Cartier he/she will be creating value for the brand by conducting actions such as: Talking about Cartier with friends and acquaintances; participating in the events organized the brand; wearing Cartier products; and conducting repeated purchases at Cartier boutiques. As is the case with Aaker’s model, Keller and Lehmann also recognize the interrelation between consumer- and company-based brand value, as customer activities are likely to result in actual brand value for a firm.

In summary, this section provides a theoretical foundation to understand the concept of consumer-brand value. As discussed above, there are different approaches to consumer-brand value. However, what is evident from the literature review is that consumer-based brand value is not a simple construct and in fact is influenced by many factors, not only actions in control of a brand, but also the reactions of consumers to them. Finally, there is evidence in the literature regarding the correlation between consumer- and company-based brand value. This evidence makes a strong case to approach the study of brand value as a whole, rather than just considering each portion of brand value in isolation.

**2.3.3 Company-Based Brand Value**

As much as it occurs with consumer-based brand value, there are also different approaches to company-based brand value. These approaches can be divided into two categories: Financial and Accounting-based. A discussion of these approaches is provided in the sections below.
2.3.3.1 Financial Approaches

A strong brand serves many purposes to a firm including increasing the effectiveness of advertisements and promotions, secure distribution, protecting the product from competition, and aiding growth (Keller and Lehmann, 2006). Along these lines, Simon and Sullivan (1993, p. 29) define company-based brand value as “the incremental cash flows which accrue to branded products over and above the cash flows which would result from the sale of unbranded products”. Keller and Lehmann (2006, p. 745) define company-based brand value as the “additional value (i.e. discounted cash flow) that accrues to a firm because of the presence of the brand name that would not accrue to an equivalent unbranded product”. Furthermore, they state that from a financial perspective, brands are assets that can be purchased and sold and, thus, the financial value of a brand is the price it can bring in the financial market. Additionally, they argue that market prices incorporate future cash flows at discounted value. An everyday example of this could be the actual share price of a luxury company, such as Hermès. Following Keller and Lehmann (2006, p. 745), the actual price at which Hermès shares are sold in the stock markets would not only reflect the market conditions in the current economy, but a percentage of their price is likely to reflect the revenues that Hermès is likely to accrue in the future due to the cache associated with its prestigious brand name.

Knowles’s (2008, p. 23) definition of company-based brand value is similar to the one proposed by Keller and Lehmann. Knowles defines company-based brand value as “the incremental cash flow that accrues to the company as a result of owning a brand”. It is important to highlight that unlike what is argued by Aaker and Keller and Lehmann in terms that consumer-based brand value can lead to company brand value, Knowles believes that consumer preferences do not necessarily translate into revenue for a firm. Based on this view, the fact that someone talks about Cartier and wears Cartier does not necessarily result in more revenue to Cartier. However, this ignores that someone wearing and using Cartier may influence others to buy Cartier, and then generate revenue for the company. Lastly, something not present in the definitions of the financial approach to brand value is that the financial value of a brand depends on
company-based actions. For instance, pricing decisions or product characteristics, which are all decided by a company, can influence brand sales, which in turn can impact the financials of a brand. Therefore, more clarity is needed in terms of what creates brand value.

2.3.3.2 Accounting Approaches

Another approach to define brand value can be from an accounting perspective, an approach that started to emerge in the late 1980s and 1990s with a wave of mergers and acquisitions. At that time, several firms were purchased at a price which was several times over their book value, and consequently, accountants developed new standards to quantify this difference. Originally, brand value was calculated as goodwill, or the difference between how much had been paid for a company and the book value of its assets. This meant that accountants did not recognize the consumer-based value of a brand. They only recognized the trademark, or the intellectual property on which a brand is created (Knowles, 2008).

The concept of valuating intangible marketing assets from an accounting perspective is under development. For instance, the International Valuation Standards Council (IVSC) published guidance GN 4 in 2010, which describes the recognized techniques to valuate intangible assets, including brands (IVSC, 2010). In addition, in order to provide further direction on these valuation approaches, IVSC published in 2012 Technical Information Paper (TIP) 3, Valuation of Intangible Assets, to complement GN 4 (IVSC, 2012). Three years later, these standards have not been widely adopted, and most reported intangible assets on balance sheets are still the result of business acquisitions (Tornero, 2015). Similar efforts to create standards for brand valuation are also been developed in the United States by the Marketing Accountability Standards Board (Sinclair, 2011). This effort, known as Brand Investment and Valuation (BlV Project) will include incorporate general principles and standards to valuate brands (Marketing Accountability Standards Board, 2015).
Moreover, in practical terms, the reporting of intangible assets when a transaction such a takeover occurs, underestimates the value of a business. As an illustration, a brand like Armani owns a number of production facilities, stores, and equipment. Those assets are reported based on the actual value they have. However, if Armani would be sold, the price that a buyer would pay for the brand would be very different than the book value of the company. In fact, Armani would be sold at multiple times the price of those assets because of its ability to generate revenue solely because of the Armani name. As a side note, in non-luxury, brand value is also present, and in fact it is also significant. According to Interbrand (2015), Google has over $120 billion dollars in brand value, while Coca-Cola has a brand value of $78 billion and McDonald’s $39 billion. To put these figures into perspective, the highest ranked luxury brand listed in the report is BMW with $37 billion in brand value; while Louis Vuitton has a value of $22 billion. Thus, while brand value is important for many industries, within luxury it is absolutely essential, considering that luxury products have high margins, are highly undifferentiated, and most of their value come from the intangible value associated with the brand. This does not occur in non-luxury, where for example, it was possible to buy a cheeseburger from McDonald’s Dollar Menu for $1 dollar, while its real cost could be close to the $0.90 dollar range (McDonald’s long-standing Dollar Menu was faced out in January 2016). Instead, within luxury, a $1,000 dollar Gucci bag could be priced in the region of $2,000 because of the value carried by the Gucci brand. Thus, to be able to sell a $1,000 dollar bag in $2,000, Gucci needs to rely on its brand value (as the intangible portion of the bag could be close to 200 percent). For McDonald’s, brand value could influence whether a customer will buy a burger at their restaurants or at Burger King, KFC or Wendy’s. However, unlike Gucci (or any other luxury brand), the intangible portion of a McDonald’s burger is much lower (about 10 percent, based on the previous example). As a result, this characteristic makes brand value within luxury essential.

To summarize, there is a significant difference between the reported value of a brand (according to book value), and its actual value (taking into account its intangible assets, such as brand value). Thus, there is a real need for brands to
adopt intangible asset reporting on a regular basis and not just when takeover
transactions occur.

Finally, in terms of the implications of accounting-based brand value for this
thesis, it is important to mention that due to the fact that the adoption of
intangible asset reporting is still in its infancy (Knowles, 2008; Sinclair and Lane
Keller, 2014). Moreover, the academic and trade literature on the topic is very
limited. Therefore, this is an area that will not be looked at in this thesis.
Instead, with respect to company-based brand value, only the financial-based
approach will be explored.

2.3.4 Working Definition of Brand Value

As discussed in the previous sections, there are considerable differences
between consumer- and company-based approaches to brand value. It is evident
that there is no agreement in the literature on what brand value is and how it
can be measured. However, both consumer-based and company-based
approaches are the most prevailing approaches in the literature. Consumer-
based brand value is centered on how consumers and brands interact; while
company-based brand value is related to how performance is measured (Davicik
et al., 2015).

To sum up, the key characteristics of consumer- and company-based brand value
are presented in Table 10 below.
Literature Review

<table>
<thead>
<tr>
<th>Company-Based Brand Value</th>
<th>Consumer-Based Brand Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interested in the impact of firm strategies and decisions on investor expectations</td>
<td>Focused on consumer reactions, marketing strategies and decisions</td>
</tr>
<tr>
<td>Shareholders are the most relevant stakeholder and its focus is to maximize shareholder value</td>
<td>Consumers are the most significant stakeholder and focus is based on attitudes and behaviors</td>
</tr>
<tr>
<td>It is measured using company data, information from stock markets, financial statements and reports</td>
<td>It is measured using consumer data, which is gathered through surveys or experiential research</td>
</tr>
<tr>
<td>Its domain is the creation of shareholder value</td>
<td>Its domain is the creation of customer value</td>
</tr>
<tr>
<td>Appropriate to assess brand performance within a certain period. The financial value of a brand is useful for decisions related to company buy outs, mergers, brand licensing or when a brand is planning to enter in new markets</td>
<td>Useful for brand-management decisions</td>
</tr>
</tbody>
</table>

Table 10: Main Characteristics of Company-Based and Consumer-Based Brand Value

As presented in Table 10 above, both consumer- and company-based brand value complement each other. On one side, companies need to measure business performance to make sure they experience growth and keep competitive. On the other, companies need customers to generate revenue. Without customers, companies would not have a reason to exist. In brief, the actions conducted by consumers have an impact on brand performance, and accordingly, brand value needs to be studied as a unified construct which considers both the company and the consumer side (Davcik et al., 2015).

Significant definitions of consumer and company-based brand value outlined earlier in this chapter fail to provide a holistic picture of this construct (see Jones, 2005; Keller, 1993; Knowles, 2008; Raggio and Leone, 2007). Moreover, these definitions provide competing views as to how and which actors create
brand value (e.g., consumers or shareholders), and also how similar actors create value. With regard to consumer-based brand value, consumers can create value by reacting to marketing actions (Keller, 1993); while for others value can be created by the intensity of a brand relationship (Knowles, 2008). Similarly, shareholders can create value by favoring a brand over another while making investment decisions. In terms of company-based brand value, value can be estimated depending on the price at which a company brand is sold (Raggio and Leone, 2007), but also on the future cash flows associated with a brand name (Keller and Lehmann, 2006). Due to these divergences, it is necessary to propose a working definition of brand value for the purposes of this thesis. To arise at a working definition of brand value, a review of the definitions presented in section 2.3 was conducted. From this review, broader definitions were selected, to allow more flexibility as to which elements create brand value. Any definitions based on the accounting approach or looking at the value of a company brand (based on a sale price or future cash flows) were excluded. The reason behind this exclusion is that the scope of this thesis does not include the quantification (in monetary terms) of the value of a brand. Using these criteria, the following definitional components were selected:

- “Outcomes that accrue to a product with its brand name” (Ailawadi et al., 2003, p. 1)
- Valued accrued by its impact on the customer (Keller and Lehmann, 2006)
- The asset that exists in customer’s minds (Ambler and Banvise, 1998)
- “Set of assets and liabilities linked to a brand” (Aaker, 1991, p. 15)
- The value of a brand is dependent on “the words and actions of consumers” (Keller and Lehmann, 2006, p. 745)
- Brand value needs to be studies as a unified construct which considers the company and consumer side (Davcik et al., 2015)

Based on the elements outlined above, the following working definition of brand value is proposed for this thesis:

*Positive or negative outcomes that accrue to a product or service due to its brand name. These outcomes are the result of company actions and consumer actions and perceptions related to a brand*
This definition is suitable for this research as it considers that brand value can be based on consumers and companies. Moreover, it recognizes that brand value can fluctuate, and be higher or lower, depending on how positive or negative company or consumer actions are. Furthermore, while this definition provides clarity on who creates brand value and how, it also provides flexibility. Thus, company- and consumer-brand-related actions could become potential contributors to brand value. This flexibility is especially important, considering that this research is explorative and there is no agreement in the literature with regard to which determinants create brand value. Lastly, this definition is also general in nature, as it can be applied to products and services, which is consistent with the scope of this research.

2.3.5 Brand Value in Luxury

While there is extensive literature on both consumer- and company-based brand value; there is very limited literature about brand value within luxury. This lack of research on brand value in luxury is a significant gap in knowledge, considering that brand value is the most significant asset a luxury firm has (Okonkwo, 2007).

Within the scarce body of literature on brand value in luxury, there are a few key studies that need to be discussed in order to gain an understanding of the state of research within this area.

Steemkamp (2014) analyzed brand value attributes for different types of brands, including prestige and premium brands, which based on the definition they use to classify them, could be considered luxury. Premium brands are characterized by their superior quality which is backed up by R&D or design, and can use COO to reinforce their quality message. Another characteristic of premium brands is that they charge a price premium to create market consistency. Prestige brands rely heavily on marketing and are characterized by providing lifestyle and emotional benefits, and also use COO to fuel brand interest and increase credibility. Moreover, another characteristic of prestige brands is that they are selective, charge premium prices, and usually possess a global supply chain.
While this study provides a deep understanding of the key attributes of luxury, it fails to analyze how each of these attributes ranks in terms of brand value. Likewise, this study analyzes elements related to consumer-based brand value, but it neglects company-based determinants.

Fionda and Moore (2009) proposed seven success dimensions for luxury fashion brands: Brand marketing strategy, product and design, price exclusivity, communication strategy, brand leadership/designer, distribution strategy and heritage. According to the authors, luxury fashion companies rely on marketing efforts to create a brand name, emotional appeal, awareness and reputation. They also rely on the key characteristics of luxury such as premium quality, heritage and innovation to produce and design their products. Furthermore, luxury fashion companies charge price premiums and limit production to create exclusivity, and have a tightly controlled distribution to sell their products.

There are four important considerations deriving from Fionda and Moore’s study. First, the study provides a good understanding of the luxury fashion industry highlighting the elements that create a luxury fashion brand. Second, the results of the study are based on interviews with the industry. Therefore, they are reflective of the specific characteristics of that sector. Third, it appears that most of the dimensions proposed by Fionda and Moore could be applicable to the entire luxury industry, and not just luxury fashion. For example, luxury companies need to have the right marketing and communication strategies in place to be able to sell their products and services, but more importantly, create a dream around them. Similarly, luxury products need to be high on design and craftsmanship. That is why the luxury industry puts a significant level of effort in high-level craftsmanship and hiring talented individuals to undertake these design efforts. Moreover, luxury also needs to be exclusive, as exclusivity is an epitome of luxury. To help fuel its exclusivity, luxury also relies on controlled distribution strategies, so that luxury brands are not overexposed in the marketplace. Fourth, this study does not actually look at brand value, but only lists characteristics of the industry that could be associated with brand value creation. Thus, there is no empirical evidence in this study on which factors create brand value in luxury.
In addition to the elements discussed above, Kim et al (2014) stated that for brand value, in addition to marketing, brands need to build on customer relationship management and build long-term relationships with customers. The results of Kim et al are derived from a quantitative analysis using consumer data. Despite its relevance within the area of consumer-based brand value in luxury, this analysis is just based on a sample of 1,000 consumers selected randomly. Likewise, this study only looks at consumer perceptions but fails to analyze company-led actions such as design or marketing that could contribute to brand value creation. Lastly, this study ignores company-side brand value, and as a result, it only explains a limited proportion of the whole brand value construct.

In summary, as discussed in this section, the current literature on brand value in luxury is highly limited, and existing research fails to study the topic of brand value from a holistic perspective. Moreover, in terms of brand value and CSR, as discussed at the end of section 2.2.3.1; the existing literature is not focused on luxury, and the proposed models fail to include both consumer-based and company-based determinants of brand value. This lack of literature in luxury and brand value is not only a concern from an academic perspective, but also from a practitioner point of view, as brand value is a key asset in luxury and it needs to be leveraged appropriately.

Additionally, despite the existing limitations in this research field, as discussed throughout this entire chapter, there is a considerable amount of literature on the topics of luxury, brand value and CSR. While to a certain extent is possible to draw on this knowledge to study CSR and brand value in luxury, it is important to note that these three topics have not been studied together, which points out the need for this thesis. The following section outlines the factors that according to the existing literature on luxury, brand value and CSR, are likely to contribute to brand value within the luxury industry.
2.3.6 Main Contributors to Brand Value

As discussed earlier in this chapter, this thesis seeks to understand the role of CSR in luxury by contextualizing it within the other factors influencing brand value in luxury. It is important to take into account that brand value is made up of both consumer and company-based brand value, which are determined by a number of different factors. CSR is just one potential factor within the whole spectrum of potential determinants of brand value. Therefore, to fully reveal the importance of CSR for brand value, CSR cannot be studied in isolation, but needs to be studied alongside which the other aspects of brand value.

Based on the literature review conducted for this research, a number of potential determinants of brand value in luxury, in addition to CSR, were identified. In terms of company-based brand value, five potential contributors were drawn from the literature on luxury: Marketing, COO, R&D/Design, controlled distribution and counterfeiting. These contributors were complemented with company size, which was identified in the non-luxury literature. Finally, in terms of consumer-side brand value, two key contributors were identified: Brand associations and consumer activity; and brand awareness. All these potential contributors/determinants of brand value form the basis of the theoretical framework for this research, as discussed below. Table 11 outlines these contributors to brand value, including their source.
<table>
<thead>
<tr>
<th>Source</th>
<th>Category</th>
<th>Contributor</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kapferer (2009)</td>
<td>Company-based Marketing</td>
<td></td>
<td>Marketing is a tool that helps create customer perceptions and brand awareness</td>
</tr>
<tr>
<td>Kapferer (2009)</td>
<td>Company-based COO</td>
<td></td>
<td>Brands find value in associating themselves to leading countries, depending on their field of expertise</td>
</tr>
<tr>
<td>Chevalier (2012)</td>
<td>Company-based R&amp;D / Design</td>
<td></td>
<td>R&amp;D and design are key elements in the creation of tangible luxury products, which constitutes the core offering of luxury brands</td>
</tr>
<tr>
<td>Fionda and Moore (2009)</td>
<td>Company-based Controlled Distribution</td>
<td></td>
<td>Controlled distribution can help control how luxury is sold</td>
</tr>
<tr>
<td>Melo and Galan (2011), Torres et al (2012)</td>
<td>Company-based Company Size</td>
<td></td>
<td>The luxury marketplace is made up of global brands, which seem to have an advantage over smaller brands</td>
</tr>
<tr>
<td>Kapferer and Michaut (2014), Wilcox (2009)</td>
<td>Company-based Counterfeiting</td>
<td></td>
<td>Counterfeiting may affect customer perceptions of a brand and reduce brand value</td>
</tr>
<tr>
<td>Keller and Lehmann (2006), Aaker (1996)</td>
<td>Consumer-based Brand Associations and Consumer Activity</td>
<td></td>
<td>Consumer-based brand value depends on what consumers associate a brand with, and how they use and communicate about it</td>
</tr>
</tbody>
</table>
As discussed throughout this chapter, brand value is created by both the company and the consumer. Company-based brand value is created by company-lead actions including CSR, marketing, controlled distribution, company size, R&D/Design, COO and preventing the occurrence of counterfeiting. Consumer-based brand value is created by customers being aware of a brand; by how they associate themselves with that brand; and how they use it and talk about it. These company-based and consumer-based determinants of brand value constitute the theoretical framework for this research (see Figure 5). It is important to highlight that the determinants of brand value in this theoretical framework emerge from the literature, as summarized in Table 11 above. This theoretical framework was refined through a qualitative analysis and then tested through a quantitative analysis, as stated in Chapter 3: Methodology.
To summarize, first, luxury is a sector with its own attributes and business models and, therefore, to study it, is necessary to take these differences into account. One of these key differences is that within luxury, the psychological attributes of the product or service in question take precedence over the physical characteristics. Second, within luxury, it is essential to actively manage a brand’s reputation and ensure that the brand is not perceived negatively by consumers and stakeholders. A significant factor that could have such effect is CSR, as it is increasingly being expected in the luxury industry by stakeholders, and to a lesser extent, by consumers. Therefore, it is essential for all luxury brands to look at CSR and implement it. In the end, brands are valuable assets, and, as consequence, the value of a brand needs to be leveraged accordingly. Third, while CSR can have an effect on brand value; brand value is a complex construct which is made up of both consumer and company-side brand value. CSR is just one factor within the entire universe of brand value. Thus, to understand the role of CSR in luxury it is necessary to look at the whole construct of brand value from a holistic perspective. In other words, by solely
focusing on CSR within brand value it would only be possible to get a myopic understanding of the role of CSR in luxury and how brand value is created within this industry.

The following chapter discusses the methodology selected to analyze the topic of CSR and brand value in luxury. More specifically, it discusses the research methods used to determine how CSR together with the other potential determinants introduced in Figure 5 can contribute to brand value in luxury.
Chapter 3: Methodology

As discussed in Chapter 2 (section 2.2.3), Corporate Social Responsibility can have an impact on the value of a brand. However, brand value is a complex construct where CSR is just one contributor within a larger universe of brand value determinants (see section 2.3.6). To be able to understand the role of CSR on brand value in luxury, it is necessary to contextualize this construct within a range of other factors influencing brand value within this industry. To guide the research on this topic, as stated in the Introduction, the following RQs were crafted:

**RQ1: What is the role of CSR in luxury?**
- RQ1a) How is CSR perceived by the luxury industry?
- RQ1b) Do CSR actions undertaken by luxury companies contribute to brand value?

**RQ2: How is brand value perceived by the luxury industry?**

**RQ3: What other factors create and maintain brand value in luxury?**
- RQ3a) What consumer-driven factors create and maintain brand value in luxury?
- RQ3b) What company-driven factors create and maintain brand value in luxury?

The following sections of this chapter present the approach selected for this research, including its epistemological and ontological basis, together with a comprehensive account of the methodology that was followed.

### 3.1 Research Approach

This section discusses the concept of research paradigm, on which this thesis is based. Guba and Lincoln (1994, p. 107) define paradigms as a “worldview that defines, for its holder, the nature of the “world”, the individual’s place in it, and the range of possible relationships to that world and its parts”. Brand (2009, p. 432) complements this definition by defining a paradigm as “the ultimate
framework within which a piece of research is located”. Paradigms are critical in social science research, as they inform and guide readers on the approach that is used in a piece of research work (Guba and Lincoln, 1994). Since every person perceives the world differently, it is important to state which research paradigm drives a research project, as in the end, it is something that contributes to increasing the validity and credibility of a study (Creswell and Miller, 2000).

It is important to mention that there is no agreement in the literature in terms of how many research paradigms exist (Brand, 2009). Thus, this section seeks to discuss the most relevant paradigms to conduct this research and position this research in terms of a research paradigm. According to Guba and Lincoln (1994), a research paradigm has three components: Epistemology, ontology and methodology. These three components are discussed in the sections below.

### 3.1.1 Epistemological and Ontological Approaches

Epistemology refers to “the nature of the relationship between the knower or the would-be knower and what can be known” (Guba and Lincoln, 1994, p. 108). In other words, an epistemology will dictate the role that a researcher will take while working on a research project. With this in mind, Guba and Lincoln (1994, p. 108) state that if a researcher is interested in seeking reality, they need to detach from the project so that it is possible to “discover how things really are and how things really work”.

Saunders et al (2012) state that for business and management research there are four common philosophies to consider: Pragmatism, positivism, realism, and interpretivism. Pragmatism refers to how experiences and subjective views depending on a RQ can provide knowledge. As part of this approach, various points of view are embedded into the research, so that they help interpret data. Under positivism, observable phenomena are essential to produce credible data. This approach seeks to identify causality or generalization to elicit phenomena to its most essential components. Realism refers to the fact that observable phenomena
allow the researcher to obtain credible research outputs. However, data is subject to interpretation and, therefore, it is necessary to put it into context. Finally, under interpretivism, reality is subjective, as there are different reasons behind an action. Thus, this approach is centered on the details of a particular situation, as reality is shaped by them (ibid, 2012).

Ontology refers to the world view, or the assumptions made about a certain phenomenon (Möller and Halinen, 2000). According to Peter (1992), there are two main ontologies; realism and relativism or constructionism. Realism considers that there is a reality which can be understood, but it is subject to evaluation and testing to be able to know it. Constructionism considers that there are various views of reality, which can be constructed using the views of individuals or groups. Therefore, under constructionism, there can be various realities.

### 3.1.2 Methodological Approaches

For each of the epistemologies and ontologies presented above there is a matching research methodology that is consistent with the characteristics of those approaches. In terms of business research, Saunders et al (2012) mention four main methodological techniques, applicable for pragmatism, realism, interpretivism and positivism respectively. For pragmatism, a mixed method approach using quantitative and qualitative approaches is appropriate. For realism, qualitative or quantitative methods tailored to the subject area are suitable. For interpretivism, research involving small and detailed samples and qualitative research is a good fit. Lastly, for positivism, it is important to have large data sets and use rigorous methodologies to measure and analyze the data. Under this approach, it is possible to use both quantitative and qualitative methodologies. However, it should be noted that according to Baran and Jones (2016), the selection of quantitative, qualitative or mixed methods should be based on the fact that it can effectively answer the research questions.
A final element to consider in any research design is the reasoning approach that will be selected. Following Saunders et al (2012), there are three reasoning approaches that can be followed; deductive, inductive and abductive:

1. **Deductive.** The purpose of the deductive approach is to identify causality between variables and theory. In particular, after reviewing the literature on a topic, the researcher develops a theory based on the literature review phase. Then, the researcher will craft hypotheses, which will be tested using quantitative data. As part of this process, a structured methodology needs to be selected; the variable to be measured needs to be expressed in its simplest form (reductionism); and then, a measure would need to be created so that it is possible to measure it (operationalized). Finally, in order to be able to make a generalization, it would be needed to have an appropriate data sample.

2. **Inductive.** For this approach, it is usual to collect data so that researchers can get familiar with a topic and understand what is happening. This step will result in a proposed theory or conceptual framework which can be refined later on. For inductive approaches, it is more appropriate to have a smaller amount of data so that it is possible to understand the setting within something occurs. An important characteristic of an inductive approach is that it is more flexible than a deductive approach. Considering that it is less rigid, it allows for alternative explanations than having a stricter definition which may be predetermined.

3. **Abductive.** This approach does not move from theory to data or data to theory as in deductive and inductive reasoning, but is a combination of these approaches. Abduction starts by observing unexpected phenomena and then developing theory to explain it. Unexpected phenomena can be observed at any point in the research process. As part of an abductive approach, detailed data would be collected so that it is possible to explain phenomena and themes emerging around a topic. With this information, it would be possible to construct a theory and then test it with data.
3.1.3 Selected Approaches

The previous sections in this chapter outlined the most common ontological, epistemological and methodological approaches for research purposes. For this research, a realist approach will be used. Realism is defined by Zachariadis et al (2013, p. 857) as: “A view of reality as an open and complex system where other mechanisms and conditions also exist”.

The reality of CSR and brand value in luxury is open and complex, something that justifies the selection of a realist approach for this research. As discussed in Chapter 2, the complexity of the luxury is based on the fact that it has its own business model, and it has differences by category and type of product. Similarly, CSR within luxury is complex and open, as there are differences on how it is perceived by the industry and luxury consumers, and in the way it can impact luxury brands. Lastly, there is also complexity in the concept of brand value in luxury, considering that it is formed of multiple factors, which are dependent on consumer and company-based actions. Thus, from a realist perspective, given that CSR and brand value are complex concepts, it is possible to have various mechanisms and conditions creating brand value in luxury. For example, in terms of brand value, at the present time, the customer experience is considered to be a core element within luxury. However, in the past, product differentiation among luxury brands was more important than the customer experience. According to Sayer (2000, p. 10), the objects of study under social sciences “are the product of multiple components and forces... we cannot isolate out these components and examine them under controlled conditions”. That is why, in his opinion, researchers have to rely on abstraction and conceptualization (Sayer, 2000).

Therefore, from a realist perspective, it is possible to analyze the determinants of brand value that, in addition to CSR, are relevant to both the industry and consumers by conceptualizing them. Still, following Sayer (2000), there is always a possibility that different causes produce the same effects. As consequence, the
role of CSR in luxury; and how CSR, together with other factors, influence brand value in luxury is complex and it can be attributed to multiple mechanisms.

In terms of the reasoning approach selected for this thesis, a deductive approach was chosen. This suggests that theory will lead to observation and findings (Bryman and Bell, 2011).

Regarding the methodology selected for this research, both qualitative and quantitative research methods are appropriate for a realist approach (Sayer, 2000; Zachariadis et al., 2013); but these two research methods have advantages and disadvantages. According to Bryman (1984), quantitative research is normally used for social research while qualitative approaches are appropriate to study social phenomena. For example, under a quantitative approach, research instruments are used to operationalize concepts, which in turn, results in quantitative data. Another characteristic of quantitative methods is that the researcher and the subject keep some distance. There is also a possibility to conduct external checks based on the research instrument. Additionally, replication can also occur within quantitative research by using the same research instrument with different research subjects.

Qualitative research differs from quantitative research in the sense that the former seeks to see “the social world from the point of view of the actor” (Bryman, 1984, p. 77). Bryman states that because the focus of qualitative research is to understand a context from the view of the research subject; there is involvement between the research subject and the researcher. Also, qualitative research is considered more flexible than quantitative research as it seeks to discover novel or anticipated findings, and can allow modification of research plans based on those discoveries (ibid, 1984).

To bridge the gap between quantitative and qualitative methods, a third approach, known as mixed methods research, can be used. Johnson et al. (2007, p. 129) define mixed methods as:
Mixed methods research is an intellectual and practical synthesis based on qualitative and quantitative research; it is the third methodological or research paradigm (along with qualitative and quantitative research). It recognizes the importance of traditional quantitative and qualitative research but also offers a powerful third paradigm choice that often will provide the most informative, complete, balanced, and useful research results.

To complement this definition of mixed methods, Venkatesh et al (2013, p. 23) state that mixed methods research “uses quantitative and qualitative research methods, either concurrently (i.e. independent of each other) or sequentially (e.g. findings from one approach inform the other), to understand a phenomenon of interest”.

There are various advantages of using mixed research methods. A key advantage of mixed research methods over standalone quantitative and qualitative research, is that the former allows “multiple worldviews” (Venkatesh et al., 2013, p. 23). That is to say, mixed methods allows for stronger inferences than a single method. Moreover, by gathering findings from both approaches (qualitative and qualitative) under mixed methods research, it is possible to address the shortcomings of each separate method. For instance, qualitative interviews allow researchers to gain deep insights from narratives; while quantitative data can add breath to a study by including information and views from a large number of participants. Another advantage of using mixed research methods is that, sometimes, standalone quantitative and qualitative methods may provide contradictory or complementary findings if they are used together. Therefore, these findings can enrich the knowledge around a topic and can also help understand the relation between a topic and the factors that determine it (ibid, 2013). Harrison and Reilly (2011) consider that while using mixed research methods, the quantitative portion of a study can be helpful to explore relationships among variables and try to also understand questions such as who or where. In contrast, the qualitative portion can explain questions such as why and how.
Harrison and Reilly (2011) and Venkatesh et al (2013) outline the main advantages of selecting a mixed method research approach; including completeness, complementarity, explanation, unexpected results, and utility. By taking these advantages into consideration, as well as the epistemology and the ontology presented earlier in this chapter, a mixed method approach was selected to conduct this thesis. These reasons were particularly important for selecting a mixed-method approach for this research:

- **Completeness.** Brand value in luxury is very complex. The results obtained from the quantitative portion of the research do not fully provide an understanding of the role of CSR within luxury and how it and other factors contribute to brand value. Therefore, the qualitative interviews are useful to better understand CSR and each determinant of brand value. By using only a qualitative or quantitative approach, only one worldview on CSR and brand value would be provided.

- **Complementarity.** The qualitative portion of the analysis informs the statistical analysis. In that way, it is possible to get a more holistic view of how brand value in luxury is created.

- **Explanation.** The quantitative portion of this research only shows which brand value determinants are statistical significant. Thus, by conducting ‘credibility checks’ (qualitative interviews), it is possible to explain the reasons behind why those determinants are statistically significant. Similarly, the interviews also help explain why some of the potential determinants of brand value were found to be irrelevant.

- **Unexpected Results.** CSR and brand value in luxury is a complex topic. Thus, certain variables were found to be statistically significant (or insignificant), whereas the literature initially suggested otherwise. By having full descriptive accounts of each variable it is possible to understand the unexpected results of this research.

- **Utility.** By using qualitative and quantitative research approaches, the results of this thesis are more useful, as they are presented from two worldviews. By taking into account those two worldviews, it is possible to uncover the key
determinants that affect brand value in luxury. Thus, it can be easier for practitioners to leverage those determinants.

In summary, by selecting a mixed method approach, it will be possible to compensate for the shortcomings of using a purely quantitatively or qualitative approach. Moreover, this thesis will provide a more complete account of the role of CSR in luxury and how it contributes to create brand value with other factors by incorporating different views on the topic. Finally, it will be possible to increase its utility to both practitioners and academia as quantitative findings, including unexpected results, will be supported by qualitative data.

It is important to highlight that there is not a single mixed method approach. In fact, there are different mixed methods approaches. According to Creswell and Clark (2006) there are four main types of mixed methods designs:

1. Triangulation. Combine quantitative and qualitative data to comprehend phenomena
2. Embedded. Use qualitative or quantitative data to respond to RQs which are part of a larger quantitative or qualitative study
3. Explanatory. Use qualitative data to explain quantitative results; or vice versa
4. Exploratory. Use quantitative data to test and identify relationships in qualitative data

For this thesis an exploratory approach was selected. According to Creswell and Clark (2006), as part of an exploratory mixed method approach, the research starts with a qualitative phase, where the opinions of the interviewees are explored and analyzed. Then, this information is used as the basis to design a follow-up quantitative phase.

Figure 6 presents an overview of how this research was conducted. First, it starts with a conceptual framework derived from the literature review. Then, qualitative interviews are conducted to refine the conceptual framework. After refining the
conceptual framework, a database is built using data BAV and additional secondary sources. BAV data is based on consumer panels. Additional secondary sources include data from Bloomberg, CSRHub, DJSI and company reports. After building the database, a quantitative analysis of the framework with a larger data set is conducted. Finally, the results of the statistical analysis are subject to ‘credibility checks’ (qualitative interviews), so that it is possible to explain them and conclude which are the most relevant determinants of brand value in luxury.

Figure 6: Overview of Exploratory Research Approach Used
The sections below present the qualitative and quantitative approaches selected for this research.

3.2 Qualitative Approach

To be able to understand the role of CSR in luxury and how CSR, together with other factors contribute to brand value within that industry, qualitative data was collected from luxury industry executives and stakeholders in the form of semi-structured interviews. The data was analyzed using thematic analysis, so that it was possible to identify themes within the data. The following section provides an overview of the data collected as well as the methodology used to collect and analyze this qualitative data.

3.2.1 Selection of US Data for Qualitative Phase

The qualitative component of this thesis is mainly based on US data. The US luxury market is larger than China, France, Italy and Japan combined (D’Arpizio et al., 2014). In fact, over the past 10 years, the luxury industry has experienced over 30 percent growth in the US (Giovannini et al., 2015). Within the US, NYC was selected to collect qualitative data as the city is the largest urban luxury market in the world (D’Arpizio et al., 2014) and the city is considered to be one of the fashion capitals of the world (Lejarza et al., 2012; Manlow and Nobbs, 2013). Most global luxury companies, as well as luxury stakeholders and emerging brands have offices in Manhattan; as NYC is seen by top brands as a prime location (Husic and Cicic, 2009). Historically, the city was home to over 90 percent of US garment production; and while production levels decreased, New York is now considered a global fashion hub (Vanderbilt, 2011). The city hosts not only world-class designers, but also dozens of emerging designers and brands. Thus, based on its relevance within luxury, it was a natural choice to recruit and interview luxury executives and stakeholders in NYC. Therefore, 17 interviewees out of 21 were recruited in New York. Further details on the interviewees, the recruitment process and the interviews themselves are provided below.
3.2.2 Recruitment Process

The first step of the recruitment process involved the creation of a screening list with the most important luxury brands in the world. In order to identify as many candidate firms as possible for that list, three main sources were used, including Interbrand global and regional lists, Standard & Poor’s (S&P) Global Luxury Index, and Brand Directory. These listings were complemented with companies participating in New York Fashion Week in Spring 2013. By choosing companies from these listings, the universe of candidate firms included the brands with the largest brand value, and top leaders in their field. Moreover, by considering firms participating in New York’s Fashion Week, the views of emerging brands which are too small to be included in Interbrand or S&P’s listings, could also be considered for this thesis.

With the aim of receiving diverse views, stakeholders specializing in brand value or luxury and brand and sustainability managers at luxury firms were identified. After compiling this list, point of contact information for each company was collected and added to a spreadsheet. A recruitment message was sent to each of these contacts. Messages were sent via LinkedIn, email, and through the company’s own websites.

The recruitment message invited stakeholders, brand and sustainability managers to participate in an academic study on brand value and luxury. The email included the project timeline, what their potential involvement would be, as well as the voluntary and confidential nature of their participation. Over 200 organizations were contacted. A copy of the letter is included in Appendix A.

The main outcome from this contacting exercise was that only a small percentage of firms responded and most of those who responded were unable to participate due to confidentiality issues or internal policies. Nevertheless, despite these difficulties, 9 interviewees were recruited through this approach.
12 additional interviewees were recruited as result of both snowballing and outreach efforts at two events, the 2013 Annual Luxury Roundtable organized by the Luxury Education Foundation at Columbia University in NYC; and the 2014 Monaco Symposium on Luxury. In total, 21 interviewees were recruited. A snowball technique was selected as it is suitable for qualitative research when the population is small and show unusual characteristics (Riley et al., 2000; Voicu and Babonea, 2011). A characteristic of this research is that the luxury industry is relatively small and highly secretive, which makes it very difficult to get access to industry managers. A key reason why a snowball technique was used is that, as stated by Riley et al (2000, p. 88), this approach is especially useful when “respondents might otherwise be reluctant to publicly participate in a research project”. The difficulty in gaining access within the luxury industry was highlighted by Carrigan et al (2016), who conducted a study of the jewelry sector in the UK, and used snowballing approaches to identify interviewees. It is important to highlight that interviewee recruitment via snowballing was highly successful for this research.

### 3.2.3 Interviewees

Interviewees for this research include executives from some of the most prominent names in luxury (see Table 12), together with some firms specializing in brand value. The reason behind selecting executives and managers for this research, is their expertise in the subject matter and, hence, their ability to make a more valuable contribution to this research. The selection of luxury executives and stakeholders is in line with Churchill’s experience survey approach which consists of selecting subject experts with experience in the topic being studied, so that they are able to offer insights into a topic (Christodoulides et al., 2006; Churchill, 1979).

Due to anonymity guarantees to all interviewees and confidentiality agreements executed with all the participating companies, interviewee names or company affiliation will not be disclosed in this thesis. Moreover, pseudonyms will not be
used in this thesis, so that it is not possible to link interview responses to an individual organization.

Table 12 below presents an overview of the interviewees who participated in this project.

<table>
<thead>
<tr>
<th>Interviewee's Position</th>
<th>Sector and Company Description</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer (CEO)/Founder</td>
<td>Emerging luxury company specialized in furs</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President, Retail (now CEO)</td>
<td>Jewelry and watch company. Company is included in Interbrand's Best Global Brands List</td>
<td>Luxury company</td>
</tr>
<tr>
<td>International Director</td>
<td>One of the largest auction houses in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President, Strategic Planning</td>
<td>One of the largest diamond companies in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Senior Vice President, Marketing</td>
<td>Global luxury brand owned by one of the three largest luxury conglomerates in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>CEO/Founder</td>
<td>Emerging luxury company specialized in menswear and accessories</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Senior Director, Education and Sustainability</td>
<td>European coffee roasting company</td>
<td>Luxury company</td>
</tr>
<tr>
<td>CEO/Founder</td>
<td>Emerging luxury company specialized in jewelry</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Marketing Director</td>
<td>Niche lifestyle luxury company</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Interviewee’s Position</td>
<td>Sector and Company Description</td>
<td>Category</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Manager</td>
<td>Luxury clothing company owned by one of the three largest luxury conglomerates in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President, Customer Experience</td>
<td>Luxury company specialized in leather goods. Included in Interbrand’s Best Global Brand List</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Director of Digital Media</td>
<td>Emerging luxury company specialized in women’s fashion</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Director of Marketing</td>
<td>Luxury company specialized in jewelry. The company is owned by one of the three largest luxury conglomerates in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President, Marketing</td>
<td>High-jewelry company. The company is owned by one of the three largest luxury conglomerates in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President, Sales and Marketing</td>
<td>Owner and operator of hospitality establishments in the French Riviera</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Associate</td>
<td>Luxury conglomerate with a flagship brand included in Interbrand’s Best Global Brand list</td>
<td>Luxury holding company</td>
</tr>
<tr>
<td>Vice President</td>
<td>Consulting firm specialized in brand value</td>
<td>Stakeholder</td>
</tr>
<tr>
<td>CEO</td>
<td>Consulting firm specialized in brand value</td>
<td>Stakeholder</td>
</tr>
<tr>
<td>Managing Director</td>
<td>Firm specialized in stock market indices</td>
<td>Stakeholder</td>
</tr>
<tr>
<td>Manager</td>
<td>Company specialized in sustainability research and analysis</td>
<td>Stakeholder</td>
</tr>
<tr>
<td>CEO</td>
<td>Niche consulting firm specialized in luxury</td>
<td>Stakeholder</td>
</tr>
</tbody>
</table>

**Table 12: List of Interviewees**

It is important to point out that the number of interviewees recruited for the thesis was solely dependent on saturation criteria, as it was possible to have recruited an
additional number of interviewees, if necessary. Bryman and Bell (2011, p. 507) state that saturation criteria occurs “once one is able to anticipate what people are going to say on a certain analytic category”. Seidman (2012) considers that saturation is reached when a researcher is no longer learning anything new from the interviews. At that point, it is recommended to stop data collection (Bryman and Bell, 2011). For the qualitative interviews 21 interviewees were recruited. After conducting 21 interviews, it was possible to anticipate the responses from the interviewees and there was no new input that could enhance the analysis. Therefore, there was no need to recruit an additional number of interviewees.

3.2.4 Interviewing Approach

To gather the qualitative data for this thesis, an interviewing approach was selected. Since this research phase was aimed at collecting data from high-level individuals, ranging from Chief Executive Officers (CEOs) to managing directors and managers, it was necessary to adopt an approach that would be appropriate for this group. According to Saunders (2012), interviews are more appealing than surveys or questionnaires, as long as the topic is interesting and relevant to the interviewee. Moreover, Saunders highlights that this data collection method is especially attractive for managers as they will not need to write anything down during the interview, and also addresses the issue of them not wanting to provide company information to someone they do not know (ibid, 2012).

Another advantage of using interviews for this research is the value that can be added to the research by personal interaction rather than by conducting a survey (Saunders et al., 2012). As discussed in Chapter 2, there are differences within the luxury industry in terms of product categories or degree of luxury. There is also lack of agreement in the literature regarding the implications of CSR for the industry and these differences within luxury. Therefore, personal interaction with executives and stakeholders is valuable, as it allows the capture of interviewee’s opinions and insights into the topics discussed (Bryman and Bell, 2011). The insights provided can add richness to the output of this research.
According to Saunders (2012), there are three main types of interviews: Structured, semi-structured and unstructured. Structured interviews use standard questionnaires with identical questions. Structured interviews are generally selected when the responses will be quantified numerically. Semi-structured interviews use a set of core themes to be explored but it is also possible to combine them with key questions. As part of semi-structured interviews it is possible to ask questions in response to what it is being said during the interview. Unstructured interviews are used to explore a topic in depth with no pre-determined questions but only an overall idea of the topic that will be explored.

For this research a semi-structured interviewing approach was selected. This approach is the most common style used in elite interviewing (Leech, 2002), a category which most of the interviewees for this research fall into. Structured interviews were ruled out as this thesis did not seek to translate interview output into numeric scores. Unstructured interviews were not selected either, as most interviewees were high-level executives with busy schedules, which would make this approach impractical. Using a semi-structured approach in this research is appropriate, given the complexity of CSR and brand value. Moreover, since this research seeks to gain a holistic understanding of this construct and its main determinants, using a semi-structured approach keeps the interviewee focused. Similarly, such approach provides flexibility as it keeps the interview conversational, as interviewees are free to comment on what is important to them (Fossey et al., 2002). A further consideration is that eight potential contributors to brand value, in addition to CSR, were identified; as highlighted at the end of Chapter 2 (see Figure 5). One of the purposes of the qualitative interviews was to explore those topics. Therefore, a semi-structured interview ensures that those themes are covered within the limited time available for the interview. All these advantages make semi-structured interviews highly appropriate to gather qualitative data for this thesis.
The following sections of this chapter present the steps followed to conduct the interviews, including the themes and questions that were asked.

3.2.4.1 Selection of Grand-Tour Question

As outlined below, the opening of the interviews was preceded by a grand-tour question. Grand-tour questions are especially useful at the beginning of the research; in this case an interview, as they allow interviewees to convey their expertise about a topic (Wood and Ford, 1993).

Topics for grand-tour questions can be related to time, space, activities or objects (Spradley, 1979). For this research, a grand-tour question was selected as the goal was to gain an understanding of CSR and brand value in luxury. More specifically, the grand-tour question was to ask interviewees to explain their feelings and thoughts on brand value. The purpose of asking such a question, was to encourage brand value experts to verbally convey their knowledge about this topic freely (Wood and Ford, 1993). This included their views on whether CSR was important for brand value in luxury (without having to ask about it). By doing so, they would be able to point-out from the very beginning what was relevant in terms of brand value without being influenced by the themes that would follow during the course of the interview.

3.2.4.2 Theme Selection

A list of potential determinants of brand value and themes was identified during the literature review phase of this project. These determinants and themes were:

- CSR
- Company size
- Consumer-based brand value
- Controlled distribution
- Counterfeiting
- COO
• Importance of brand valuations for their organizations
• Marketing
• R&D/Design

During the interviews, questions were derived from those themes, so that it would be possible to gain an understanding as to the relevance of each determinant of brand value. To allow for greater flexibility, interviewees were encouraged to depart from those themes and to highlight anything that could affect brand value in luxury. Any relevant themes emerging from the interviews were considered for addition to the previous list of themes. For example, control was not included in the initial themes but given its importance to the interviewees, it was added to the list. This approach is in line with Bryman and Bell (2011, p. 467), who highlight that qualitative research is flexible, and that “interviewers can depart significantly from any schedule or guide”. Thus, it is possible to respond to the direction taken by interviewees and follow-up on relevant topics mentioned during the interview (ibid, 2011).

3.2.4.3 Preparing the Interviews

According to Richards (1996), once an interviewee has accepted to participate in an interview, it is recommended to provide a brief synopsis of the research and the areas that would be discussed during the interview. Following Richards (1996), a week before each interview, interviewees were sent an email explaining what the project was about. In that email, as interviewees had previously requested, a list of questions was provided to them, so that it would be possible for them to come prepared to the interview.

Following there is a list of the questions sent to interviewees in advance of the interviews:

Grand-Tour Question:
• What are your general thoughts or feelings regarding brand value (from the company perspective)?

Other Aspects to Consider for the Interview:
• Does the company have any thoughts on sustainability?
• What are the main determinants/variables that create brand value for the company?
• Are any of those determinants less/more important?

3.2.4.4 Interviewing Process

The interviews were conducted between October 2013 and April 2014. Given the location and/or the schedules of some of the interviewees, 9 interviews were conducted via conference call. The calls were conducted from NYC, and the interviewees’ locations were Monaco, Paris, Milan and NYC. The remaining 12 were conducted in person. All in-person interviews, which the exception of one that was conducted in Boston, took place in NYC.

The interviews lasted approximately one-hour each. Interview duration was contingent with the time required to cover all the intended topics but also with the time each interviewee had available for the interview. This approach is consistent with Bryman and Bell’s position on interview length for qualitative research. Bryman and Bell recognize that there is significant variation in how much time an interview should take and that generally all interviews are revealing, irrespective of their duration (Bryman and Bell, 2011).

To open the interviews the standard guidelines proposed in Saunders (2012) were followed. First, the interviewer thanked the interviewees for their participation. Interviewees were reminded of: The purpose of the research; that the information provided would be anonymous; that they had a right not to respond to the questions; that they could withdraw from the study at anytime and their participation was voluntary; the format of the interview; and how the research would be used. Additionally, interviewees were asked for permission to record the
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Interview and to follow-up. Interviewees were also given the opportunity to ask about the research project in order to clarify any questions or concerns they could have. These guidelines are in line with the ethical approval obtained from the University to conduct this research. A copy of the ethical approval letter is provided in Appendix B. After this introduction, the interview continued with the questions. Lastly, the interview was closed by asking the interviewees to recap upon which were the most and least important variables for brand value from everything that was discussed during the interview. The purpose of ending the interview in this way was to allow interviewees to have an opportunity to comment on any relevant aspects that may have been overlooked during the interview (Bryman and Bell, 2011).

3.2.4.5 Interview Recording and Transcription

It is necessary to reemphasize that due to the secretive nature of the luxury industry, it was a priority of this research to avoid a potential conflict between interviewees from the industry and their employers. This approach had an impact on how interviewees were recorded and transcribed. 17 interviews were recorded. The purpose behind recording the interviews was to make it easier to produce a transcript of what was discussed to aid analysis. Interview recording is mandatory for approaches such as conversation and discourse analysis (Bryman and Bell, 2011) but these approaches were not used in this thesis. Instead, the interviews were analyzed using a thematic analysis approach (Braun and Clarke, 2006). Under this approach, recording and transcribing interviews is useful to be aware of emerging themes (ibid, 2011). Further details on this analytical approach are provided in section 3.2.5.

It is important to note that in 4 instances, interviewees did not grant authorization to be recorded. This type of occurrence can be found in the literature, especially when interviewing elite interviewees (Aberbach and Rockman, 2002). In the 4 instances where it was not possible to obtain permission to record the interviews, extensive handwritten notes were taken during the interviews in accordance with
the approach conducted by Herps (2013). Then, following Britten (1994) and Pollock et al (2002), handwritten notes were transcribed immediately after each interview so that it was possible to capture the responses provided during those interviews and analyze them subsequently.

### 3.2.5 Data Analysis

As mentioned earlier in this chapter, to analyze interview data, thematic analysis was selected. Thematic analysis can be defined as “a method for identifying, analyzing and reporting patterns (themes) within the data” (Braun and Clarke, 2006, p. 79). To put it differently, it is helpful to arrange and characterize data with a high level of detail (ibid, 2006).

Thematic analysis has been used extensively in marketing and luxury research (E.g. Granot et al., 2013; Hollebeek, 2011; Japutra et al., 2014; Kim et al., 2016; Miller, 2014). According to Granot et al (2013, p. 35), one of the main advantages that thematic analysis has over other qualitative data analysis is that it allows for a “convenient means of finding meaningful themes in large amounts of text”. Braun and Clarke (2006) elaborate further on the advantages of thematic analysis, highlighting its simplicity, flexibility, and the possibility to identify unexpected insights and pin-point similarities and differences in the data.

These advantages are highly relevant to this research. The combined transcripts from the interviews are dense as they equal almost 80,000 words. By selecting thematic analysis it is possible to find themes, in addition to CSR, surrounding brand value in luxury, to help gain a better understanding of these constructs. For this research, all themes, with the exception of CSR, emerged from the interviews. This approach follows Gladkikh et al (2013) regarding the use of both predetermined and emerging themes for thematic analysis. The reason why CSR was a predetermined theme is that CSR is a central topic for this thesis, and it is essential to understand its role within luxury and how it may contribute to brand value within the industry.
Data processing and analysis follows Braun and Clarke’s (2006) guidelines for thematic analysis. A summary of these guidelines, as followed in this project, is presented in Table 13.
**Step** | **Criteria**
--- | ---
Data Familiarization | Transcribe data, read and re-read it after transcription
Initial Coding | Code interesting features of the data in a systematic fashion across all the data by linking each relevant data piece to a code
Searching for Themes | Convert codes into potential themes
Reviewing Themes | Make sure that initial codes are relevant and that are relevant for all data. Generate a map of the analysis
Refining Themes | Refine each theme and the overall story from the analysis
Report Findings | Select compelling examples and relate back to literature and quantitative analysis

**Table 13: Steps to Conduct Thematic Analyses**

*Source: Braun and Clarke (2006)*

The specific steps conducted to perform the thematic analysis are discussed below. To complement this discussion, diagrams showing how the themes evolved are also presented.

**Data Familiarization.** As mentioned above, transcripts for each interview were prepared. After each interview, the recordings and the notes taken during the interview (as applicable) were transcribed into separate Microsoft word files. Then, all transcripts were read for accuracy and familiarization with what was discussed. To facilitate processing, a project folder was created in NVivo.

According to Woods et al (2015), NVivo is one of the two most commonly used Qualitative Data Analysis Software (QDAS), and in fact it is the preferred choice among researchers to manage interview data. The main advantage of using QDAS, and in this case, NVivo, was to support coding, and to facilitate differentiation and retrieval of coded data (ibid, 2015). For instance, NVivo has been successfully used
to code interview information and identify themes in a recent study related to luxury (Carrigan et al., 2016). All transcripts were uploaded into NVivo as internal sources and then were linked to a node for each specific brand. With regard to transcript preparation, according to Braun and Clarke (2006), the time spent transcribing the interviews informs the initial part of the analysis, and allows a better understanding of the data.

**Initial Coding.** After setting-up the project folder in NVivo each interview transcript was analyzed. Following Bryman and Bell (2011), coding was conducted while reading each data file. During this step, every relevant piece of text was linked to a node, depending on the content in question. The purpose of a node is that once a file has been coded it creates a reference to a specific topic which is then incorporated under a node (ibid, 2011). Nodes allow variables to be analyzed more effectively as it is possible to merge all data related to a given node making it possible to understand data better (ibid, 2011). For example, a portion of an interview talking about marketing would be highlighted and linked to the marketing node; or a portion talking about the importance of COO would be linked to the COO node. All nodes, except for CSR were not pre-fixed. Nodes were added to the project folder as needed, in order to allow for maximum flexibility. This approach is consistent with Braun and Clarke (2006), who state that initial coding is based on data features relevant to the researcher. It is important to note that NVivo was used exclusively to store the interview transcripts and to categorize (code) the information by topic. As a result, by searching for a particular node, it would be possible to get all the text from all the transcripts that were related to that topic. Following there is a list of nodes and sub nodes that were used, including a description of their meaning:
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- Additional Characteristics. Node used to initially categorize comments related to general characteristics of the luxury industry. While relevant, these characteristics appeared to be lower in importance than other factors discussed by interviewees.
  - Assets or Company Size. Subnode to categorize comments where a company advantage or disadvantage was attributed to company size or asset volume.
  - Awareness. Subnode to categorize comments related to the importance of ensuring that consumers and the general public are aware of the existence of a brand.
  - Brand Personality. Subnode to categorize comments related to how companies perceive their brands to be (e.g. intrepid, agile, bohemian chic).
  - Brand stature. Subnode to categorize comments on the level of exclusiveness a brand is perceived to have.
  - Brand strength. Subnode to categorize comments related to how important a brand is perceived to have.
  - Control. Subnode to categorize comments related to activities pursued by a brand to ensure consistency with regard to what they offer, including how and where.
  - Elasticity. Subnode related to comments on how a brand is able to expand its offerings by expanding their brands into other categories.
  - Financial Situation. Subnode to categorize comments related to the economic standing of a brand.
  - Heritage. Subnode to categorize comments highlighting the long history of a brand.
  - Leadership. Subnode to categorize comments related to brands considered leaders in their field; and actions that allow brands to be perceived in that way.
  - Perception. Subnode to categorize comments related to the importance of conveying brand values to ensure that a brand is perceived in the way it wants.

- Brand DNA. Node to categorize comments related to the importance of defining a brand and its values; and ensuring that brand considers them in everything they do.
- Brand Value. Node to categorize any comments on how brands perceive or define brand value.
- Consumer. Node to categorize comments highlighting the importance of consumers for brands.
- Country of Origin. Node to categorize comments related to the advantages or disadvantages of producing a product in a specific country (e.g. Switzerland, Italy, France).
- CSR. Node to categorize comments on environmental or social aspects.
- Distribution. Node to categorize comments regarding strategies used by brands to distribute their products.
- Economy. Node to categorize comments related to how economic conditions have impacted or can impact brands.
- Interview Recap by Interviewee. Node to categorize closing comments made by interviewees to highlight anything relevant that was not discussed during the interview.
  - Less Important. Subnode to categorize the factors that in the view of interviewees were less important for brand value.
  - More Important. Subnode to categorize the factors that in the view of interviewees were more important for brand value.

- Luxury Sectors. Node to categorize comments related to specific luxury sectors existing within luxury and their differences (e.g. accessories, jewelry, leather goods, etc.)
- Marketing. Node to categorize comments related to the importance of marketing within luxury and the strategies brands use to market luxury products and services.
- Pillars. Node to categorize any comments related to brand esteem, energized differentiation, relevance or knowledge.
- Pricing. Node to categorize comments related to pricing policies undertaken by luxury brands.
- Quality. Node to categorize comments regarding the importance of pursuing quality within luxury.
- R&D/Design. Node to categorize comments regarding the importance of R&D and design within luxury.
- Supply Chain. Node to categorize comments regarding pursued by luxury brands within their supply chain.
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Threats. Node to categorize comments related to the most significant present and future issues experienced/to be experienced by luxury brands today

Types of Brands. Node to categorize comments regarding how luxury brands could be classified based on their level of exclusivity
  o Luxury. Subnode to categorize comments regarding which attributes define true luxury companies
  o Premium Brand. Subnode to categorize comments regarding which attributes define premium brands (exclusive brands that are not at the same level as luxury brands)
  o Utilitarian Brand. Subnode to categorize comments regarding which attributes define utilitarian brands (brands producing reliable products with higher usage than intangible value)

Searching for Themes. To complement the previous step, each transcript was analyzed thoroughly in relation to the proposed nodes to identify initial key themes. According to Braun and Clarke (2006), searching for themes change the focus of the analysis from codes to themes, which are more specific. A theme encompasses all the relevant codes related to that particular topic. For this step, following Braun and Clarke (2006), a thematic map with five themes was prepared. These categories (or bins) reflect the prevailing topics discussed in the interviews:

  • CSR. How CSR is perceived within the luxury industry
  • Luxury. What the characteristics of luxury are. Important elements within luxury are: History/heritage, high-quality, a price point, that it helps create a dream, scarcity perception, and superior craftsmanship
  • Considerations. General particularities of the industry that need to be taken into account when studying it. Important considerations within luxury include differences by sector, category or company size, and threats such as counterfeiting
  • Brand Value. What constitutes brand value and how relevant it is within luxury. There are various variables, in addition to CSR, that can affect brand value. The most important are the product design, having control of the distribution, COO, and the customer experience. CSR was discussed separately (see first category above)
  • Marketing. Importance of marketing for brand value including marketing techniques undertaken by luxury companies. Luxury companies have a wide array of marketing techniques they use, including worth of mouth, their websites, social media, advertising, events, and educational activities
After this initial exercise, all nodes were allocated under each of the five themes. As part of this step, nodes were renamed and/or merged together to improve fit. Subthemes were also created in the case a theme did not fully explain a node. Finally, all resulting nodes were placed in a map under a theme/subtheme. The purpose of the map was to better understand what the initial themes and subthemes are and how they relate to each other. Figure 7 below presents the initial themes, subthemes and the different components for each of them that were identified.

**Figure 7: Initial Themes Emerging from Initial Transcript Search**

**Reviewing Themes.** Following Braun and Clarke (2006), candidate themes from the initial phase were reviewed to make sure that there was enough data to back them up; that they were coherent; or that they were able to be grouped together with
other themes (as applicable). After further analysis, the initial themes were reduced to four: CSR, luxury, ‘brand value management’ and brand value. Under the CSR theme, three subthemes were added: ‘Insurance policy’, philanthropy and not driving revenue yet.

The considerations theme that was present in the first diagram was found to be too broad. Therefore, it was renamed brand value management based on the fact that items such as company size or differences within luxury are important considerations when it comes to how a company manages its brand value. Also, counterfeiting was moved to brand value management, as it was a factor that could directly affect brand value.

The marketing theme was deleted and instead it was added as a subtheme under brand value. The main reason behind this change is that marketing is not a standalone component of the luxury industry, but it is part of the mix that creates brand value.

Another change was the one made to high-quality, which was moved from luxury into a new product characteristics subtheme under brand value. High-quality is normally found across luxury products and, therefore, it is a component of luxury. However, in the end, luxury companies sell both a product/service and an experience. High-quality is part of the product and as such is a contributor to brand value. Other elements such as price, history/heritage, and craftsmanship were discarded, as they are already part of either, the dream or the product characteristics subthemes.

In sum, in the second diagram, the luxury theme encompasses the main characteristics of the luxury industry. Brand value management considers that company size and luxury category play a key role in how brand value is managed at a luxury firm. Brand value includes the main variables that create brand value, exclusive to CSR. In terms of CSR, it is not considered to be driving company revenue yet, but it is perceived as an important factor within the industry in the
sense that it can constitute an ‘insurance policy’ in case something goes wrong at the brand level. The difference between ‘insurance policy’ and ‘not driving revenue yet’ is that ‘insurance policy’ refers to actions aimed at shielding a brand by avoiding potential costs related to a lack of CSR standards; while ‘not driving revenue yet’ refers to actions that are likely to increase revenue in the future by creating a competitive advantage or differentiation for luxury brands.

Additionally, from the different approaches to CSR, luxury companies appear to be focusing on its philanthropic aspects and not in the environmental or other social aspects of CSR. Figure 8 presents the reviewed themes.

**Refining Themes.** Following Braun and Clarke (2006), the themes and subthemes from the previous step were revised and rearranged; ensuring that there was not
much overlap among the themes and that they reflect the data collected during the interviews. This step resulted in two final themes, in addition to CSR: Luxury and brand value. Once these final themes were obtained, they were described, so that it was clear what each theme was about. CSR, luxury and brand value form the basis of the qualitative analysis included in Chapter 4, where each theme is analyzed into detail.

Figure 9 shows the refined themes and subthemes resulting from this step.

![Figure 9: Refined Themes](image)

CSR is approached in two new subthemes, drivers and implementation, as the CSR subthemes from the Reviewed Themes (Figure 8) could be encompassed into these two categories. For example, philanthropy is a way to implement CSR; while
constituting an ‘insurance policy’ or driving revenue are factors that can increase industry interest in CSR.

The luxury theme was re-arranged into two main components, what is perceived as luxury; and differences within luxury. With regard to luxury, the dream factor, which was present in Figure 8, was incorporated into perception, as projecting the dream of a brand to customers is just one of the perceptions that luxury brands can create. Luxury perception encompasses the main values for the industry to be considered luxury. Luxury is all about projecting a dream and, thus, there are factors that play a role in creating this perception. Similarly, with regard to differences within luxury, the other subthemes, brand type and luxury sectors were encompassed into this theme, as the heterogeneous nature of luxury can span beyond these two factors. The main outcome from this theme is that luxury is not homogenous, and the values or attributes that for some companies are important, may not be necessarily relevant for consumers. It is important to point out that, at first glance, these themes could be seen as self-evident and one may even argue that they could have been derived from the literature. However, they do capture how companies perceive luxury, and how brand value is perceived within the industry, together with the determinants of brand value that matter the most to the industry. These two research angles are not addressed in the current literature.

The brand value theme is related to how the luxury industry perceives brand value, and the key factors that contribute to create it. This theme is made up of four subthemes: Company size, Control, Marketing, and Product and Customer experience:

- **Company Size.** Important consideration in terms of how a company creates, increases, manages and leverages its brand value
- **Control.** Includes everything a brand does to maintain consistency across the brand. A part of control is controlled distribution, but also control of the message conveyed by the brand. In other words, there is much more to control than controlling the distribution or the supply chain
**Methodology.** Includes all the actions a company takes to communicate about the brand and product attributes. It is important to note that marketing is not only conducted by brands but also by consumers or stakeholders via word of mouth or social media. Thus, it is critical to convey the right marketing message in an effective way (Neudecker et al., 2015)

**Product and Customer Experience.** Luxury brands sell both a product and a customer experience, and these two elements are the most important for brand value. Product includes R&D/Design, and COO; while the customer experience includes what creates brand value in consumer’s minds. This is an important takeaway that was not evident during the literature review phase of this thesis

**Report Findings.** Following Braun and Clarke (2006), once the final themes have been produced, it is necessary to provide an account of data explanation for each theme. This account is supported with extracts and direct quotes from the interviews, and constitutes the evidence of the conducted analysis. All these elements are also discussed in relation to the literature, so that they help fulfill the research objectives of this research. Chapters 4 and 6 provide a full account of the findings from the qualitative phase of this research.

### 3.2.6 ‘Credibility Checks’

According to Karnieli-Miller (2009), after data collection, researchers can engage interviewees with the goal of enhancing the accuracy, and validity of the research. This reengagement can be conducted through follow-up interviews by commenting on emerging insights identified by the researcher, or by verifying respondents’ intended meanings. For the sake of clarity, and following O’Neill et al (2013) and Kardakis et al (2015), the validity process of asking interviewees to comment on research findings will be referred as ‘credibility checks’ throughout this thesis.

There is no agreement in the literature regarding the definition of ‘credibility checks’. For instance, Goldblatt (2011, pp. 389-390) mentions that while sharing
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research findings with participants is classified in the literature as member checking; other terms such as “informant feedback, respondent validation, member validation, interviewee transcript review or dependability check” are also found in the literature.

In terms of what type of content can be made available to respondents for ‘credibility checks’, there are various approaches that could be taken. Baxter and Eyles (1997) state that information can range from interpretations from one interview (low level of refinement) to multiple interviews (high level of refinement). Nevertheless, in Baxter and Eyles’ view, interpretations with a higher level of refinement are preferred as they are more meaningful.

With respect to how participants/interviewees can get involved in ‘credibility checks’, Karnieli-Miller (2009) states that there are different levels of involvement, ranging from allowing participants to transcribe or edit interview transcripts, to providing final drafts of the research product to them, or to provide emerging themes. As to when ‘credibility checks’ should occur, Karnieli-Miller (2009) considers that the research process (data collection, data analysis, report production) and validation are circular (non-linear) and can reoccur several times. In other words, it is valid to conduct ‘credibility checks’ at any stage of the research process, once the data collection has started.

For this research, and following Karnieli-Miller (2009), ‘credibility checks’ were adopted with the purpose of enhancing the validity of the preliminary findings obtained during the qualitative interviews with luxury managers and stakeholders. The approach selected was to reengage interviewees through follow-up interviews, so that they could comment on the preliminary findings for the thesis. To do so, interviewees were provided with emerging themes in the form of statements. The decision to choose statements was based on the literature of concept testing. While concept testing is normally used for market research, it has a number of advantages that make it suitable for this research. According to Lord (2000, p. 108), concept test is efficient because just concepts of appropriate strength “pass
this particular gate”. Concept tests help gain an understanding of reactions to the concept and its components. In a like manner, concept testing can use qualitative techniques, including in-depth interviews, which can provide knowledge on the interviewee’s reaction to the concept, together with its strengths and weaknesses (ibid, 2000). The ‘credibility checks’ for this research follows Geissler (2010) where concept statements were read to interviewees and interviewees gave open responses to evaluate their agreement or disagreement with the statement and justify their response. The statements for the interviews were crafted after conducting the thematic analysis described earlier in this chapter, so that the statements could have a higher level of refinement, which in the view of Baxter and Eyles (1997) is more meaningful.

To conduct the ‘credibility checks’, the 21 interviewees from the previous interview phase were contacted via email during Summer 2014. 15 interviewees of the 21 agreed to participate.

In order to strengthen the results from the ‘credibility checks’, it was decided to increase the number of participants by recruiting two additional interviewees. This increased the number of interviewees from 15 to 17 interviewees. These two additional interviewees were recruited after meeting with them at the 2014 Annual Luxury Roundtable at Columbia Business School, in NYC. It is important to highlight that for the ‘credibility checks’ it is not necessary to have exactly the same respondents as during the initial data collection phase. Elliot et al (1999) indicate that checks can also be conducted with informants that are similar to the original ones. This approach was in line with Chen (2012), who validated the results emerging from qualitative research with respondents who had not participated in the study, so that it would provide increased research fitness and ensure that the results accurately represented the views of interviewees. Therefore, following Elliot et al (1999) and Chen (2012), new interviewees with comparable positions and luxury expertise as previous interviewees were recruited for the ‘credibility checks’ (see Table 14). Consequently, it was possible to get a larger number of opinions on the results of this research and ensure their validity.
Table 14 presents an overview of the 17 interviewees who participated in the ‘credibility checks’. The table indicates the interviewees that did not participate in the initial qualitative interviews.
<table>
<thead>
<tr>
<th>Interviewee’s Position</th>
<th>Sector and Company Description</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Vice President, Marketing</td>
<td>Global luxury brand owned by one of the three largest luxury conglomerates in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>CEO/Founder</td>
<td>Emerging luxury company specialized in furs</td>
<td>Luxury company</td>
</tr>
<tr>
<td>International Director</td>
<td>One of the largest auction houses in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President, Strategic Planning ✧</td>
<td>One of the largest diamond companies in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Senior Director, Education and Sustainability</td>
<td>European coffee roasting company</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Marketing Director ♠ ✦</td>
<td>Niche lifestyle luxury company</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Manager</td>
<td>Luxury clothing company owned by one of the three largest luxury conglomerates in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President, Customer Experience ✧</td>
<td>Luxury company specialized in leather goods. Included in Interbrand’s Best Global Brand List</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Director of Digital Media ✧</td>
<td>Emerging luxury company specialized in women’s fashion</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Director of Marketing</td>
<td>Luxury company specialized in jewelry. The company is owned by one of the three largest luxury conglomerates in the world</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President, Sales and Marketing</td>
<td>Owner and operator of hospitality establishments in the French Riviera</td>
<td>Luxury company</td>
</tr>
<tr>
<td>Vice President</td>
<td>Consulting firm specialized in brand value</td>
<td>Stakeholder</td>
</tr>
</tbody>
</table>
### Table 14: List of Interviewees for ‘Credibility Checks’

It is necessary to emphasize that the ‘credibility checks’ took place once the preliminary results from the initial qualitative interviews and the statistical analysis were conducted. Thus, the ‘credibility checks’ include both the qualitative and the quantitative phase of this research. Based on these results, 12 statements were prepared. Statements were used for the ‘credibility checks’ interviews, so that interviewees could react to them. To allow interviewees to prepare and, hence, give more detailed responses, the statements were distributed in advance of the interviews. The statements are detailed in Appendix C.

Interviewees were asked to indicate if they agreed or disagreed with each statement and explain why. The statements addressed the following topics, in relation to how they contribute to brand value:

- **CSR**
- **Consumer-based brand value:**
  - Brand relevance
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- Brand esteem (i.e. brand reliability, leadership, and high-quality)
- Brand knowledge
- Energized differentiation (how dynamic, innovative, distinct and different) is the brand

- Company size
- COO
- Fully controlled distribution
- Product and customer experience as key determinants of brand value
- Controlling the message (marketing)
- Diversity of the industry

The interviews for the ‘credibility checks’ were conducted in NYC during October and November, 2014. The average interview duration was 30 minutes. 14 interviews out of 17 were allowed to be recorded. The interviews followed a semi-structured approach, as this interview format provides the flexibility to follow-up on specific ideas or issues emerging from the interviews (Fossey et al., 2002).

To open the interviews, and following Saunders (2012), the interviewer thanked the interviewees for their participation. As in the initial interviews, interviewees were reminded of: The purpose of the research; that the information provided would be anonymous; that they had a right not to respond to the questions; that they could withdraw from the study at anytime and their participation was voluntary; the format of the interview; and how the research would be used. Interviewees were asked for permission to record the interview and to follow-up. Additionally, interviewees were given the opportunity to ask any new questions they had about the research project as well as any concerns they could have. After this introduction, the interview started by asking the interviewees to react to each statement after being read by the interviewer. Interviewees were encouraged to respond yes, no, both yes and no, and to explain why. Finally, the interview was closed by asking the interviewees to recap on which were the most and least important variables for brand value from everything that was discussed during the interview. Thus, interviewees would have a new opportunity to comment on any
relevant aspects that could have been overlooked (Bryman and Bell, 2011). The responses from the ‘credibility checks’ were discussed and analyzed in Chapter 6 of this thesis.

As discussed above, this research uses a mixed method approach. Thus, in order to complement the previous discussion regarding the approach used for the qualitative analysis; the following section discusses the approach followed for the quantitative portion of this research.

3.3 Quantitative Approach

This section outlines the different steps followed for the quantitative analysis of this thesis. First, it discusses the data sources that were used to create the dataset to conduct the statistical analysis. Then, it includes a discussion on how the data was modeled and the research propositions that were tested.

The quantitative portion of this thesis was analyzed using linear modeling (lm) and correlation matrices in R software. To conduct this analysis a dataset was built using the following data sources:

- A database provided by BAV Consulting (BAV Database)
- Bloomberg suite
- Company reports and financial filings
- Databases with CSR information (CSRHub, ESG Disclosure Ratings and Dow Jones Sustainability Index Components)
- Interbrand’s 100 Best Global Brands

Once the database was built, three research propositions were tested. These research propositions emerged from the literature review and the qualitative analysis:

- Proposition 1 (P1): Consumers have a key role in determining brand value in luxury (see: Keller, 1993; Keller and Lehmann, 2006)
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- Proposition 2 (P2): Market capitalization in luxury is impacted by brand value (see: Keller and Lehmann, 2006; Simon and Sullivan, 1993; Steenkamp, 2014)
- Proposition 3 (P3): Luxury perception is related to brand value (see: Chandon et al., 2015; Fionda and Moore, 2009)

A further discussion on how these propositions were modeled is provided in Section 3.3.8 ‘Modeling Approach’.

3.3.1 Selection of US Data for Quantitative Phase

To be consistent, the quantitative component of this thesis is mainly based on US data. The reasons why US data for the qualitative phase were selected are discussed in Section 3.2.1. To conduct the quantitative analysis, it was possible to obtain access to a database from BAV, a NYC-based consulting firm, which owns a well-known dataset with consumer metrics. BAV collects consumer data on global luxury brands from 49 countries all over the world, but the frequency of data collection varies by country. This database was highly attractive for this research, as it allowed the incorporation of consumer-based brand value within luxury into this research. By adding consumer-based brand value to this research it was possible to fulfill the objective of studying brand value from a holistic perspective.

Table 15 below presents a summary of the countries BAV collects data on, including how often the data are collected.
<table>
<thead>
<tr>
<th>Country</th>
<th>Total Studies</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>3</td>
<td>1995, 1999, 2005</td>
</tr>
<tr>
<td>Austria</td>
<td>3</td>
<td>2006, 2009, 2011</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1</td>
<td>2008</td>
</tr>
<tr>
<td>Finland</td>
<td>2</td>
<td>1998, 1999</td>
</tr>
<tr>
<td>Guatemala</td>
<td>2</td>
<td>2001, 2005</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2</td>
<td>1997, 2012</td>
</tr>
<tr>
<td>Ireland</td>
<td>1</td>
<td>1999</td>
</tr>
<tr>
<td>Jordan</td>
<td>2</td>
<td>2005, 2009</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2</td>
<td>1997, 2001</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2</td>
<td>2000, 2005</td>
</tr>
<tr>
<td>Norway</td>
<td>2</td>
<td>1994, 1998</td>
</tr>
<tr>
<td>Peru</td>
<td>2</td>
<td>2001, 2004</td>
</tr>
<tr>
<td>Philippines</td>
<td>1</td>
<td>1997</td>
</tr>
<tr>
<td>Country</td>
<td>Total Studies</td>
<td>Years</td>
</tr>
<tr>
<td>-------------</td>
<td>---------------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>2</td>
<td>2001, 2010</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1</td>
<td>2006</td>
</tr>
<tr>
<td>South Africa</td>
<td>2</td>
<td>1994, 2010</td>
</tr>
<tr>
<td>South Korea</td>
<td>1</td>
<td>2012</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1</td>
<td>1997</td>
</tr>
<tr>
<td>UAE</td>
<td>1</td>
<td>2006</td>
</tr>
<tr>
<td>Uruguay</td>
<td>2</td>
<td>2001, 2005</td>
</tr>
</tbody>
</table>

Table 15: Summary of Available Historical Data

Source: BAV Database

The US was the country with the largest amount of available data in the BAV database. For instance, the US was the only country for which BAV had conducted 15 different studies. Due to the array of available data for the US and the fact that the US/NYC had been selected for the qualitative phase of the project, the US data set was chosen for the quantitative phase. By selecting US consumer data it was possible to increase reliability and to keep consistency across both the quantitative and the qualitative components of this research.

The subsequent sections of this chapter provide further details on the quantitative methodology used for this thesis. Sections 3.3.2 to 3.3.8 below discuss in detail the
BAV database, introduce the variables analyzed, and discuss how they were modeled.

### 3.3.2 BAV Database

One of the challenges of this research was to be able to find an existing source with data to be able to model consumer-based brand value in luxury. While other commercial databases on brand value were considered for this thesis, BAV’s database was selected given that it was fit for purpose and it was made available for this work. BAV’s database was considered as a solid choice as it is regarded as the largest dataset in the world based on consumer information (Keller, 2008) and it has been successfully used in a number of studies related to brand value (Mizik and Jacobson, 2009, 2008; Schuiling and Kapferer, 2004; Stahl et al., 2012). BAV’s database includes information on different variables related to how consumers perceive a brand; but its core components are made up of four marketing pillars or constructs: Energized differentiation, relevance, esteem and knowledge.

There are various advantages in using BAV data in this thesis. One of the strengths is that the data is based on responses provided by real consumers. According to Abimola et al (2012) and Tavassoli et al (2014) data from consumer panels are suitable to measure the influence of consumer behavior. Likewise, BAV data are based on consumer mind-set brand value (Stahl et al., 2012), which is an advantage, as in luxury, consumers play a fundamental role in creating brand value. Markedly, BAV data have been considered to be “a direct measure of consumer’s assessment of a brand” (Tavassoli et al., 2014, p. 680); and Lehmann et al (2008) found a relationship between BAV’s data and consumer-based brand value performance measures discussed in the literature. Another advantage of using the BAV database is that it includes a wide spectrum of brands. Because of the extent of the brands included in the database, the customer opinions collected on these

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1 See discussion in sections 2.3.2 and 6.7
brands are considered to be representative of the population (Tavassoli et al., 2014).

The following section outlines the purchasing categories and purchasing patterns of BAV’s consumer panel, so that it is possible to gain a better understanding of what and whom the data represents. The section is followed by information on the brands listed in the database and the constructs and variables that are measured.

3.3.2.1 Purchasing Categories in BAV’s Database

BAV’s database is based on data from a panel of over 17,000 consumers, who take a quarterly survey about their perceptions of brands. Panelists are well distributed by gender, as 48 percent of the panelists are male and 52 percent female. BAV has been conducting these surveys quarterly, since 2002. To join the panel, each consumer has to complete a demographic survey, so that BAV can divide the data into different categories. Panel members are on the panel for an average of two years, so they do not re-survey the same people all the time. Typically BAV receives about 14,000 responses annually with data on 3,500 brands (BAV Consulting, 2014). The database collects consumer data from consumer goods, electronics, vehicles, and financial products.

Table 16 provides an overview of key purchasing categories of the consumers polled in BAV’s panel.
As evidenced above, BAV’s consumer panel is very diverse, and a considerable percentage of its members consume luxury goods. For example, over 60 percent of them consume colognes or perfumes, as well as beauty products. The majority of

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Champagnes &amp; Sparkling Wines</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Designer Clothing</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>Beauty Products for Face, Skin or Nails</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>Colognes or Perfumes</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>Electronics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Digital Assistant (PDA)/Electronic Organizer</td>
<td>4%</td>
<td>96%</td>
</tr>
<tr>
<td>Personal Computer (Desktop)</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>Laptop or Portable Computer</td>
<td>66%</td>
<td>34%</td>
</tr>
<tr>
<td>Multipurpose Machine (Fax/Copier/Scanner)</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>Printer</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>Mobile or Cellular Phone</td>
<td>86%</td>
<td>14%</td>
</tr>
<tr>
<td>Consumer Electronics (e.g. stereo, TV, VCR)</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own/lease economy car</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Own/lease mid-priced car</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>Own/lease luxury car</td>
<td>9%</td>
<td>91%</td>
</tr>
<tr>
<td>Own/lease sports car</td>
<td>7%</td>
<td>93%</td>
</tr>
<tr>
<td>Financial Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card (Partial payment allowed)</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>Charge Card (Full payment required)</td>
<td>15%</td>
<td>85%</td>
</tr>
<tr>
<td>Debit Card</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>ATM Card</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Purchasing Habits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department Stores</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Specialty Apparel Retail Stores</td>
<td>28%</td>
<td>72%</td>
</tr>
<tr>
<td>Mass Merchandisers</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>Retail Clubs</td>
<td>30%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Table 16: Purchasing Categories in BAV’s Consumer Panel

Source: BAV Database
large luxury brands have entered into the fragrance and beauty segments, because of their relatively low price these segments constitute a significant source of revenue and a point of entry to the brand. Additionally, almost 60 percent of the panelists make purchases at department stores, which are important distributors of luxury brands (Chevalier and Mazzalovo, 2012).

It is important to note that it is not clear that all panelists are luxury consumers. However, the panel purchasing categories suggest that they may well be. Still, this situation does not constitute a limitation for this thesis, as a fundamental part of luxury is based on creating and sustaining a dream (Kapferer and Bastien, 2009). Therefore, even if someone does not buy a luxury product now, he/she may consume luxury in the future and, consequently, that person’s perceptions of a brand would still be relevant from a brand value perspective. Moreover, luxury consumption is not homogeneous (Kastanakis and Balabanis, 2014), hence, using data derived from a wider spectrum of panelists is consistent with this characteristic of the luxury industry.

3.3.2.2 Brand Selection

The year selected for the study was 2013, as it was the most recent dataset available in spring 2014, when the data for the quantitative portion of this thesis was gathered. In terms of company information, BAV’s database had data on 236 brands. These brands were categorized as luxury by BAV, but the rationale for inclusion was not disclosed. While this list has some of the most prestigious luxury brands in the world, it also includes brands that may not be considered luxury universally. As discussed in Chapter 2 (section 2.1.1), there is no consensus regarding what constitutes luxury. However, in section 2.1.1.1 of this thesis a working definition of luxury was proposed. Thus, for this research, luxury is defined as: “a well-known, credible and respected product or service that consumers can associate with upper class and prestige”. As a result, for purposes of this analysis, it is assumed that the 236 brands preselected by BAV are luxury brands. This approach follows Walley and Li (2014, p. 3) who consider that “what represents
luxury to one person may not represent luxury to another”. This approach is also consistent with Cristini et al (2017) who consider that the concept of luxury is asymmetric, and for luxury to exist, it is not necessary that all definitional characteristics of luxury are present. Lastly, the selected working definition of luxury reflects the heterogeneity in the concept of luxury highlighted by Kapferer and Laurent (2016). This heterogeneity implies that the ‘frontier of luxury’ for beers could start at Guinness in the US market, while for watches it could start at Citizen or Fossil.

Following there is a list of the 236 brands included in BAV’s database that were originally considered for this research:

<table>
<thead>
<tr>
<th>Acura</th>
<th>BMW Motorcycles</th>
<th>Claiborne</th>
<th>Embassy Suites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfa Romeo</td>
<td>Bobbi Brown</td>
<td>Clinique</td>
<td>Emirates Airlines</td>
</tr>
<tr>
<td>American Express</td>
<td>Bosch</td>
<td>Club Med</td>
<td>Esprit</td>
</tr>
<tr>
<td>American Tourister</td>
<td>Bose</td>
<td>Coach</td>
<td>Estee Lauder</td>
</tr>
<tr>
<td>Ann Taylor</td>
<td>Boss/Hugo Boss</td>
<td>Leatherware</td>
<td>Evian</td>
</tr>
<tr>
<td>Anne Klein</td>
<td>Botox</td>
<td>Cross Pens</td>
<td>FAO Schwarz</td>
</tr>
<tr>
<td>Apple</td>
<td>Braun</td>
<td>Crown Royal</td>
<td>Fendi</td>
</tr>
<tr>
<td>Apple iphone</td>
<td>Breitling</td>
<td>Crowne Plaza</td>
<td>Ferragamo</td>
</tr>
<tr>
<td>Apple Retail Store</td>
<td>Breyers</td>
<td>Hotel &amp; Resort</td>
<td>Ferrari</td>
</tr>
<tr>
<td>Architectural Digest</td>
<td>British Airways</td>
<td>Cuisinart</td>
<td>Ferrero Rocher</td>
</tr>
<tr>
<td>Aston Martin</td>
<td>Brooks Brothers</td>
<td>De Beers</td>
<td>Forbes</td>
</tr>
<tr>
<td>Audi</td>
<td>Bulgari</td>
<td>Diesel (clothing)</td>
<td>Fortune</td>
</tr>
<tr>
<td>Aveda</td>
<td>Burberry</td>
<td>DKNY</td>
<td>Fossil (watches)</td>
</tr>
<tr>
<td>Bally</td>
<td>Cadillac</td>
<td>Dolce &amp; Gabbana</td>
<td>Four Points by</td>
</tr>
<tr>
<td>Banana Republic</td>
<td>Callaway</td>
<td>Dom Perignon</td>
<td>Sheraton</td>
</tr>
<tr>
<td>Barneys New York</td>
<td>Calphalon</td>
<td>Donna Karan</td>
<td>Four Seasons</td>
</tr>
<tr>
<td>Bellagio</td>
<td>Calvin Klein</td>
<td>Doubletree</td>
<td>Hotels</td>
</tr>
<tr>
<td>Belvedere</td>
<td>Campari</td>
<td>Dreyers</td>
<td>Gant</td>
</tr>
<tr>
<td>Benetton</td>
<td>Canon EOS</td>
<td>Ducati</td>
<td>Geox</td>
</tr>
<tr>
<td>Bentley</td>
<td>Cartier</td>
<td>Ducati Motorcycles</td>
<td>Gevalia</td>
</tr>
<tr>
<td>Bertolli</td>
<td>Chanel</td>
<td>Dunhill</td>
<td>Ghirardelli</td>
</tr>
<tr>
<td>Bliss</td>
<td>Chivas Regal</td>
<td>Dyson</td>
<td>Giorgio Armani</td>
</tr>
<tr>
<td>Bloomingdale’s</td>
<td>Christian Dior</td>
<td>Electrolux</td>
<td>Godiva</td>
</tr>
<tr>
<td>BMW</td>
<td>Citizen</td>
<td>Elizabeth Arden</td>
<td>GQ</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Brand Name</th>
<th>Brand Name</th>
<th>Brand Name</th>
<th>Brand Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Mountain</td>
<td>Land Rover</td>
<td>Pierre Cardin</td>
<td>Starbucks VIA</td>
</tr>
<tr>
<td>Coffee</td>
<td>Land Rover LR2</td>
<td>Ping</td>
<td>Stella Artois</td>
</tr>
<tr>
<td>Grey Goose</td>
<td>Land Rover LR4</td>
<td>Piper-Heidsieck</td>
<td>Sub-Zero</td>
</tr>
<tr>
<td>Grey Poupon</td>
<td>Lavazza</td>
<td>Polo Sport</td>
<td>Tag Heuer</td>
</tr>
<tr>
<td>Gucci</td>
<td>Lexus</td>
<td>Polo/Ralph Lauren</td>
<td>Tanqueray Gin</td>
</tr>
<tr>
<td>Guerlain</td>
<td>Lincoln</td>
<td>Porsche</td>
<td>Tassimo</td>
</tr>
<tr>
<td>Guinness</td>
<td>Lindt</td>
<td>Pottery Barn</td>
<td>The Economist</td>
</tr>
<tr>
<td>Häagen-Dazs</td>
<td>Liz Claiborne</td>
<td>Prada</td>
<td>The North Face</td>
</tr>
<tr>
<td>Harley-Davidson</td>
<td>Lord &amp; Taylor</td>
<td>Puma</td>
<td>The Wall Street Journal</td>
</tr>
<tr>
<td>Harper’s Bazaar</td>
<td>Louis Vuitton</td>
<td>Qantas</td>
<td>Tiffany &amp; Company</td>
</tr>
<tr>
<td>Harper’s Magazine</td>
<td>Lucky Brand Jeans</td>
<td>Radisson Hotels &amp; Resorts</td>
<td>Timberland</td>
</tr>
<tr>
<td>Hennessy</td>
<td>MAC</td>
<td>Ralph Lauren</td>
<td>Titleist</td>
</tr>
<tr>
<td>Hermès</td>
<td>Macy’s</td>
<td>Range Rover</td>
<td>Toblerone</td>
</tr>
<tr>
<td>Hilton</td>
<td>Marriott</td>
<td>Evoque</td>
<td>UGG</td>
</tr>
<tr>
<td>Hummer</td>
<td>Martell</td>
<td>Ray-Ban</td>
<td>Under Armour</td>
</tr>
<tr>
<td>Hyatt</td>
<td>Martini</td>
<td>Remy Martin</td>
<td>Valentino</td>
</tr>
<tr>
<td>Hyatt Place</td>
<td>Maserati</td>
<td>Ritz-Carlton</td>
<td>Vanity Fair</td>
</tr>
<tr>
<td>illy</td>
<td>Mercedes-Benz</td>
<td>Roberto Cavalli</td>
<td>Vera Bradley</td>
</tr>
<tr>
<td>iMac</td>
<td>MGM Grand</td>
<td>Rolex</td>
<td>Vera Wang</td>
</tr>
<tr>
<td>Infiniti</td>
<td>Michael Kors</td>
<td>Rolls-Royce</td>
<td>Versace</td>
</tr>
<tr>
<td>InterContinental</td>
<td>Mini Cooper</td>
<td>Saks Fifth Avenue</td>
<td>Victoria’s Secret</td>
</tr>
<tr>
<td>iPad</td>
<td>Möet &amp; Chandon</td>
<td>Samsonite</td>
<td>Viking (appliances)</td>
</tr>
<tr>
<td>iPhone</td>
<td>Monet (jewelry)</td>
<td>San Pellegrino</td>
<td>Virgin</td>
</tr>
<tr>
<td>J. Crew</td>
<td>Mont Blanc</td>
<td>Seattle’s Best</td>
<td>Virgin America</td>
</tr>
<tr>
<td>Jaguar</td>
<td>Movado</td>
<td>Coffee</td>
<td>Virgin Atlantic</td>
</tr>
<tr>
<td>Japan Airlines</td>
<td>Neiman Marcus</td>
<td>Seiko</td>
<td>Vogue</td>
</tr>
<tr>
<td>Johnnie Walker</td>
<td>Nespresso</td>
<td>Sheaffer Pens</td>
<td>Volvo</td>
</tr>
<tr>
<td>Juicy Couture</td>
<td>Nordstrom</td>
<td>Sheraton</td>
<td>Waldorf Astoria</td>
</tr>
<tr>
<td>JW Marriott</td>
<td>Oakley</td>
<td>Shiseido</td>
<td>Hotels &amp; Resorts</td>
</tr>
<tr>
<td>Kenneth Cole</td>
<td>OnStar</td>
<td>Simply Vera</td>
<td>Westin</td>
</tr>
<tr>
<td>Kenneth Cole New York</td>
<td>Parker Pens</td>
<td>Singapore Airlines</td>
<td>Williams-Sonoma</td>
</tr>
<tr>
<td>York</td>
<td>Patron</td>
<td>Skyy</td>
<td>Wolfgang Puck</td>
</tr>
<tr>
<td>Keurig</td>
<td>Paul Mitchell</td>
<td>Splendid</td>
<td>(soup)</td>
</tr>
<tr>
<td>KitchenAid</td>
<td>Pella Windows</td>
<td>St. Regis</td>
<td>Wyndham Hotels &amp; Resorts</td>
</tr>
<tr>
<td>L.L. Bean</td>
<td>Perrier</td>
<td>Starbucks</td>
<td>Yves Saint Laurent</td>
</tr>
<tr>
<td>La Perla</td>
<td>Perry Ellis</td>
<td></td>
<td>Zenith</td>
</tr>
<tr>
<td>Lacoste</td>
<td>Philosophy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lancôme</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In order to determine which brands would be included in this research, the brands listed above were sorted by company and parent company/holding, as appropriate. Then, the entire list was divided into private and publicly traded companies. Private companies were excluded from this research. Given that private companies are not required to publish their financial statements or issue annual reports, there is not sufficient information on them to add them into the regression model.

In addition, companies for which BAV did not have any data for 2013 were also excluded, as 2013 was selected as the baseline year for this analysis.

After completing this step, the following 88 brands were excluded from this research:

- Architectural Digest
- Aston Martin
- Bally
- Barneys New York
- Bliss
- Bosch
- Bose
- Breitling
- Brooks Brothers
- Group, Inc
- Callaway
- Canon EOS
- Chanel
- Citizen
- Crowne Plaza
- Hotel & Resort
- Cuisinart
- De Beers
- Diesel (clothing)
- Dolce & Gabbana
- Ducati
- Dunhill
- Dyson
- Elizabeth Arden
- Emirates Airlines
- Estee Lauder
- FAO Schwarz
- Fendi
- Ferrero Rocher
- Forbes
- Fossil (watches)
- Four Seasons
- Hotels
- Gant
- Giorgio Armani
- Godiva
- GQ
- Grey Goose
- Guerlain
- Harper's Bazaar
- Harper's Magazine
- Hummer
- illy
- iMac
- InterContinental
- J. Crew
- Juicy Couture
- Kenneth Cole
- L.L. Bean
- La Perla
- Lacoste
- Land Rover LR2
- Land Rover LR4
- Lavazza
- Lincoln
- Lucky Brand Jeans
- Martell
- Martini
- MGM Grand
- Monet (jewelry)
- Neiman Marcus
- Parker Pens
- Patron
- Paul Mitchell
- Pella Windows
- Philosophy
- Pierre Cardin
- Ping
- Piper-Heidsieck
- Radisson Hotels & Resorts
- Range Rover
- Evoque
- Ritz Carlton
- Roberto Cavalli
- Rolex
- Rolling Stone
- Sheaffer Pens
- Simply Vera
- Splendid
- Sub-Zero
- The Economist
- Titleist
- Valentino
- Vanity Fair
- Vera Wang
- Versace
- Virgin
Virgin America
Virgin Atlantic
Vogue
Wolfgang Puck
(soup)
Yves Saint Laurent
Zenith
On top of the brands eliminated in the steps described above, it was necessary to delete a further 38 brands, as their information was embedded with other brands in company financial statements or reports, and it was not possible to separate them. Also, brands that were not publicly traded in 2011 or brands that were owned by different holdings in 2013 were also deleted. The brands that were deleted in this step were:

Alfa Romeo  Dreyers  Polo Sport
Anne Klein  Embassy Suites  Ralph Lauren
Apple  Fortune  Remy Martin
Bertolli  Green Mountain Coffee  Saks Fifth Avenue
Breyers  Grey Poupon  Sephora
Campari  Häagen-Dazs  Tag Heuer
Christian Dior  Hilton  Tassimo
Claiborne  JW Marriott  The North Face
Clinique  Liz Claiborne  Toberone
DKNY  Movado  Viking
Dom Perignon  Oakley  Waldorf Astoria Hotels & Resorts
Donna Karan  OnStar  Wall Street Journal
Doubletree  Perry Ellis

Lastly, Qantas and Seiko were also deleted from the dataset in order to avoid distortion, as Bloomberg reported negative revenue values for them. The final list of 101 brands included in the study is presented below:

Acura  Bobbi Brown  Cross Pens
American Express  Botox  Crown Royal
American Tourister  Braun  Electrolux
Ann Taylor  British Airways  Esprit
Apple Retail Store  Bulgari  Evian
Audi  Burberry  Ferrari
Aveda  Cadillac  Four Points by Sheraton
Banana Republic  Calphalon  Geox
Bellagio  Calvin Klein  Gevalia
Belvedere  Cartier  Ghirardelli
Bentley  Chivas  Gucci
Bloomingdales  Club Med  Guinness
BMW  Coach  Harley Davidson
Hennessy  Macys  Seattles Best Coffee
Hermès  Marriott  Sheraton
Hugo Boss  Maserati  Shiseido
Hyatt  Mercedes Benz  Singapore Airlines
Hyatt Place  Michael Kors  Skyy
Infiniti  Mini Cooper  St Regis
iPad  Möet & Chandon  Starbucks
iPhone  Mont Blanc  Starbucks VIA
Jaguar  Nespresso  Stella Artois
Japan Airlines  Nordstrom  Tanqueray Gin
Johnnie Walker  Perrier  Tiffany & Co.
Keurig  Polo Ralph Lauren  Timberland
KitchenAid  Porsche  UGG
Lancome Paris  Pottery Barn  Under Armour
Land Rover  Prada  Vera Bradley
Lexus  Puma  Victoria’s Secret
Lindt  Ray Ban  Volvo
Lord & Taylor  Rolls Royce  Westin
Louis Vuitton  Salvatore Ferragamo  Williams Sonoma
Lufthansa  Samsonite  Wyndham
MAC  San Pellegrino

### 3.3.2.3 Consumer Data Extracted from BAV Database

The core component of the BAV's dataset is four constructs: Energized differentiation, esteem, relevance, and knowledge. These constructs are based on data from individual variables. Energized differentiation is measured by combining the scores of how dynamic, innovative, distinctive, unique and different a brand is. Esteem is measured based on leadership, reliability, and high-quality scores. Relevance and knowledge are based on individual scores.

These four constructs are well supported in the literature. According to Stahl et al (2012) Relevance, Energized Differentiation and Esteem relate to brand associations while Knowledge is directly related to awareness and familiarity (Aaker, 2011; Lehmann et al., 2008). For this reason, these constructs incorporate Aaker’s model of consumer-based brand value, which, according to Christodoulides et al (2015), is the most commonly used in empirical analyses.
In addition to these four pillars and its individual components, the database had scores for two variables; prestige and upper class. These two elements emerged in the definitions of luxury outlined in section 2.1.1. Therefore, to complement the four pillars in the statistical analysis, a luxury index was created by averaging the scores of the prestige and upper class variables. The scale of these two variables was 0-100.

The rationale behind the inclusion of a luxury index is that while the consumer pillars apply to luxury, many of the variables that integrate these pillars can also apply to non-luxury businesses. Therefore, there is a need for an additional variable related to luxury, as this research is centered around CSR and brand value in luxury.

In fact, prestige is included in the definition of luxury provided by Tynan et al (2010) while Heine and Phan (2011) consider that upper classes have a role in the aesthetics of luxury goods. That is to say, luxury reflects the taste of the upper classes. Other authors like Hansen and Wänke, (2011), Nueno and Quelch (1998) or Walley and Li (2014) discuss how there is a link between upper class and luxury; while Godey et al link it to prestige (2013). Okonkwo (2009, p. 303) considers that luxury’s reason for existence is different than in other sectors, as its function is “rooted in the social classes of the past civilizations and societies when royals, nobles and aristocrats used ostentatious consumption to stamp their superiority and maintain their distance from the lesser privileged”. With this in mind, it is all about upper class.

Moreover, from a consumer perspective, consumers usually associate with luxury brands that are sold in prestigious locations at high prices (Kapferer, 2014). As an illustration, owning expensive items that can only be owned by the wealthiest individuals in a society can confer social status (Walley et al., 2013). Similarly, in a study related to brand loyalty in luxury, Esmaeilpour (2015) selected prestige and its association with social status as a key variable, which supports the adequacy of choosing upper class and prestige as a proxy for the luxury construct. For this reason, given that we have access to consumer scores for prestige and upper class, it is possible to use these scores as a proxy to
understand how luxurious a brand is in consumers’ minds. In another study, the most prominent theme associated with luxury by respondents was status enhancement (Kim et al., 2016) which is related to upper class and prestige.

With regard to the other factors included in BAV’s database, Table 17 below presents the variables used by BAV to measure each of the constructs introduced above, and how each construct is defined by BAV. Provided that the formulas used by BAV to calculate these constructs are proprietary, they are not disclosed in this thesis. The table also includes the luxury construct discussed in the previous paragraph.

<table>
<thead>
<tr>
<th>Construct Name and Description</th>
<th>Variable(s) Included</th>
<th>How it Is Measured</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energized Differentiation:</strong> The Construct Score of how much Energized Differentiation the brand has. The Brand’s point of difference</td>
<td>Dynamic, Innovative, Distinctive, Unique, Different</td>
<td>5 binary attributes</td>
</tr>
<tr>
<td><strong>Relevance:</strong> The Construct Score of how much Relevance the brand has. How appropriate the brand is to you</td>
<td>Relevance</td>
<td>7-point score</td>
</tr>
<tr>
<td><strong>Esteem:</strong> The Construct Score of how much Esteem the brand has. How well regarded the brand is</td>
<td>Leader, Reliable, High-quality</td>
<td>7-point score + 3 binary attributes</td>
</tr>
<tr>
<td><strong>Knowledge:</strong> The Construct Score of how much Knowledge the brand has. An intimate understanding of the brand</td>
<td>Knowledge</td>
<td>7-point score</td>
</tr>
<tr>
<td><strong>Luxury Construct</strong></td>
<td>Upper class, Prestige</td>
<td>Average of both variables. 0-100 scale</td>
</tr>
</tbody>
</table>

Table 17: Constructs Extracted from BAV’s Database

Source: Information provided by BAV

\(^2\) Each variable is measured as a percentage score of how strong the brand is for that particular attribute
3.3.3 Financial and Additional Company Information

To complement the consumer data extracted from the BAV database, financial metrics and company variables were added into the quantitative analysis. For this purpose, information on number of employees, Tobin’s Q ratios, market capitalization and ESG (Environmental, Social and Governance) disclosure scores was extracted from Bloomberg suite. Bloomberg is one of the most widely used databases for financial and economic information, and as such, its use is well documented in the literature (Barjaktarović et al., 2014; Chevallier et al., 2011; Lakicevic and Vulanovic, 2013). In addition to Bloomberg, information on counterfeiting, COO, fully controlled distribution, and marketing and R&D expenses was extracted from company reports and financial filings.

To gather this data, the first step was to identify the ticker symbols (acronyms of stocks in a stock market) for all the company owners of the brands included in the study. The second step was to use the ticker symbols to identify the companies on which information was being sought. The baseline year used to extract financial information was 2011. This decision was made based on two reasons: First, more recent financial data was not widely available for all companies included in the study. Second, as shown in previous research (Chu and Keh, 2006; Melo and Galan, 2011; Torres et al., 2012), there is usually a two-year lag period before the effects of company expenditures filter through variables such as R&D/Design, CSR or marketing. These variables are included in this research and, therefore, it is reasonable to assume a two-year lag period for modeling purposes.

3.3.3.1 Information Extracted from Bloomberg

To extract information from Bloomberg, ticker symbols were used together with mnemonics of the information being sought.

Company-related financial information is usually reported in the currency of the country where the company is headquartered, or in the country where a company is stock exchange listed. To allow comparability, all financial
information was downloaded in United States dollars (USD), as converted by Bloomberg.

It is important to note that the information available on Bloomberg is contingent with the information reported by a company. Therefore, if, for example, a company does not report how many employees it has, information on that variable will not be reported by Bloomberg either.

Table 18 below provides a summary of the variables extracted from Bloomberg that were used in the model as well as their definition. ESG scores, while extracted from Bloomberg, are excluded from this table, as they are discussed later in this chapter, under CSR Index.
### Table 18: Definitions of Bloomberg Variables Used in Analysis

*Source: Adapted from Bloomberg*

The rationale for inclusion of these variables in the analysis is presented below.
3.3.3.2 Market Capitalization

According to Steenkamp (2014) and Wang et al (2012) market capitalization can reflect brand value. In fact, for global brands, market capitalization includes a percentage of brand value (M’zungu et al., 2010). Additionally, Kumar and Shah (2009) found a relationship between market capitalization and consumer-based brand value. They argue that share prices can reflect future cash flows, and since consumers are the ones responsible for that cash flow (through revenue), consumer-based brand value is related to market capitalization.

Given the relationship between brand value and market capitalization, this analysis uses market capitalization as a dependent variable, in addition to the Tobin’s Q ratio. Due to data availability, market capitalization values are company-specific, rather than brand-specific.

3.3.3.3 Number of Employees

According to Torres and Tribó (2011) company size can affect brand value. For instance, company size has been included in various studies as a variable correlated with brand value (Ailawadi et al., 2003; Melo and Galan, 2011; Torres et al., 2012). Following Pucci et al (2013) and Strebinger (2014), number of employees was selected as a proxy for firm size in the statistical analysis to analyze its effect on brand value.

For the sake of clarity, since this research is about luxury brands, and the information in BAV’s database is based on brands, and not luxury conglomerates, or luxury groups; the terms, ‘company size’, ‘firm size’ and ‘brand size’ are used interchangeably in this thesis. Due to data availability, the number of employees is company-specific, rather than brand-specific.

3.3.3.4 Tobin’s Q Ratio

For this research, due to the lack of actual brand value figures in the dataset, it was necessary to use a proxy for this variable, so that it could be modeled in the statistical analysis as a dependent variable. Tobin’s Q ratios are a common
proxy for brand value in the literature (Simon and Sullivan, 1993; Sridhar et al., 2014; Yoon Koh et al., 2009). According to Simon and Sullivan (1993), Tobin’s Q values larger than one (1) indicate that a firm has intangible assets, and since brand value is an intangible asset that can increase cash flows, Tobin’s Q are directly related to accumulated brand value. The average Tobin’s Q ratio for the firms included in this research was 2.3, which suggests that the majority of the firms in the sample have a high brand value. Due to data availability, Tobin’s Q values are company-specific, rather than brand-specific.

### 3.3.4 Information from Company Reports and Financial Filings

As described above, the information available in Bloomberg is contingent with the information reported by companies. Due to data unavailable in Bloomberg or other databases, the following variables were extracted from company reports and financial filings: Counterfeiting, COO, fully controlled distribution, marketing and R&D/Design expenses. This section provides information on the rationale for inclusion of those variables, and how they were calculated.

#### 3.3.4.1 Counterfeiting

Counterfeiting is considered to have a detrimental effect on brand value (Bush et al., 1989; Green and Smith, 2002; Wilcox et al., 2009; Wilke and Zaichkowsky, 1999). To understand the potential effect of counterfeiting on brand value, a counterfeiting index was created. Following Li et al (2013) work on textual analysis, 10-K\(^3\) and annual reports from 2011 for each company were screened to identify sections related to counterfeiting or intellectual property infringement. The number of full pages or the page portion addressing these issues (e.g. 1/2 of page, 1/3 of page, etc.) was then divided by the total number of pages in the report. For example, for a company where counterfeiting was discussed in half a page, out of a 100-page report, the index would be: .5/100=0.005. Due to data availability, counterfeiting values are company-specific, rather than brand-specific.

\(^3\) Form used by publicly traded US companies to submit annual reports to the US Securities and Exchange Commission.
Something to note is that counterfeiting indices were not estimated for 78 brands in the sample, given that this issue was not mentioned in the company reports consulted for those respective companies. The literature suggests that the three largest luxury conglomerates in the world; LVMH, Kering and Richemont experience counterfeiting (see: Kapferer and Michaut, 2014; Wilcox et al., 2009). Thus, since it is highly unlikely that a brand like Cartier or Bulgari do not experience any counterfeiting issues at all, zero scores were handled as missing data, which implies that zero scores were replaced with mean values from the entire dataset for counterfeiting. This approach for handling missing data is consistent with Keller and Lehmann (2006).

3.3.4.2 Country of Origin

Country of Origin (COO) has been associated in the literature with elements present in luxury, such as design, quality and prestige (Aiello et al., 2009; Besharat and Langan, 2014; Kapferer, 2009). Moreover, there is also literature discussing how COO can impact consumer decisions (Carrigan and Pelsmacker, 2009); how COO can affect brand value (Hamzaoui-Essoussi et al., 2011), and how market conditions for brands can vary by country (Christodoulides et al., 2015). Given the relevance of COO within luxury; COO was modeled by grouping all the companies in the study by the location of their headquarters. This approach is based on Phau and Prendergast’s work (2000), who consider that company headquarters is the place where brands make decisions related to the products design, and this allows brands to maintain an association with a given country.

Considering that the sample in the study is not equally distributed by COO, the companies were grouped into four categories: Italy, France, United States and Other Countries. In terms of Italy, Macchion et al (2015b) state that important multinational groups including Gucci, Armani, or Ferragamo operating in Italy, have had an impact on how business models for worldwide companies are run. Likewise, Johansson and Ronkainen (2005) state that Italy, France and the US have strong scores when associated with traditionally luxury categories such as
apparel and cosmetics. Consequently, this categorization is consistent with Aiello et al (2009), given that these three countries have higher combined ratings in their study.

COO was modeled as a binary variable. One (1) was assigned if the company was headquartered in a respective country, and zero (0) if was not. For reference purposes, 46 of the companies in this research are US-based, while nine are based in Italy and nine in France. The remaining 37 companies are headquartered in other countries and territories (Germany, Poland, UK, Belgium, Canada, Japan, Hong Kong, Sweden, Luxembourg, Singapore, and Switzerland).

3.3.4.3 Fully Controlled Distribution

Controlled distribution is an important component of luxury (Fionda and Moore, 2009; Keller, 2009), as well as a contributor to brand value (Jones, 2005). Due to the relevance of this factor within luxury, it was included in the statistical analysis using a binary variable. One (1) was assigned if the company had fully controlled distribution, while zero (0) was used if it did not. For the analysis, full control emulates the Louis Vuitton model, which only sells goods at its own stores or its own e-commerce website (Louis Vuitton North America, Inc., 2015). The Louis Vuitton distribution model was selected as Louis Vuitton is the star brand of LVMH (Cavender and Kincade, 2014), which is also the largest luxury conglomerate in the world (Deloitte, 2014).

3.3.4.4 Marketing and R&D/Design Expenses

Marketing activities (Ailawadi et al., 2003; Stahl et al., 2012; Yoo et al., 2000) and R&D efforts (Ailawadi et al., 2003) can influence brand value. Following Mizik and Jacobson (2003), a ratio combining marketing and R&D/Design expenses was created by subtracting R&D from marketing expenses and then by dividing this difference by the total amount of marketing and R&D expenses in the entire sample. For the sake of clarity, this ratio is named in this thesis ‘Marketing and R&D ratio’ and takes into account marketing, R&D and design expenses. It is important to note that for this ratio, total assets had to be
excluded, considering that the Tobin’s Q ratio (one of the dependent variables in the statistical analysis) is calculated using total assets. Therefore, the use of total assets for this ratio would create distortions. For this reason, the difference between marketing and R&D/Design expenses was divided by the total amount spent in R&D/Design and marketing by all the companies in the sample.

Additionally, data for R&D/Design and marketing expenses, where available, were added to the dataset and then scaled down using the percentage of sales related to the brand in question. This approach addresses the potential issue of double counting, as these expenses are generally disclosed by company and not by brand. Where expenses were expressed in currencies other than USD, those were converted into USD using the average annual exchange rate between that given currency and USD as provided by the US Internal Revenue Service (Internal Revenue Service, 2016). This step was conducted in May 2014, using the corresponding rate for 2011.

### 3.3.5 CSR-Index

To model CSR, information from three different sources was utilized: ESG Disclosure Scores, data from CSRHub and Dow Jones Sustainability Index (DJSI). ESG Disclosure and CSRHub scores were converted into a scale ranging from zero (0) to one (1). Then, if a company was listed in the DJSI, a value of one was added to the corresponding company. Finally, the three scores were summed up and divided by three to create a CSR-index, which was then used in the statistical model. The sections below discuss the rationale behind the selection of the three sources to create the CSR-index for this research.

#### 3.3.5.1 ESG Disclosure Score

ESG Disclosure Scores have been widely used in the literature (D. Huaccho Huatuco et al., 2013; Eccles et al., 2011; Giannarakis et al., 2014). A Company’s ESG disclosure score was provided in Bloomberg suite for 96 of the companies in the dataset. Information on how missing data was handled is provided in Section
3.3.7. ESG disclosure scores refer to a company’s transparency on all environmental, social and governance information disclosed by a firm (Eccles et al., 2011). ESG scores are adjusted by Bloomberg based on industry sector and are based on Global Reporting Initiative (GRI) standards (Suzuki and Levy, 2010). Scores range from 0.1 for companies that disclose limited ESG data to 100 for companies that disclose every data point collected by Bloomberg. Points are weighted based on their importance. For example, Greenhouse gas emission disclosure carry higher weight than other disclosures (Bloomberg L.P. Mnemonic Definitions, 2014).

It is important to note that ESG scores are provided by company and not by brand. Since it is not possible to break down the scores into brands, the full rankings for each company, as reported, were added to the brands included in the dataset. The scores used for the analysis were downloaded in April 2014.

3.3.5.2 CSRHub

CSRHub has been used in various academic studies related to CSR (Bu et al., 2013; Cruz et al., 2014). According to Cruz et al (2014), this database is one of the largest CSR databases in the world with rankings on environmental social, community and governance ratings. CSRHub provides sustainability rankings for most publicly traded companies, using information from multiple sources.

For this research, the following rankings were gathered: Overall, community, employees, environment and governance. The overall ranking is the sum of the four individual rankings (Community, Employees, Environment and Governance). Rankings range from 1-100. To list the rankings as percentages in the dataset, each score was divided by 100. Since rankings are provided by company and not by brand, all brands were assigned the rankings from their parent companies.

\[\text{For this research, the following rankings were gathered: Overall, community, employees, environment and governance. The overall ranking is the sum of the four individual rankings (Community, Employees, Environment and Governance).}\]

\[\text{Rankings range from 1-100. To list the rankings as percentages in the dataset, each score was divided by 100. Since rankings are provided by company and not by brand, all brands were assigned the rankings from their parent companies.}\]

A full description of the data elements included under each ranking is available at:

In three instances, overall rankings were not provided by CSRHub. However, when the four individual scores were disclosed (Community, Employees, Environment and Governance), those scores were summed to estimate a company overall ranking. CSRHub rankings for this research were downloaded in April 2014.

3.3.5.3 DJSI

For this research, it was possible to obtain access to the proprietary components of the DJSI. DJSI indices have been used to evaluate the impact of sustainability in industries (Pätäri et al., 2012) and financial performance (Sariannidis et al., 2013; Ziegler, 2012). For companies to be listed in the DJSI, they need to be one of the largest 2500 companies by market capitalization and they also need to complete a questionnaire on their economic, environmental and social activities (Fowler and Hope, 2007).

DJSI inclusion was modeled as a binary variable in the data set. A value of one (1) was assigned when a brand was owned by a company listed in the index, and zero (0) if a company was not listed. For this analysis, all companies listed in the DJSI’s World Index in 2013 were considered.

3.3.6 Interbrand

Interbrand produces on an annual basis a list with the 100 best global brands, based on their brand value. A number of studies in the literature related to brand value have looked at Interbrand rankings (E.g. Barth et al., 1998; Johansson et al., 2012; Kerin and Sethuraman, 1998; Kirk et al., 2013; Melo and Galan, 2011). Considering that Interbrand rankings are considered to be a premium source of brand value information (Fehle et al., 2008) it was decided to include them in this statistical model, in the form of a binary variable. A value of one (1) was added if a brand was part of Interbrand’s Best Global Brands list in 2013. A value of zero (0) was assigned if the brand was not included in Interbrand’s list.
The inclusion of this variable in the regression analysis is two-fold. First, since Interbrand-listed brands are considered to have the highest brand value, the statistical significance of this variable in the equations modeled confirms the reliability of the data set. Second, the inclusion of this variable in the equations can single out the dependent variables that are more likely to be affected if a brand were/is included in Interbrand’s list. As a result, the companies included in that list could leverage those variables as part of their brand value strategies.

3.3.7 Consolidation of Dataset and Handling of Missing Data

After gathering data for all the variables outlined earlier in this chapter, the next step was to combine the data into a single dataset. Multiple sources were used to create the dataset. In addition, there were missing brand data for certain variables. Thus, it was necessary to select an approach to handle missing data. Therefore, following Keller and Lehmann (2006), mean values were calculated for each variable in the dataset. These mean values were used to replace missing data for the corresponding variables.

Table 19 provides a summary of the variables with missing data for which this approach was followed.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of Instances Where Data Was Missing</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR Index</td>
<td></td>
</tr>
<tr>
<td>ESG Disclosure</td>
<td>5</td>
</tr>
<tr>
<td>Overall Rating from CSRHub</td>
<td>3</td>
</tr>
<tr>
<td>Current Market Capitalization</td>
<td>3</td>
</tr>
<tr>
<td>Marketing Expenses</td>
<td>9</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>17</td>
</tr>
<tr>
<td>R&amp;D/Design Expenses</td>
<td>40</td>
</tr>
<tr>
<td>Tobin’s Q Ratio</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 19: Missing Data Summary
### 3.3.8 Modeling Approach

Using the variables described previously in this chapter, three equations were analyzed. The equations were run as linear models using R software.

To reduce skewness, log transformations of the dependent variables (Tobin’s Q, current market capitalization and luxury construct) were made. This approach is highly used in the literature to address problems with skewed data (Gonçalves and Meddahi, 2011; Kang et al., 2010; Nguyen and Swanson, 2009).

The objective of each of the equations was to test the research propositions introduced earlier in this chapter, which were formulated based on the literature review and input from the interviews with executives from the luxury industry and stakeholders.

After identifying the variables that were statistically significant in each equation a modified version of the corresponding equation was run using exclusively the statistically significant variables. The results from this iteration are the ones presented in Chapter 5. The full results from the two versions of each equation are included in Appendix D. It is important to highlight that not all the variables were analyzed using linear models. Due to data limitations and reliability, COO was analyzed using a correlation matrix.

Moreover, for information purposes, a correlation matrix with all the variables included in the equations is presented in Appendix E. This correlation matrix may be useful for the reader to try to understand the correlation between the four pillars of consumer brand value and the rest of the variables in the study. The following section outlines the three research propositions that drive the quantitative portion of this research, including the equations that were used to test each proposition.
3.3.8.1 Brand Value and Consumers

P1: Consumers have a key role in determining brand value in luxury

To test this proposition, Tobin’s Q are used as a proxy for brand value. The explanatory variables are the four pillars of brand value. Considering that brand value can be shaped by company actions (e.g. CSR policies, marketing and R&D/Design, to what extent they control their distribution), and company characteristics (e.g. company size, to what extent they are affected by counterfeiting, and whether they are one of the most valuable global brands) these variables were added to the equation to increase robustness.

The version modeled is presented below:
\[
\text{Tobin’s Q } \sim \text{ Controlled distribution } + \text{ Counterfeiting index } + \text{ CSR Index } + \text{ Interbrand } + \text{ Marketing and R&D ratio } + \text{ Energized Differentiation } + \text{ Esteem } + \text{ Knowledge } + \text{ Relevance } + \text{ Luxury Construct } + \text{ Number of Employees}
\]

3.3.8.2 Brand Value Determinants and Market Capitalization

P2: Market capitalization in luxury is impacted by brand value

To test this proposition, an identical equation to the one used to test P1 was built. The only difference was a change to the dependent variable, replacing Tobin’s Q with market capitalization.

The version modeled is presented below:
\[
\text{Market Capitalization } \sim \text{ Controlled distribution } + \text{ Counterfeiting index } + \text{ CSR Index } + \text{ Interbrand } + \text{ Marketing and R&D ratio } + \text{ Energized Differentiation } + \text{ Esteem } + \text{ Knowledge } + \text{ Relevance } + \text{ Luxury Construct } + \text{ Number of Employees}
\]

3.3.8.3 Brand Value Determinants in Luxury

P3: Luxury perception is related to brand value

This equation is based on P1, but replaces the dependent variable with the luxury construct, and removes it as an explanatory variable.
The version modeled is presented below:

Luxury Construct - Controlled distribution + Counterfeiting index + CSR Index + Interbrand + Marketing and R&D ratio + Energized Differentiation + Esteem + Knowledge + Relevance + Number of Employees

3.4 Results, Analysis and Discussion from ‘Credibility Checks’

The final phase of this research consisted of presenting together the results from the quantitative phase and the ‘credibility checks’. To do so, each of the factors from the quantitative analysis was included in a table subdivided into statistically significant and insignificant coefficients. Then, subsequent columns were added to indicate whether each corresponding variable was considered relevant for brand value in the ‘credibility checks’. Items that were significant in one component (i.e. quantitative or ‘credibility checks’) but insignificant in another are likely to be ‘overemphasized’; items where agreement was obtained in both components ‘it is important’; items with no agreement are ‘it is not important’; while significant items in the statistical analysis but not in the qualitative phase are likely to be ‘overlooked’ by the industry. Lastly, an additional column was added to indicate the reason behind why that particular coefficient ‘it is important’, ‘it is not important’, it is ‘overemphasized’ or ‘overlooked’.

Table 20 below presents the guide that was used to present the final results in Chapter 6.
### Significant Coefficient? | Quantitative Analysis | ‘Credibility Checks’ | Finding | Why
--- | --- | --- | --- | ---
X | YES | YES | Interviewees agree ‘it is important’ |  
X1 | NO | YES | It may be ‘overemphasized’ |  
X2 | YES | NO | May be ‘overlooked’ |  
X3 | NO | NO | Interviewees agree ‘it is not important’ |  

Table 20: Guide to Present Final Results

#### 3.5 Summary of Variables Included in this Thesis

As outlined above, to understand the role of CSR on brand value in luxury, this research contextualizes brand value into 13 variables. This section summarizes these variables and how they are modeled. As discussed earlier in this chapter, these variables emerged from both the literature review and the qualitative interviews conducted before the statistical analysis.

From the 13 variables, the following were analyzed quantitatively: CSR, company size, consumer-based brand value, controlled distribution, counterfeiting, COO, luxury construct, marketing, product and customer experience and R&D/Design (see Table 21). Then, two variables, differences within the industry and industry’s perception of brand value, were only analyzed qualitatively, as quantitative data were not available on these variables to be modeled statistically. Luxury Construct, Market Capitalization, and Tobin’s Q, were tested as Dependent Variables; and Interbrand was tested as control variable (see Table 22).

Tables 21 and 22 provide a summary of the variables analyzed, how they were modeled, and their data source.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Classification</th>
<th>How It Is Modeled</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>Company-based</td>
<td>Index using data from the three data sources</td>
<td>CSRHub, DJSI and Bloomberg ESG Disclosure Score</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Size</td>
<td>Company-based</td>
<td>Number of Employees</td>
<td>Bloomberg</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energized Differentiation,</td>
<td>Consumer-based</td>
<td>Construct Scores (see table 17)</td>
<td>BAV Database</td>
</tr>
<tr>
<td>Esteem, Knowledge, Relevance</td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlled Distribution</td>
<td>Company-based</td>
<td>Dummy variable (0 or 1)</td>
<td>Company Reports</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counterfeiting</td>
<td>Company-based</td>
<td>Ratio based on percentage of mentions</td>
<td>Company Reports</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country of Origin (COO)</td>
<td>Company-based</td>
<td>Dummy variable (0 or 1)</td>
<td>Company Reports</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Luxury Construct</td>
<td>Company-based</td>
<td>Average of upper class and prestige scores</td>
<td>BAV Database</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>Company-based</td>
<td>Together with R&amp;D/Design as a ratio (marketing minus R&amp;D by total)</td>
<td>Company Reports</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product and Customer Experience</td>
<td>Consumer-based</td>
<td>Variable is embedded in marketing pillars (energized differentiation, esteem, knowledge and relevance)</td>
<td>BAV Database</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D/Design</td>
<td>Company-based</td>
<td>Together with marketing as a ratio (marketing minus R&amp;D by total)</td>
<td>Company Reports</td>
</tr>
<tr>
<td></td>
<td>brand value</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 21: Independent Variables Included in Statistical Analysis
<table>
<thead>
<tr>
<th>Variable</th>
<th>Category</th>
<th>How It Is Modeled</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury</td>
<td>Dependent Variable</td>
<td>Average of upper class and prestige scores. This variable was also modeled as an independent variable in P1 and P2</td>
<td>BAV Database</td>
</tr>
<tr>
<td>Construct</td>
<td>Variable (in P3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market</td>
<td>Dependent Variable</td>
<td>Used as dependent variable to understand how it is affected by brand value</td>
<td>Bloomberg</td>
</tr>
<tr>
<td>Capitalization</td>
<td>Variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobin’s Q</td>
<td>Dependent Variable</td>
<td>Used as a dependent variable, as a proxy for brand value</td>
<td>Bloomberg</td>
</tr>
<tr>
<td>Interbrand</td>
<td>Control Variable</td>
<td>Dummy variable (0 or 1)</td>
<td>Best Global Brands</td>
</tr>
</tbody>
</table>

Table 22: Dependent and Control Variables Used in Statistical Analysis

3.5.1 Excluded Equations

To complement the results from the three equations outlined above, three diagnosis equations were run. These diagnosis equations had three aims: The first aim was to understand which brand value determinants are related to each of the marketing pillars. The second aim was to test statistically if COO was related to luxury, as suggested by both the literature and the industry. The third aim was to explore how brand value determinants could vary by sector, as the luxury industry is not homogenous and has different business models (Kapferer, 2014).

After conducting these tests it was decided to exclude these results/tests from this thesis, as the results from the equations were not statistically significant. However, two alternative approaches were conducted to explore the first and second objectives. In terms of the first aim, to understand how the four pillars of consumer brand value are correlated with the other variables in the data set, a correlation matrix was prepared. With regard to the second aim, a correlation matrix was also selected to gain an understanding of the variables that may be associated with COO. The correlation matrices can be found in Appendix E of this thesis and in sections 5.4 and 5.5 of Chapter 5. Additionally, with respect to the third aim, an alternative analysis could not be conducted due to the fact
that the companies in the sample were too small and that there were not enough cases for all luxury sectors.

The following sections outline the diagnosis approaches introduced in the two previous paragraphs.

### 3.5.1.1 First Aim

For the first aim, the following equation was run for each of the marketing pillars:

\[
Pillar \sim \text{Controlled distribution} + \text{Counterfeiting index} + \text{CSR Index} + \text{Interbrand} + \text{Luxury Construct} + \text{Marketing and R&D ratio} + \text{Number of Employees}
\]

### 3.5.1.2 Second Aim

For the second aim, COO, the following equation was run:

\[
\text{Luxury Construct} \sim \text{France} + \text{Italy} + \text{Other Country} + \text{US}
\]

### 3.5.1.3 Third Aim

For the third aim, screening analysis by sector, the following proposition was tested:

The determinants of brand value are different depending on luxury category

To test this proposition, each brand in the data set was categorized into a unique category. One (1) was assigned to a brand belonging to a corresponding category, and zero (0) where a company did not belong to that category. The brands in the analysis were categorized based on an adapted classification of the luxury categories discussed in D'Arpizio et al (2014).

Table 23 presents a summary of how the brands in this research were initially categorized.
<table>
<thead>
<tr>
<th>Sector</th>
<th>Category</th>
<th>Brands</th>
<th>Number of Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>N/A</td>
<td>Club Mediterranee, Lufthansa, British Airways, Marriott, American Express, Hyatt, Hyatt Place, Four Points by Sheraton, Sheraton, St Regis, Westin, Bellagio, Wyndham, Volvo, Singapore Airlines, Japan Airlines</td>
<td>16</td>
</tr>
<tr>
<td>Automobile</td>
<td>N/A</td>
<td>Maserati, Ferrari, BMW, Mini Cooper, Rolls Royce, Mercedes Benz, Audi, Bentley, Porsche, Cadillac, Acura, Harley Davidson, Lexus, Jaguar, Land Rover, Infiniti</td>
<td>16</td>
</tr>
<tr>
<td>Fine Food and Wines</td>
<td>Wine, Sprits</td>
<td>Skyy, Belvedere, Hennessy, Möet Chandon, Chivas, Stella Artois, Crown Royal, Guinness, Johnnie Walker, Tanqueray Gin</td>
<td>10</td>
</tr>
<tr>
<td>Fine Food and Wines</td>
<td>Food</td>
<td>Evian, Keurig, Gevalia, Seattle's Best Coffee, Starbucks, Starbucks VIA, Ghirardelli, Lindt, Nespresso, Perrier, San Pellegrino</td>
<td>11</td>
</tr>
<tr>
<td>Personal Luxury Goods</td>
<td>Accessories</td>
<td>Geox, Salvatore Ferragamo, Gucci, Puma, Louis Vuitton, Hermès, Cross Pens, UGG, Vera Bradley, Coach, Michael Kors, Ray Ban, Prada, Mont Blanc</td>
<td>14</td>
</tr>
<tr>
<td>Personal Luxury Goods</td>
<td>Apparel</td>
<td>Hugo Boss, Burberry, Ann Taylor, Banana Republic, Nordstrom, Victoria's Secret, Bloomingdale's, Macy's, Calvin Klein, Polo Ralph Lauren, Under Armour, Timberland, Esprit, Lord Taylor</td>
<td>14</td>
</tr>
<tr>
<td>Personal Luxury Goods</td>
<td>Beauty</td>
<td>Lancome Paris, Botox, Aveda, Bobbi Brown, MAC, Shiseido</td>
<td>6</td>
</tr>
<tr>
<td>Personal Luxury Goods</td>
<td>Jewelry</td>
<td>Bulgari, Tiffany Co, Cartier</td>
<td>3</td>
</tr>
<tr>
<td>Personal Luxury Goods</td>
<td>Electronics</td>
<td>Apple Retail Store, iPad, iPhone, Calphalon, Braun, KitchenAid, Pottery Barn, Williams Sonoma, Electrolux, American Tourister, Samsonite</td>
<td>11</td>
</tr>
<tr>
<td>Personal Luxury Goods</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Table 23: Initial Brand Categorization by Sector*
Considering that the samples for beauty and jewelry were too small to be able to model them, all jewelry and cosmetic brands were grouped together with accessories. The rationale behind this decision is that while jewelry and cosmetics have different business models, they are within a highly hedonically motivated category (Luk et al., 2013). This suggests that consumers purchase products within these categories based on fantasy and sensorial stimulation (ibid, 2013).

Table 24 presents how brands were categorized for the screening analysis after combining jewelry, cosmetics and accessories. The only difference between Tables 23 and 24 is that the later merges wine, spirits and food into one category; and accessories, jewelry and beauty into another. In total, 101 brands were distributed into the following six categories: Accessories, jewelry and beauty (23 brands); apparel (14 brands); automobile (16 brands); services (16 brands); electronics and other goods (11 brands); and wine, spirits and food (21 brands).
Methodology

<table>
<thead>
<tr>
<th>Category</th>
<th>Brands</th>
<th>Number of Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessories, Jewelry and Beauty</td>
<td>Geox, Salvatore Ferragamo, Gucci, Puma, Louis Vuitton, Hermès, Cross Pens, UGG, Vera Bradley, Coach, Michael Kors, Ray Ban, Prada, Mont Blanc; Bulgari, Tiffany Co, Cartier; Lancome Paris, Botox, Aveda, Bobbi Brown, MAC, Shiseido</td>
<td>23</td>
</tr>
<tr>
<td>Apparel</td>
<td>Hugo Boss, Burberry, Ann Taylor, Banana Republic, Nordstrom, Victoria's Secret, Bloomingdale's, Macy's, Calvin Klein, Polo Ralph Lauren, Under Armour, Timberland, Esprit, Lord Taylor</td>
<td>14</td>
</tr>
<tr>
<td>Automobile</td>
<td>Maserati, Ferrari, BMW, Mini Cooper, Rolls Royce, Mercedes Benz, Audi, Bentley, Porsche, Cadillac, Acura, Harley Davidson, Lexus, Jaguar, Land Rover, Infiniti</td>
<td>16</td>
</tr>
<tr>
<td>Services</td>
<td>Club Meditarranee, Lufthansa, British Airways, Marriott, American Express, Hyatt, Hyatt Place, Four Points by Sheraton, Sheraton, St Regis, Westin, Bellagio, Wyndham, Volvo, Singapore Airlines, Japan Airlines</td>
<td>16</td>
</tr>
<tr>
<td>Electronics and Other Goods</td>
<td>Apple Retail Store, iPad, iPhone, Calphalon, Braun, KitchenAid, Pottery Barn, Williams Sonoma, Electrolux, American Tourister, Samsonite</td>
<td>11</td>
</tr>
<tr>
<td>Wine, Spirits and Food</td>
<td>Skyy, Evian, Belvedere, Hennessy, Mőet Chandon, Chivas, Keurig, Gevalia, Seattle's Best Coffee, Starbucks, Starbucks VIA, Stella Artois, Crown Royal, Guinness, Johnnie Walker, Tanqueray Gin, Ghirardelli, Lindt, Nespresso, Perrier, San Pellegrino</td>
<td>21</td>
</tr>
</tbody>
</table>

Table 24: Final Brand Categorization by Sector

It is important to highlight that there are multiple approaches for categorizing luxury brands. For instance, Heine (2011) conducted a literature review of luxury categories, and listed over 40 categories ranging from apparel, writing paper to kitchens and bath linens. Based on this diversity among categories, he later adds that “[luxury] categorization does not remain stable” (ibid, 2011, p. 43). Accordingly, the aim of this test is not to advocate for how a brand should be classified, but only to explore if there are differences within brand value in luxury depending on the category a brand is in.
For this test, ten equations derived from the equation to test P1 were built. In all equations Tobin’s Q were used as the dependent variable. Then, one brand value determinant was tested at a time (per equation) as the independent variable.

To model the relevance of each brand value determinant within every luxury sector, each of the variables modeled to test P1 were multiplied by the product of the dummy variable for that sector (i.e. zero or one) and the corresponding determinant. Then, each resulting factor was added to the equation. For example, counterfeiting in wine spirits and food is modeled as: counterfeiting + (counterfeiting*brands categorized as wine, spirits and food).

The equations modeled for each variable are presented below:

\[
\text{Tobin’s Q} \sim \text{Controlled distribution} + (\text{Controlled distribution} * \text{Accessories, jewelry and beauty}) + (\text{Controlled distribution} * \text{Apparel}) + (\text{Controlled distribution} * \text{Automobile}) + (\text{Controlled distribution} * \text{Services}) + (\text{Controlled distribution} * \text{Electronics and other goods}) + (\text{Controlled distribution} * \text{Wine, spirits and food})
\]

\[
\text{Tobin’s Q} \sim \text{Counterfeiting index} + (\text{Counterfeiting index} * \text{Accessories, jewelry and beauty}) + (\text{Counterfeiting index} * \text{Apparel}) + (\text{Counterfeiting index} * \text{Automobile}) + (\text{Counterfeiting index} * \text{Services}) + (\text{Counterfeiting index} * \text{Electronics and other goods}) + (\text{Counterfeiting index} * \text{Wine, spirits and food})
\]

\[
\text{Tobin’s Q} \sim \text{CSR Index} + (\text{CSR Index} * \text{Accessories, jewelry and beauty}) + (\text{CSR Index} * \text{Apparel}) + (\text{CSR Index} * \text{Automobile}) + (\text{CSR Index} * \text{Services}) + (\text{CSR Index} * \text{Electronics and other goods}) + (\text{CSR Index} * \text{Wine, spirits and food})
\]

\[
\text{Tobin’s Q} \sim \text{Interbrand} + (\text{Interbrand} * \text{Accessories, jewelry and beauty}) + (\text{Interbrand} * \text{Apparel}) + (\text{Interbrand} * \text{Automobile}) + (\text{Interbrand} * \text{Services}) + (\text{Interbrand} * \text{Electronics and other goods}) + (\text{Interbrand} * \text{Wine, spirits and food})
\]
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Tobin’s Q = Marketing and R&D ratio + (Marketing and R&D ratio * Accessories, jewelry and beauty) + (Marketing and R&D ratio * Apparel) + (Marketing and R&D ratio * Automobile) + (Marketing and R&D ratio * Services) + (Marketing and R&D ratio * Electronics and other goods) + (Marketing and R&D ratio * Wine, spirits and food)

Tobin’s Q = Energized Differentiation + (Energized Differentiation * Accessories, jewelry and beauty) + (Energized Differentiation * Apparel) + (Energized Differentiation * Automobile) + (Energized Differentiation * Services) + (Energized Differentiation * Electronics and other goods) + (Energized Differentiation * Wine, spirits and food)

Tobin’s Q = Relevance + (Relevance * Accessories, jewelry and beauty) + (Relevance * Apparel) + (Relevance * Automobile) + (Relevance * Services) + (Relevance * Electronics and other goods) + (Relevance * Wine, spirits and food)

Tobin’s Q = Esteem + (Esteem * Accessories, jewelry and beauty) + (Esteem * Apparel) + (Esteem * Automobile) + (Esteem * Services) + (Esteem * Electronics and other goods) + (Esteem * Wine, spirits and food)

Tobin’s Q = Knowledge + (Knowledge * Accessories, jewelry and beauty) + (Knowledge * Apparel) + (Knowledge * Automobile) + (Knowledge * Services) + (Knowledge * Electronics and other goods) + (Knowledge * Wine, spirits and food)

Tobin’s Q = Employees + (Employees * Accessories, jewelry and beauty) + (Employees * Apparel) + (Employees * Automobile) + (Employees * Services) + (Employees * Electronics and other goods) + (Employees * Wine, spirits and food)

3.6 Limitations

As previously discussed in this chapter and in the introduction, this thesis explores the complex areas of CSR and brand value in luxury from both a quantitative and qualitative point of view. Despite this complexity, the main objective of this work is to gain an understanding of the role of CSR on brand value in luxury by contextualizing it within the other determinants influencing brand value in the industry. To increase the reliability of the results, the theoretical framework emerging from the literature review was revised based on the input from the qualitative interviews, and then, the framework was analyzed.
Methodology

quantitatively. Also, the results were subject to ‘credibility checks’ using qualitative interviews. It is important to point out that two factors enhance the validity of the results emerging from this research. First, both the initial qualitative interviews and the ‘credibility checks’ were conducted with executives from the three largest luxury conglomerates in the world, and in particular, included some of the most valuable luxury brands in the world in terms of brand value. Second, the use of the BAV database to model consumer-based brand value also adds to the credibility of the research findings, especially considering that its use is proprietary and it is one of the largest existing databases on consumer brand value. In brief, while the objective of understanding the role of CSR in luxury, and how CSR and other factors contribute to brand value in luxury was achieved; this topic is still complex, and as a result, there are a number of limitations that need to be acknowledged.

First, brand value can vary within luxury based on brand category, company size, or type of brand. In fact, luxury companies have different business models which are tailored to their organizations. For example, a company selling exclusively leather bags will have a different business model than a company selling both cosmetics and handbags. The same applies to brands selling goods across many different categories such as fashion, accessories and beauty, as is the case with many large luxury brands. For this reason, it is practically impossible to have a one-size-fits-all model for brand value. Consequently, the results in Chapters 4, 5, and 6 are only indicative in nature, and should be interpreted with caution; as what may work for Hermès may not work for Coach or Michael Kors. However, on a more positive note, the results from this research create a foundation for future work in the area of CSR and brand value in luxury as discussed in Chapter 7 of this thesis.

Second, this research used the best available information, but due to limited disclosure and the secretive nature of the luxury industry, the statistical model uses a number of assumptions which were discussed earlier in this chapter. Most of these assumptions are related to how marketing and R&D/Design expenses and counterfeiting were estimated; use of mean values to handle missing data; that use of company-values rather than brand-specific estimates for variables
such as the CSR Index or Business Size; and the utilization of proxies for variables such as brand value (i.e. Tobin’s Q) or luxury (i.e. luxury construct). While the selected approaches are well supported in the literature by previous research, it could be possible to obtain different results if the proxies used were replaced with real data.

Third, due to data availability, only 101 brands were included in the study. Since these brands are split across many categories, it was not possible to divide the sample by categories to understand if the different components of brand value would change, as the results would have been statistically insignificant due to the small sample size.

Fourth, this research looks at the role of CSR in brand value in luxury. This research takes a holistic approach to brand value considering that it looks at both, consumer- and company-based brand value. In this thesis it was discussed that while consumers currently do not actively demand CSR in luxury (see section 2.2.2.2) there is still a level of consumer interest in CSR (see section 6.1.2). The BAV database does not include consumer scores on CSR perception. Thus, while CSR is a company-based contributor to brand value, it is still a limitation of this research that there is an exclusion of consumer perceptions on CSR in the quantitative analysis due to data availability.

Fifth, as discussed in section 3.3.2.2, some of the brands included in the BAV database can be considered Fast-Moving Consumer Goods (FMCG). Due to small data set, it was not feasible to eliminate those brands from the database. However, to address this limitation, a luxury construct based on consumer opinions as to how prestigious and upper class a brand was perceived to be was included in the quantitative analysis (see section 3.3.2.3). Nevertheless, the inclusion of brands not regarded as true luxury (see section 3.3.2.2) could imply that the results of the quantitative analysis could change if only true luxury companies were modeled.

Sixth, as stated in sections 3.3.2.3, and 3.3.3 to 3.3.6, the quantitative analysis was conducted using multiple secondary sources that were not intended to be
used together. The use of a separate dataset to conduct the quantitative analyses is well supported in the literature, and this approach has been used in key studies related to brand value (See: Ailawadi et al., 2003; Stahl et al., 2012; Torres et al., 2012). Still, to address this limitation, the dependent variables in the dataset were subject to log transformations in order to reduce skewness. Also, to reduce distortions in the results, some of the variables were combined in ratios or indices. For example, marketing and R&D were combined into a ratio; a CSR index was created using data from ESG Disclosure Scores, CSRHub and DJSI; and a luxury construct was estimated using consumer scores on prestige and upper-class perception (see section 3.3). Regardless of these approaches, it is important to acknowledge that it could be possible to obtain different results to the quantitative analysis if more primary data specifically collected for this research would had been gathered.

Seventh, during the interviews, a number of important issues were raised. For example, that CSR is likely to become more relevant in the future; that relevance of control for brand value is not only limited to the distribution chain, but to other areas within an organization such as control of the message with the goal of creating consistency; the challenge of creating a luxury experience outside a physical store; that marketing is much more than advertising and that it encompasses how the message about a brand is conveyed, not only by the brand but by customers and third parties. All these insights have the potential to shape brand value and indeed, they should be quantified to increase the reliability of the results even more. However, due to data limitations and time constraints (as quantitative data on these insights was not available) it was not possible to analyze these issues statistically. Therefore, these issues were only characterized qualitatively.

Eight, in terms of the interviews, there is a time limitation factor that needs to be considered. If longer interviews could have been conducted, it would have been possible to get more in-depth insights into the main issues raised by the interviewees. While this is not a limitation per se, as the objective of the thesis is exploratory and not an in-depth analysis of each factor, additional insights could have strengthened the results of this thesis. Also, due to the sensitive
nature of this industry, interviewees were not particularly open when talking about brand value valuations; CSR perceptions and implementation; R&D/Design and marketing expenditures; and threats that may impact their brand value. Thus, the findings of this thesis are only contingent with the information provided by the interviewees and with the data available.

To summarize, most of the limitations described in this section respond to the issue of data availability, the large scope of work for this research, and the secretive and complex nature of the luxury industry. However, these limitations do not affect the credibility of this thesis, as the findings are the result of qualitative interviews, a quantitative analysis and ‘credibility checks’. The results emerging from this thesis provide a holistic view on the topics of CSR and brand value in luxury, and make a comprehensive and robust contribution on this topic.

The following chapter provides a discussion and analysis of the main issues surrounding CSR and brand value in luxury, based on emerging insights from the qualitative interviews.
Chapter 4: Results, Analysis and Discussion from Qualitative Phase

Given that this research was conducted in four main steps: Literature Review, Qualitative Interviews, Quantitative Analysis and ‘Credibility Checks’; in order to follow the ‘natural flow’ of this process, it was decided to present each of these major steps into separate chapters. In each of these chapters, the results of each step (qualitative interviews, quantitative analysis, and ‘credibility checks’) are presented, analyzed and discussed.

This chapter discusses and analyzes the results from the qualitative interviews with luxury managers and stakeholders. Then, the results and analysis from the interviews are used to refine the conceptual model from the literature review (see Figure 5 in section 2.3.6 in Chapter 2). The analysis and discussion below is conducted around Corporate Social Responsibility (CSR) and two themes emerging from the interviews: Luxury and Brand Value (see section 3.2.5 in Chapter 3).

It is important to note that the analysis and discussion in this chapter is based on the data gathered during the qualitative interviews and they are reliant on quotes taken across the whole interview sample in order to include different points of view. The length of each section is dependent on how extensively each item was discussed during the interviews. Also, as mentioned in section 3.2.4, due to confidentiality agreements executed with some interviewees, and confidentiality and anonymity assurances given to all interviewees, all information that could help identify a firm or a respondent has been excluded from this thesis. Moreover, it is important to highlight that it is not the goal of this chapter nor the scope of this research to define the terms herein discussed; or to provide a full account of all the factors or circumstances surrounding CSR and brand value in luxury. For example, section 4.2 outlines the main elements that, in the view of the interviewees, constitute luxury; together with the main differences existing across the luxury industry, as described by them. Nevertheless, it is not possible to conclude that only the elements discussed in that section constitute luxury, or that the differences discussed encompass all
the potential differences that can be found across the industry. The same
caveat applies to the rest of the items herein discussed and analyzed.

4.1 CSR

As discussed in Chapter 2: Literature Review (section 2.2.1.3), CSR is formed of
three main dimensions; environmental, social and economic (Carroll, 1999;
Dahlsrud, 2008). Business activities within these dimensions can create a
positive impact for companies, the environment and the communities where
they operate. During the interviews, CSR was discussed by interviewees in terms
of two subthemes; drivers and implementation. As analyzed and discussed
below, there is wide variation in the level of implementation of CSR practices
and policies across the luxury industry, and there are different reasons why
luxury firms may decide to undertake CSR practices.

4.1.1 Drivers

In terms of drivers, there were three main reasons why companies were
interested in implementing CSR: Customer and stakeholder demand, ability to
market CSR efforts, and ‘insurance policy’ in case something goes wrong.

According to the literature, in general, consumers give low priority to CSR in
luxury (Achabou and Dekhili, 2013; Janssen et al., 2013; Kapferer and Michaut-
Denizeau, 2014). The findings of the current research contrast with the
literature in the sense that interviewees suggest that CSR is already being
demanded by luxury customers. An interviewee from a niche jewelry brand
owned by one of the two largest luxury conglomerates in the world stated:

“Our largest clients are socially responsible or at least want to appear to
be socially responsible.”

This comment suggests that CSR is demanded by a number of luxury customers,
although the interviewee did not provide any evidence of how widespread this
demand is. Nevertheless, what is more interesting is that the interviewee is
questioning whether this interest in CSR is genuine or not. A large number of
high net-worth individuals, which are clients of this brand, are involved in philanthropic efforts. Since these efforts are part of the social dimension of CSR, the brand uses this involvement in philanthropy to claim that their largest customers are socially responsible. However, this type of limited engagement with CSR does not imply that these customers actively demand CSR practices or socially responsible products from the brands they buy from. If customer involvement in CSR is driven by self-interest (social pressure, image building, tax incentives); then these ‘socially responsible’ customers may not demand CSR features in their luxury purchases. Ultimately, while a number of luxury customers are likely to care about CSR in luxury (as stated in the previous quote), CSR demand depends on whether the customer is interested in the economic or the psychological attributes of a product, as stated by Davies et al (2012) and as discussed in Chapter 2 (see ‘Consumer Perspectives’ in section 2.2.2.2).

A stakeholder from a firm specializing in brand value provided additional insights regarding drivers for CSR implementation within luxury by stating:

“We have done a lot of quantitative research and when you look at that as a driver, it is in the bottom quartile or bottom half. However it is not unimportant for driving purchase. Where it probably has a bigger role is in those internal aspects of a brand... people want to know the soul of the organization they are working with or for whom they are working. CSR is a great way to talk about the depth and the substance of your organization.”

This interviewee agrees with academic research indicating that luxury consumers give CSR a low priority in their purchasing decisions (See: Achabou and Dekhili, 2013; Janssen et al., 2013; Kapferer and Michaut-Denizeau, 2014). Despite not being as critically important as other determinants of brand value, CSR cannot be overlooked by luxury brands. However, as discussed below under the CSR implementation section; regardless of the level of customer demand for CSR, it is essential that luxury brands implement CSR policies and practices. These practices will not only contribute to a brand being perceived more positively by external stakeholders, but will also help meet the demands of internal
stakeholders, including current and potential employees. Having strong CSR practices in place is something that may have an effect on how a company is perceived, and it may constitute a differentiator from a talent recruitment and retention point of view (Mirvis, 2012; Vaiman et al., 2012). According to another interviewee from a luxury brand specializing in sourcing diamonds; luxury brands may capitalize on CSR, but at the same time, contribute to the social good. The interviewee stated:

“We spend a lot of time as a company putting this [CSR] into place but we never talk about it. It is actually great to talk about it when you are marketing because it is meaningful to many people or it will be increasingly meaningful. We do a lot to give back to the communities that produce diamonds that cut and polish them, like infrastructure, growth, electricity, healthcare, education to make sure the mining community is as healthy and prosperous as it can be. We do a lot to ensure that when a mine reaches its end of production, those people will not go back into poverty, but there will be secondary industries that will be created...”

This comment unveils that this brand is interested in ‘giving something back’. Littler (2008) discusses that while companies often talk about giving back, they rarely mention what they took away. Thus, this interviewee is only discussing that they need to give back to the communities, without addressing what the brand took away. This perception of CSR raises questions on how ethical luxury brands are, and if their interest in CSR is genuine. Additionally, this comment highlights the complexity of what firms do in terms of CSR.

On a more positive note, the previous comment also stresses how CSR is likely to become increasingly meaningful and, therefore, it makes a case for luxury brands to have strong CSR practices in place to meet this future demand for CSR. For the most part, top social and environmental performance can create a competitive advantage (Carrigan et al., 2016; Gordon et al., 2011). Consequently, CSR efforts can be marketed to drive talent to a firm, gain new customers, or enhance brand perception; something that can make holistic CSR implementation within luxury a win-win practice.
Another interesting factor driving interest towards CSR in luxury, is that CSR is considered an ‘insurance policy’; in case something goes wrong in the future or if CSR suddenly gets more attention from customers or stakeholders. The actions undertaken by the brand in the previous quote could be the result of these potential pressures. Brands may need to show that they are acting with respect to CSR.

An interviewee from a jewelry company mentioned the following:

“We see CSR as a shield. In the future, if it becomes very important because there is a conflict somewhere in the world; because someone very influential decides they are going to boycott [our products] because they do not do these things [follow CSR practices]... it is a protective shield for us and for retailers. We also think it is the right thing to do.”

For this brand, the main reason behind CSR implementation is to protect their brand. However, in the previous comment, the brand indicates that they are adopting CSR because it is ‘the right thing to do’. These two statements are in opposition and, therefore, they raise questions on how genuine their engagement with CSR really is. Another key point from the previous quote is the recognition of how CSR is becoming increasingly important within luxury, as highlighted in the literature by De Pierro Bruno and Barki (2014) and Kapferer and Mitchault (2014). However, this comment highlights that being socially responsible in luxury goes beyond consumer demand. This suggests that irrespective of whether or not CSR is demanded by customers or stakeholders, or whether a luxury brand genuinely cares about CSR; having CSR practices in place, can ameliorate the impacts of situations when something goes wrong at a firm. There are several things that could go wrong at a firm, either because of willing or unwilling actions. For example, if a brand uses a chemical to treat their leather products, and then a NGO or a government agency discovers that this chemical is carcinogenic; the brand could be perceived negatively, even if the brand was not aware of any potential health issues associated with the use of that chemical. In contrast, a brand could have poor workers’ right practices, and they willingly know about it, but decide to do nothing. If the company
suddenly gets exposed because of these poor practices, the image of the brand could be jeopardized.

An example of how CSR can limit damage in case something goes wrong is the Volkswagen emission scandal. To clarify, this example makes a case for how CSR can help to reduce the impact of a scandal. However, it does not imply that CSR can help to avoid all the consequences of a scandal.

In 2015, the US Environmental Protection Agency found that Volkswagen (the owner of Audi AG) had installed illegal software in some of its vehicles to circumvent emission tests. The scandal was initially limited to Volkswagen vehicles, but it later expanded into other brands owned by Volkswagen, including Audi. In November 2015, Germany and the United States launched investigations into engines manufactured by Audi to determine the implications for the brand as a result of the scandal (Boston et al., 2015).

Audi is included in Interbrand's Best Global Brands list, which includes the Top 100 brands in the world in terms of brand value. In addition, from a CSR perspective, Audi is a top-performer, outperforming brands such as BMW, Volvo and Jaguar in many CSR categories, including community initiatives and employee conditions. Furthermore, with respect to environmental efforts, Audi outperforms brands such as Volvo, and Mercedes-Benz.

During the third quarter of 2015, the share price of Audi AG only decreased 15 percent. Market capitalization incorporates brand value (Steenkamp, 2014; Wang et al., 2012), so it may be possible to argue that despite the seriousness of the scandal, its effects were somehow ameliorated by their strong CSR performance prior to the scandal. Still, it is important to highlight that in case something goes wrong at a company, high historical CSR performance will not be enough to ensure that reputational damage will not occur. Luxury brands need to be consistent in terms of their CSR behavior, and should not assume that because they have behaved socially responsibly in the past, they can engage in unethical practices hoping that their past CSR performance will protect the brand in future CSR-related scandals.
During the interviews, a stakeholder specializing in CSR added:

“No news is good news. If there are no controversies happening in a company that is great. When there is a major controversy in the supply chain, or with workers, or with major environmental spills it does not matter if the brand is luxury or not. It will have a major impact on its reputation. One example is Nike, even though it is not luxury. They went through a very bad period in terms of brand recognition. People recognized the brand because they were screwing it up so much. Now it has reversed and become a champion of sustainability within its industry, so people have started to recognize them for that.”

The implication of this comment for the industry is that while CSR can help a brand, brands will still be accountable for any wrongdoing they do. However, it should be easier for a brand to recover from a scandal when it has strong CSR procedures in place; than trying to establish a full CSR program from scratch in case something went wrong. It is easier to calibrate and improve existing CSR procedures and policies; as a company can capitalize on its previous CSR experience to make enhancements to its CSR program. Moreover, by having CSR practices in place, luxury brands will be seeking to improve their practices, which will make brands less likely to experience scandals. If luxury brands are open about their problems and do not try to hide the fact that the purpose of a brand is to generate revenue, consumers may be more forgiving when a scandal arises.

In summary, based on the input from the interviews, the industry realizes the complexity of CSR. Additionally, it appears that CSR implementation within luxury is not motivated by ethical drivers. Luxury brands do not seem to legitimate believe that their operations should try to minimize any negative impact on society and the environment. Furthermore, luxury brands do not consider that they should try to make a contribution to social or environmental causes. Thus, it can be said that the main factors driving CSR within luxury are essentially self-serving. In other words, the drivers behind CSR implementation are the business need to address customer and stakeholder demands and
expectations with regard to CSR; to insulate luxury brands in case something goes wrong at the brand level; and to some extent, to be able to use CSR undertakings as a marketing tool.

4.1.2 Implementation

First, with regard to the level of CSR implementation in luxury, it is important to understand that a key area where CSR and luxury intersect is that both need a long-term vision in order to succeed. Therefore, the long-term vision of luxury and CSR will be discussed first in this section. Second, based on the vision of each brand, there will be variation in terms of how CSR is implemented within luxury. Due to how CSR is approached across the interview sample, CSR implementation is discussed and analyzed in two categories: ‘Getting started with CSR implementation’ and ‘More comprehensive CSR implementation’.

With regard to the current implementation level of CSR within luxury, it is important to highlight that there are questions as to the incompatibility of CSR and luxury. As outlined below, CSR implementation appears to be more comprehensive in companies producing food and those owned by large luxury conglomerates; while the rest of luxury firms are within the ‘getting started with CSR implementation’ category.

The following sections discuss the importance of having a long-term vision for both CSR and luxury, and how this need makes luxury and CSR highly compatible. Additionally, these sections provide industry insights into how CSR is implemented within luxury.

4.1.2.1 Long-Term Vision of Luxury and CSR

An important characteristic of luxury highlighted during the interviews is its long-term vision. It can take many years, or even decades to build a successful luxury brand and, thus, everything a luxury brand does should be aligned taking into account a long-term view. Having a long-term view is furthermore to creating and preserving brand value.
To illustrate the importance of this long-term perspective, an interviewee from a French haute-couture house stated:

“We do not like to look at a single moment in time on where we are... we look at the entire history of the brand and the future of the brand and where we want to be in 10, 20, 50 years in time and we invest with that in mind.”

While this comment was made by an interviewee from a long-existing brand, this long-term vision was also shared from interviewees from emerging luxury brands. An interviewee from an emerging brand specializing in luxury accessories stated:

“[Brand awareness efforts] are not revenue driving in any major way, but they help keep brand relevance...so it is something that pays off later, in the long-term.”

Moreover, according to a stakeholder, this long-term vision can translate into a competitive advantage for luxury brands by associating it to brand value:

“The successful luxury good companies have always recognized brand equity, and it is the long-term excellence of the management groups around the brand equity that have made the cut that differentiated them.”

To summarize, the importance of a long-time perspective within luxury is something that was highlighted by interviewees from long-established luxury brands, emerging brands and stakeholders. This reinforces the strategic importance of this principle within luxury. In terms of the literature, Beverland (2004) states how reputation in luxury is created by building it up over a long period of time. Godart and Seong (2014) consider that long-term vision is one of the foundational elements of luxury. Kapferer (2015, p. 29) states that in luxury there must be a “long-term strategic vision...” and that in luxury “time is long unlike most other sectors”. In short, there is alignment between how the literature and the industry perceive the importance of having a long-term vision within luxury. Additionally, an outcome from the interviews is that interviewees recognize that having a long-term vision can result in advantages to luxury
brands, including: Sustained growth, brand relevance, differentiation and higher brand value.

To illustrate the long-term nature of luxury, a good example is provided by Louis Vuitton’s watchmaking division. For Louis Vuitton, which is already one of the largest luxury brands in the world in terms of brand value (Interbrand, 2015), it took over 15 years after it decided to get into the watchmaking sector to get the Geneva Seal, a label given to watches made in Geneva which have superior quality craftsmanship and timekeeping standards (Paton, 2016). This is an interesting development considering that LVMH, which owns Louis Vuitton, has owned prestigious watchmaking brands such as Zenith or Chaumet for several years. This is a clear example of how long it can take to implement a strategy within this industry.

Given these points, one may ask why is this long-term vision of luxury discussed under CSR? The answer is very simple, and it is that, both CSR and luxury need a long-term vision to succeed. This long-term vision is where luxury and CSR intersect, and this is what makes long-term CSR and luxury strategies highly compatible.

As is the case within luxury, having a long-term vision within CSR is essential, as it is very difficult to identify short-term effects associated with CSR pursuits (Dibb and Carrigan, 2013). For example, Louis Vuitton could decide to drive consumer awareness in terms of CSR by implementing more stringent CSR policies and practices within the company. Louis Vuitton could pursue downstream efforts aimed at informing and encouraging consumers to become more socially responsible. However, it would take several years before Louis Vuitton would be able to measure tangible results from such initiatives.

Similarly, if in addition to adopting ‘more comprehensive CSR implementation’ strategies at the brand, Louis Vuitton decides it wants to reduce car use within the organization, the company could fund a cycling program where its employees could borrow bikes at no cost to go to work. In the end, Louis Vuitton has embedded travel within its brand DNA, and therefore, ‘city travel’ is
something that would be consistent with the vision of the brand. If the program were successful, Louis Vuitton could decide to engage in upstream practices by sponsoring a public cycling program like those in London or NYC to reduce automobile use. However, it would take many years before such a program results in increased bicycle use among the general public and correspondingly decreases automobile use (See subsection ‘Communicating CSR Through Green and Social Marketing’ in section 2.2.2.3 for discussion on upstream and downstream efforts.). Nevertheless, the long-term effects of CSR should not be seen as a reason to deter luxury brands to invest in CSR. On the contrary, it provides an opportunity to implement CSR gradually, and to calibrate a brand’s CSR program accordingly, in order to ensure that it is effective not only for customers and stakeholders, but also for the brand itself.

It is important to highlight that during the interviews, interviewees did not discuss the long-term vision within luxury in terms of CSR. Thus, this relationship between CSR and luxury does not appear to be evident to the industry, but it is something they need to be aware of, as it has considerable implications for the industry. Since the financial crisis in 2008, there has been a tendency by the luxury industry to implement short-term policies without taking into account the long-term effects that those actions can have on their brands. In particular, brands have offered deeper discounts to increase short-term sales; something that in the long-term can affect the exclusivity of a brand. Similarly, some brands have offered goods at a lower price entry point; or brand extensions in order to capture more customers. These types of strategies can increase revenue in the short-term, but in the long-term it can result in lower brand value due to massification of the brand.

From a CSR perspective, as was discussed during the interviews (see section 4.1.2.4, Barriers to CSR Implementation), some luxury brands have scaled down their CSR efforts, in order to focus instead on short-term revenue-generating initiatives. For example, Tiffany & Co. may prefer to sponsor a multi-million dollar exhibition on its historic jewelry at the Metropolitan Museum of Art in NYC, than develop a long-term program aimed at improving living conditions in communities sourcing precious metals and gemstones for their jewelry.
Sponsoring an exhibition may result in larger short-term revenue for the brand. However, undertaking a long-term CSR program aimed at improving living conditions in the communities where the brand sources its raw materials is more likely to have a more significant impact to Tiffany than short-term CSR actions. By having a long-term CSR vision the brand could be perceived more positively, not only by its own employees, suppliers and stakeholders, but also by its own customers. This, in turn, would be good for business, from a revenue perspective.

To recap, it is essential that luxury brands keep that long-term vision in all their endeavors. However, it is important to acknowledge that, as in any industry, luxury needs to adapt to factors such as changing consumer preferences, stakeholder demands and economic conditions. As mentioned by an interviewee from a French haute couture brand:

“There is a natural tension between what is the best method to preserve the heritage, and the history and image of the brand and still deliver high performance.”

Thus, it is necessary to balance a brand long-term vision with shorter-term action plans so that brands can growth sustainably, be socially responsible and remain financially successful.

4.1.2.2 ‘Getting Started with CSR Implementation’

For most luxury brands, CSR is deeply associated with the arts, voluntarism and philanthropy. Moreover, at some extent, CSR is also associated with basic actions involving fair labor conditions in the production or supply chain of a brand. While these type of actions form part of the social dimension of CSR, it can be difficult for luxury brands to legitimately claim that they are socially responsible just because they undertake a small number of isolated CSR actions.

To illustrate the limited engagement of luxury brands with the social dimension of CSR, an interviewee from a French luxury brand listed in Interbrand’s Global Best Brands stated:
“We have a variety of things through the year. We participated at Miami Art Basel, and events in different cities... we have a partnership with MoMA (Museum of Modern Art in New York).”

Based on this comment, for this brand, its ‘CSR focus’ is limited to a handful of cultural partnerships and events, which neglects other important aspects of CSR related to the production and consumption of their products; such as worker welfare, social responsibility in the supply chain, or the environmental impact related to company operations. Notably, it could be argued that these isolated initiatives within the social domain of CSR are branding activities aimed at driving brand awareness and fuel the dream of the brand. However, there is evidence in the literature suggesting that the use of CSR as a marketing tool does not result in enhanced reputation, as it is difficult for stakeholders to differentiate between ‘marketing-based CSR practices’ and ‘real CSR practices’ (Gallego-Álvarez et al., 2010).

There are varying degrees of CSR within luxury, ranging from low to high involvement. Fostering a close relationship with the arts is a key strategy that luxury brands need to pursue (Kapferer, 2009). While this type of starting-level CSR strategies need to be pursued within luxury, luxury brands should also explore the advantages provided by ‘more comprehensive CSR implementation’ (see section 4.1.2.3). Luxury brands should look beyond trying to use CSR as a way to showcase themselves in addition to the advertising efforts they already conduct. In fact, brands should avoid trying to portray these efforts as ‘more comprehensive CSR implementation’ strategies, as doing so can reduce trust in the brand and put in doubt the legitimacy of the brand’s actions. As put by Crane (2005, p. 227): “The more people distrust business - whether large or small, ‘ethical’ or otherwise - the more scrutiny business is subject to, and the harder it becomes for any firm to maintain trust and legitimacy.”

It is noteworthy to state that other brands look beyond collaboration with the arts and instead focus on what appear to be random social causes. An example of this type of initiative was provided by an interviewee from an emerging luxury brand specializing in accessories, who stated:
“We have a couple of things on the horizon with regard to partnering with some non-profits and/or do some collaborations that help support developing nations. One of them is a non-profit that helps create sustainable artisan workshops. For example, they will build a facility in India which will make fabrics. We will use that fabric to make ties. So this helps keep the facility in India and helps mothers with a part-time job. As we grow bigger CSR is something we can do, but at the moment we do not have a formal plan.”

For this brand, CSR implementation goes beyond collaboration with the arts and philanthropy by helping improve the standards of living of individuals involved in its supply chain. This initiative is a step in the right direction in terms of CSR implementation, especially considering that this is an emerging brand with less resources at its disposal than well-established luxury brands. Nevertheless, it is important to recognize that the brand is still in the ‘getting started with CSR implementation’ category. For example, in addition to trying to create better conditions for workers in less advanced economies, this brand could look at ‘more comprehensive CSR implementation’ strategies; namely energy savings, recycling programs, use of environmentally-friendly packaging, or a strong policy for workers’ rights in the international locations where they manufacture their products. Still, it is important to note that CSR undertakings should be aligned with the DNA of a brand (see sections 6.1.4 and 6.1.5).

A further consideration is that the interviewee recognizes how their smaller brand size is contingent with their level of CSR implementation. For instance, small business size appears to be seen as a justification not to develop fuller CSR policies and practices. Additionally, there is recognition that ‘doing CSR’ is more than just collaborating in projects aimed at improving social conditions. The implication of this comment is that company size seems to have a role in the ability of a brand to undertake ‘more comprehensive CSR implementation’. Within luxury, there is sometimes a perception that responsible initiatives are leveraged by larger firms, something that provides a disincentive for smaller brands to engage in CSR behavior (Carrigan et al., 2016).
Another example of CSR in terms of the supply chain is provided by an interviewee from a jewelry brand listed in Interbrand’s Best Global Brands who stated:

“We only work with diamond manufacturers that have social policies but we do not feel this is something we have to tell the world about.”

While this CSR policy is certainly positive, this comment also exemplifies how brands can be ‘interested’ in having fair social conditions but they are not particularly interested in being proactive in conveying this information to customers, and/or in expanding CSR into more comprehensive approaches. Part of the problem faced by luxury brands is the lack of honesty about their CSR efforts and a fear of backlash if their ‘starting level’ efforts in terms of CSR are made public. In cases like this, where CSR is just limited to responsible purchasing, and not to fuller CSR policies, it may be better for brands to avoid disclosing their CSR efforts. By doing so, they could avoid being considered as engaging in greenwashing (Nyilasy et al., 2013); a practice that instead of benefiting a brand, could backfire on it.

Crane (2005) highlights that customers may not be consistent in their purchasing decisions regarding CSR attributes (they may care about CSR but that does not necessarily translate into purchasing decisions). However, customers can identify cynical behavior when a brand tries to portray itself in a CSR manner, but then, there is a different reality at their stores or in brand information conveyed by the media. As an illustration, if for example, Hermès tries to portray itself as a highly socially responsible brand, it could risk its reputation and would be perceived as cynical given that, in reality, Hermès is not a highly socially responsible brand. Accordingly, it is essential that brands are consistent in what they say and how they act, so that they can create the right perception (Crane, 2005).

A further consideration is that, according to Crane (2005, p. 228) “In the marketing game ‘perception is reality’, so it is not so much whether firms are consistent that matters, but whether they appear to be”. Thus, it is possible that luxury brands create a strategy focused on conveying the perception that
they are serious about CSR and portray themselves as socially responsible even if they are not. However, given the existence of social media, which has made it easier for both activists and consumers to convey negative news about an organization (Carrigan and Pelsmacker, 2009), brands could be damaged by deceiving on/exaggerating their CSR achievements.

For example, the recent situation involving animal cruelty issues in a farm supplying crocodile leather to Hermès made international news, not only because of the media, but because the news was widely shared through social media. Besides social media, it is important to realize that many companies that pursue CSR efforts also publish their CSR goals and achievements, and their reports are normally audited by third parties. Moreover, CSR reports are not only scrutinized by a brand’s own auditors, but by investors and stakeholders; making it more difficult for brands to overclaim their CSR efforts. Hence, for brands ‘getting started with CSR implementation’, it is a safer strategy to remain silent about their CSR undertakings, than trying to overplay them.

A further consideration regarding starting-level CSR implementation is the implication of regulation, policy schemes, and pressure from NGOs and the industry itself to be more transparent and CSR responsible. For example, an interviewee from a high-jewelry brand stated:

“We follow the Kimberley process for diamonds. It is all about making fair business. We also are part of the Corporate Jewelry Council which sets up rules to conduct business in a healthy way... We know where we buy from. We only buy from reliable suppliers. We have actions on sustainable sourcing.”

While during the interviews interviewees did not explicitly address how these pressures have resulted in increased CSR practices within luxury, this comment implicitly illustrates the importance of these pressures for CSR implementation. For instance, as discussed in section 2.2.2.3, the Kimberley process was the result of pressures to avoid sourcing ‘blood diamonds’ (diamonds sourced from conflict areas) (Kimberley Process, 2016). Pressures to implement the Kimberley process did not only come from NGOs, but also from states and the industry
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itself (Kayogo-Male, 2011). The implications of these pressures are further discussed in section 6.1.4.

4.1.2.3 ‘More Comprehensive CSR Implementation’

As discussed in the previous section, there are multiple instances where luxury brands are ‘getting started with CSR implementation’. At the other side of the spectrum there are luxury brands pursuing more substantial CSR efforts. Brands with ‘more comprehensive CSR implementation’ look beyond collaboration with the arts, philanthropy or low-scale supply chain policies; and look into more significant policies, such as the environmental dimension of CSR. An interviewee from a gourmet luxury brand stated:

“We believe that quality and sustainability absolutely go together. You cannot have sustainability [in luxury food] without quality. We have spent many years creating this model to help the farmers to improve the quality, not only for us, but for the industry; and at the same time to apply sustainable agricultural methods at the point of origin. It is a matter of extending that throughout the supplier or throughout the entire supply chain and our entire business as well.”

For this interviewee, CSR is linked to higher quality, which is a key component of luxury. This suggests that the incorporation of CSR features in luxury may be able to increase the quality perception of luxury products. This view is supported by the literature as CSR features such as Fair Trade labels (which can be found in luxury gourmet products and are linked to environmental and social features of CSR), can increase the luxury perception of products (Schmidt et al., 2016). In a similar manner, Carrigan and Attalla (2001), Sudbury Riley et al (2012) and Moraes et al (2012), consider that companies need to be able to offer more than CSR to their customers, as customers are interested in aspects such as quality, service and brand image and familiarity. This makes an additional case to highlight the compatibility between luxury and CSR, as quality is one of the fundamental values of luxury. Since luxury brands are already offering superior quality and a superior experience, the incorporation of CSR into that mix can be a natural step for the industry as it makes business sense to pursue CSR.
An implication of increased quality perception through the adoption of CSR features is that CSR adoption can result in increased brand reputation and higher brand value for luxury brands. It is important to note that this perception does not need to be limited to luxury food. In fact, it could also be extended to non-food products made with natural components such as cosmetics and clothing. As an illustration, a coat made from sustainable Scottish cashmere could be perceived as a higher quality item than a coat made of non-sustainable Chinese cashmere. Sustainable cashmere involves that no chemistry dyeing are used in the fabric, and that cashmere is fully traced to ensure that it is sourced from providers with strong animal welfare practices. In this case, customers would be willing to pay a price premium for the ethical features of the product. However, since it is difficult to mass-produce sustainable cashmere, the price premium of sustainable Scottish cashmere is not only related to CSR, but also to COO. As discussed in section 4.3.2.4, COO is associated with quality perception. Thus, in this case, the fact that Scottish cashmere is considered high-quality could also have an impact on the price premium customers are willing to pay for it.

Another example of comprehensive CSR implementation within luxury is provided by an interviewee from a brand from the French Riviera specializing in luxury services:

“We make sure that everything we do we do it green. We organize events which are an intersection between the green world and the investment world... we do not only want to live ourselves as examples of sustainable development, but also encourage those practices with other companies... we have a charter with an action plan on CSR... that is something very important for everyone involved in the company.”

For this company CSR is a key component of their brand. They are not only seeking to implement comprehensive CSR policies and practices, but they are seeking to become innovators in terms of CSR, so that other brands can follow. A way for them to do this is by engaging in collaborations with other companies to expand the adoption of CSR. By reinforcing and legitimating the adoption of CSR with an action plan, the company is recognizing the importance of CSR for
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luxury services, as highlighted by Cherapanukorn and Focken (2014). It is important to highlight that most brands, even those with ‘more comprehensive CSR implementation’, are still not looking at CSR from every single touch point they have with their clients and stakeholders. Thus, this is an area luxury brands can explore. The brand quoted above is ensuring that every interaction their customers have with the brand provides a superior experience (when they welcome a guest, when the guest arrives at the airport, when the guest has dinner at the restaurant or when he/she gets a treatment at the spa). The same could be done from a CSR perspective. For example, customers eating at a restaurant could get their menu printed in recycled paper; the uniform of restaurant and hotel staff, table clothes and napkins could be made of organic fibers; restaurant/hotel vehicles could be electric; the energy used at the hotel/restaurant could be renewable; or the swimming pool could be filled with filtered rain water.

In terms of their stakeholders, the brand is not proactively engaging them to communicate its CSR undertakings and/or to open a dialogue to identify key areas of its CSR program that could be improved. Nevertheless, on a positive note, the creation and implementation of CSR action plans with ambitious but realistic goals and with tracked progress can mark the difference between ‘being interested’ in CSR and actually being more socially responsible. Consequently, this is an option luxury brands can explore as part of their CSR efforts.

Another example of CSR implementation was provided by an interviewee from one of the largest luxury conglomerates in the world. As a side note and to increase clarity, this group is one of the industry leaders in CSR, so the comment below is only indicative of the CSR actions undertaking by this group:

“We have a fabric library which is linked to our sustainability team, which ensures that the fabrics are sustainable. For saving purposes and to reduce our carbon footprint we have consolidated the distribution of our brands. For example, in the US we have a warehouse in the east coast that ships to stores in the US.”
CSR can create a competitive advantage for firms (Pessanha Gomes and Yarime, 2014). As conveyed in this case, CSR can result in synergies such as smart distribution which will not only result in lower emissions but also in lower distribution costs for the group’s brands. Also, by combining resources to create initiatives like a fabric library, luxury companies can ensure that they do not only produce sustainable fabrics, but also innovative and superior quality textiles.

Furthermore, while brands like the ones quoted above already have relatively comprehensive CSR programs in place, there are instances where luxury brands without such programs are working to create strong CSR programs from scratch. An interviewee from a luxury services brand with over 2xx years of market presence indicated how their brand is currently working on a CSR program. The interviewee stated:

“We measure waste, recycling, water, electricity, gas, miles flown. With that information we will be able to see what the trend looks like and then address what we may do.”

As discussed in Chapter 2 (section 2.2.2.3), due to potential pressures from consumers, stakeholders and regulators, the luxury industry needs to implement more comprehensive CSR strategies (Carcano, 2013). The acknowledged importance of CSR is leading to the creation and implementation of CSR policies within luxury, as shown in the previous comment. However, something to point out is that in the case of this company, these environmental initiatives are not likely to have an impact on the type of services that customers get from the brand. The same applies to other social efforts such as voluntarism, and engagement with educational activities. In other words, these efforts may respond to internal stakeholder interests, or employees, which, as a result, can improve company reputation and performance (Taghian et al., 2015). Furthermore, another reason behind the implementation of such initiatives is that, as stated by Harjoto and Jo (2011), pursuing CSR actions can help reduce conflicts between managers, investors and stakeholders.
Given these points, an interesting observation emerging from the interviews is that successful companies, such as those owned by the three largest conglomerates in the world, have appointed high-level managers to coordinate CSR activities within those groups. One of the reasons behind such appointments, together with the creation of formal CSR departments, is that the largest luxury companies in the world are publicly traded, and stakeholders are more sensitive towards CSR. Along these lines, an interviewee specialized in CSR stated:

“Shareholders are particularly concerned with brands in that sense [CSR]... they know that there are major reputational impacts when it comes to sustainability and how that affects the brand.”

A strategy that luxury brands implement to reduce these concerns is CSR reporting, which was discussed earlier in this chapter. However, it is important to stress that CSR reporting needs to be taken seriously by luxury brands and not be seen as a marketing activity. According to Mohr et al (2001), once a company discloses CSR information, the company is expected to continue improving its CSR track record. Thus, it is important that senior managers are not only engaged in devising a CSR program and plan, but in keeping track of the progress of a brand’s CSR efforts.

For instance, it is commonplace within the main luxury conglomerates to have a CSR Director working directly with the CEO in CSR issues. This practice is due to the strategic importance that CSR has for the largest luxury conglomerates. Harjoto and Jo (2011) support this view by indicating that within an organization, top management are usually involved in CSR issues. In the view of these authors, working on CSR allows company leadership to build their own reputation and even reduce CEO turnover; as CEOs could be seen more favorably due to successful CSR programs. To illustrate the strategic importance of CSR within luxury, an interviewee from a French luxury brand listed in Interbrand’s Global Best Brands stated:

“[CSR] is something that the group [luxury conglomerate] takes seriously, but we are not at the level of typical American companies where they talk about it, market it and communicate it... That is our goal but we are
not there quite yet... For us it is part of the business to act and source responsibly.”

This comment reflects, on one side, that this luxury conglomerate considers CSR relevant, but on the other, despite that they ‘take CSR seriously’, that the brand itself lags behind in actual CSR implementation. So there is a level of incongruence regarding how CSR is perceived at the group and how CSR is implemented. This illustrates that while a luxury conglomerate can have a well-established CSR department, like in the case of the brand quoted above, it will not necessarily result in that company having a strong CSR record. To point out this, an interviewee from another brand included in Interbrand’s list but owned by a different conglomerate stated:

“[xxx - Conglomerate name] may be a leader in CSR policies but [brand employees] really do not hear a lot about it. The CSR department is more like ad hoc/opportunistic and not a cultural/strategic initiative.”

In the second part of this comment, it is striking that while this luxury group is ranked highly in terms of CSR, the CSR policies devised by its CSR department do not seem to flow down to the actual brands. It should be noted that this situation was not exclusive of this luxury group, and in fact, it was observed in most of the brands included in this research. This may explain why there is evidence in the literature indicating that company managers do not have a good understanding of CSR (Pedersen, 2009). It needs to be noted that this lack of employee participation in CSR can contribute to the perception that luxury brands are not doing enough in terms of CSR. For example, if a brand manager of a brand owned by the largest luxury conglomerate in the world is not aware of the CSR actions pursued by the group, then it can be assumed that nobody under the leadership of that manager will be aware of the group’s efforts in CSR.

Consequently, CSR information will not be conveyed by employees to stakeholders and customers (irrespective of whether they seek it or not). This, in turn, can create the perception that the brand is not doing anything in terms of CSR, although it is. For this reason, it is essential that CSR managers work with employees at all levels. Thus, employees can actively participate in their
brands’ CSR efforts, and convey these efforts to customers and stakeholders, as appropriate.

In summary, based on the interviews, there is a mixed level of CSR implementation and CSR knowledge across luxury brands. Some brands consider CSR as highly important and, therefore, they have comprehensive CSR programs in their organizations. Others claim to have high-level interest in CSR, however, this is not evident in their CSR activities. Then, there are others becoming aware of the need to have CSR programs in place and, thus, they are creating CSR programs from scratch. In contrast, there are still many brands ‘getting started with CSR implementation’ that pursue CSR mainly from a social perspective (philanthropy, voluntarism or collaboration with the arts). In fact, some of these luxury brands claim to be socially responsible, even though it appears, based on the evidence provided during the interviews, that they are just ‘getting started with CSR implementation’. Finally, it is important to highlight that there is recognition within the luxury industry of the increasing importance of CSR, although, as discussed below, there are still barriers hindering progress in terms of CSR implementation.

**4.1.2.4 Barriers to CSR Implementation**

Despite the adoption of CSR practices by many luxury brands, CSR is still overlooked within luxury (Carrigan et al., 2013). Chapter 2: Literature Review, discussed a number of reasons preventing the adoption of genuinely-motivated CSR practices within luxury. Among these reasons are limited access to sustainable raw materials, disinterested customers, and managerial challenges. During the interviews, interviewees commented on additional situations that made it difficult for luxury brands to become more socially responsible. These barriers include: Difficult economic conditions, less company resources, and the challenge to match CSR efforts with consumer preferences.

With regard to difficult economic conditions, a stakeholder from a consulting firm specialized in luxury stated:
“In 2007, CSR was very important, as there was a willingness [by consumers] to pay a premium. This is not the same situation at the moment...CSR has not been implemented so extensively in luxury as it has happened in the mainstream industry.”

This comment refers to the great recession, which led to a significant decrease in revenue for luxury companies (Piercy et al., 2010). With declining revenues, the luxury industry had to pursue different investment strategies to stay afloat. Therefore, because of less resources available to them, investing in CSR with those economic conditions did not take precedence over other investments brands had to make.

There is evidence in the literature that during economic downturns, ‘small luxuries’ substitute big-tag luxury purchases (Carrigan and Pelsmacker, 2009). As a result, if people are buying small luxuries, luxury brands will generate less revenue, and then, they will not be fully committed to CSR. Consequently, they will stop investing in CSR. In contrast, if a brand sees CSR strategically, and CSR is part of their DNA; CSR-related initiatives are not likely to be impacted, as doing so would risk damaging the essence of the brand. Thus, the argument that CSR interest may decrease during economic downturns is likely to be used by brands that do not have a genuine interest in CSR.

For example, if a brand like Eileen Fisher, which has made its textile recycling program and the use of organic cotton an important part of its brand image, suddenly starts cutting those initiatives because of cost constraints, their revenue and brand value are likely to be affected, as the lack of CSR would be a deterrent for customers to buy their products. Furthermore, an aspect that the previous comment fails to consider is that the adoption of CSR can result in savings to firms. Thus, investing in CSR does not necessarily have to result in higher costs. For instance, if Gucci installs solar panels in its manufacturing facilities in Italy, they would be able to reduce their emissions and reduce their electricity costs. In addition, it would only take a couple of years for them to recover the cost of their investment due to the energy savings they will make.
Then, once the cost of the panels is covered, Gucci would get ‘free’ electricity for the rest of the working life of the panels.

Regardless of the difficult economic conditions experienced during the last recession; budget constraints can still be an important barrier for luxury brands in becoming more socially responsible. These types of constraints are especially common among small luxury brands. To point this out, an interviewee from a jewelry brand indicated:

“For jewelry you really need to have that social responsibility. You talk about stones, diamonds, etc. With a partner like this [its holding company] it becomes easier for us. When you are a small company it is difficult, as it is expensive.”

It is important to realize that a majority of luxury brands are small and medium-sized companies (Chevalier and Mazzalovo, 2012), and CSR activities are predominantly undertaken by leading/large brands (McEachern, 2015). Because of their smaller size and relatively less resources, some small luxury brands may not have the ability to look at CSR in the same way as larger luxury firms can do. This situation was highlighted by an interviewee from an emerging luxury brand:

“CSR is important at a personal level and we care about it... we do not have sustainability reporting or publish CSR information on our website.”

For this brand, CSR is claimed to be important, however, the brand still does not pursue any CSR efforts even at a minimal level. A reason for this is that low-level engagement with CSR could be potentially questioned by customers (McEachern, 2015), stakeholders and the industry if the brand ‘interest’ in CSR were made public. Hence, a brand may decide to do nothing about CSR rather than doing too little. When a brand does not have a CSR program with well-defined CSR policies in place; it is safer to avoid mentioning any CSR information, as it could misled customers and stakeholders and, as a result, become counterproductive.

A further consideration highlighted during the interviews is that sometimes CSR efforts need to take into account consumer preferences. This is something
difficult to achieve given the relatively low demand for CSR within luxury. An interviewee from a French luxury brand included in Interbrand’s list stated:

“The products have massive packaging, massive thick bags, thick boxes; if you ask about it, customers always want them. In luxury everyone wants the ultimate experience and people are not necessarily thinking about these things as they do not want to sacrifice any element from that experience.”

This example denotes how, despite the non-positive tone of the interviewee towards unnecessary packaging, customers demand it and it is something that customers do not want to sacrifice. This comment also illustrates a disconnect between luxury consumption and ethics, an aspect that luxury brands can address by educating consumers. Unethical consumer behavior, may be explained, in part, by the disconnect between what customers care about and their actual purchasing decisions (Szmigin et al., 2009).

While the brand may have a group of consumers that do not care about CSR, it is also possible that they have a group of customers who do care about it. However, consumers do not always behave ethically, but instead, are “selectively ethical” (Carrigan and Attalla, 2001, p. 570). Accordingly, it is important to realize that there are limits regarding how far ‘socially responsible consumers’ are willing to go. As stated by Cherrier et al (2012, p. 416):

“[Consumers] must have a high capacity for resistance and even a willingness to make sacrifices, to bear the social cost of transgressing the collective consumption norms”. As a result, if a luxury brand decides to cut down on packaging but customers expect that packaging, then the policy is likely to backfire on the brand.

Conversely, despite this expectation from customers, the brand could still reduce the environmental impact of its packaging by taking actions that could be unnoticed by consumers, such as manufacturing its boxes from recycled materials. Then, once consumers have accepted the change, brands could educate them about the importance of reducing packaging materials and using recycled materials to generate less waste.
From a social perspective, not all customers buying a $10,000-dollar diamond ring may think proactively about how stable the African country where that diamond comes from is; or the positive living conditions prevailing in the village where the diamond was mined. Thus, a brand must be prepared to provide this information to its customers if they demand it. The brand does not have to highlight this to customers who are not interested in it. As stated by Carrigan and Attalla (2001, p. 573): “Ethical information needs to be communicated in a form that breaks through the clutter, and reaches the consumer without any inconvenience or discomfort to them”.

In brief, when working on CSR initiatives, brands need to be careful to balance CSR performance with customer preferences. Customers need to be provided with the information, product and service they expect from a brand, and, at the same time, the brand needs to act in a socially responsible manner consistent with its CSR goals and the brand vision. Additionally, brands can educate customers in order to change their perceptions about CSR. However, the challenge of such a strategy is that it needs to be consistent with the positioning within CSR that a luxury brand decides to have (see section 6.1.5).

Based on the above discussion, CSR is compatible within luxury, not only because of the relationship between CSR and quality, but especially because the success of both a CSR program and a luxury strategy, depends on a long-term vision. Nevertheless, in terms of how relevant CSR is perceived to be within luxury, there are mixed views:

First, although CSR is still in its infancy in terms of consumer demand within luxury, it is already being demanded by customers genuinely interested in CSR. As a result, some brands are offering CSR to their customers to meet this limited demand. Second, CSR is used as a marketing tool or an ‘insurance policy’ to drive revenue for luxury brands that are ‘getting started with CSR implementation’; and as a differentiator in the case of brands with ‘more comprehensive CSR implementation’. Third, CSR is also used by brands as an add-on feature to try to make high-net-worth customers, especially those
involved in philanthropic efforts, feel good about their luxury purchases. Thus, brands complement the excellence in the product and the customer experience they already provide.

Still, given the differences in how CSR is approached by the industry, it is still not evident what the role of CSR is within luxury, and how it contributes to brand value. Accordingly, important questions that need to be explored in terms of CSR are: Does CSR contribute to brand value?; Can CSR change the luxury perception that customers have of a brand?; Can CSR have any impact on the financials of a luxury brand? These aspects are explored in Chapters 5 and 6.

4.2 Perceptions of Luxury

During the interviews, interviewees provided insights on two subthemes: Complexity of the industry; and how luxury is perceived by the industry. The two sections below analyze and discuss these two subthemes in more detail.

4.2.1 Complexity of the Luxury Industry

Despite the fact that luxury brands share many common elements, the luxury industry is far from homogeneous (Wiedmann et al., 2007). The complexity of the industry was discussed in Chapter 2: Literature Review. According to the literature, brands could be classified based on the strategies they pursue, the functionality of their products, how luxury products or services are used, and brand awareness and price. Nevertheless, the literature review did not provide a clear insight into the relevance of these differences for the luxury industry.

To explore this gap, this section presents the key differences that exist across luxury, based on the view of interviewees. These differences encompass the following: Differences between heritage and non-heritage brands; between tangible and intangible products; by brand category; and by global and non-global brands. Understanding these differences is important, as it makes it possible to gain a better insight into how the luxury industry works, and how brand value in luxury could be affected depending on these differences.
4.2.1.1 Heritage and Non-Heritage Brands

One of the significant differences within luxury emphasized by interviewees is the dissimilarity between heritage and non-heritage luxury brands. To explain how brands within these two groups differ, a stakeholder specialized in brand value stated the following:

“There are differences... BMW, for example, emerge on the technical side; versus Gucci and Prada that emerge on the emotional side. They are using heritage to continue to drive their luxury status and value.”

This comment clearly illustrates how heritage and non-heritage brands need to pursue different strategies to drive luxury and value. To expand the previous view, an interviewee from a luxury brand included in Interbrand’s Best Global Brands list stated:

“The heritage and the history of the craftsmanship of the brand is actually more important. We are lucky to have a 1xx year-old brand, so we have a lot of identity to protect.”

This interviewee stresses how the history and heritage of this brand has resulted in brand identity, which was created over a long period of time, and therefore, the brand needs to preserve. In other words, this brand has made a name for itself based on the design and quality of its creations, and on the prestige associated with its clientele. Thus, this brand needs to ensure that over time, it continues to distinguish itself by these factors. In order to achieve this, the brand needs to maintain a consistent brand vision, align the brand with its core values, and keep and advance the brand’s core expertise (Cooper et al., 2015).

With this in mind, an interviewee from another luxury brand commented:

“One of the things that differentiates [brand name] is that we have been around for 2xx years and have been doing this globally. People like that. We bring international standards, and a track record to whatever we sell. That experience is a big part of brand value.”

These comments suggest that heritage is one of the most important attributes for long-standing luxury brands. As a result, luxury brands with a long history
need to capitalize on their heritage to create value. Conversely, brands without a long heritage need to identify other strengths in their brands such as craftsmanship, innovative design or materials, to be able to drive value. For instance, a brand like Lancel\(^5\), which was mentioned earlier in this chapter, is not capitalizing on its heritage of more than 130 years, and instead, is unsuccessfully trying to drive its luxury status solely on its products. In contrast, WANT Les Essentiels de la Vie, an accessory brand founded in 2007, is trying to drive its luxury status through the quality of its craftsmanship, as it would not be able to use the heritage argument to do so.

To summarize, these differences between heritage and non-heritage brands not only result in dissimilar business models but also on how clients perceive each product. The literature suggests that luxury consumers care about brand heritage (Silverstein and Fiske, 2003). Another consideration is that there are tensions between new and long-established luxury brands, as the former tend to pursue mass strategies to make luxury products more easily available. In contrast, traditional luxury companies are wary of these strategies, as they can dilute a brand (Truong et al., 2009).

An important caveat of Troung et al.’s argument is that the majority of heritage and non-heritage luxury brands within the same category and segment offer similar products at similar price points. So the difference between heritage and non-heritage luxury brands is not necessarily in their target markets or pricing. The main difference between those types of brands is on how they drive luxury, given that it can take years for a brand to build its brand DNA/identity.

An interviewee from an emerging luxury brand specializing in fur stated:

“Each season it has always been defining what the brand is going to be. And basically that is when you know what the public wants from you, what the buyers want from you, and then from that point you can continue and build on that momentum.”

\(^{5}\) Interviewees from Lancel did not participate in this research
Based on the previous comment, it is important to acknowledge that luxury brands create their identity over time. That is why, within the group of heritage brands, it is possible to find true luxury brands. An interviewee from a French luxury brand not affiliated with Hermès or Chanel stated the following:

“When we think about luxury, we only look at a few companies as true luxury, and they are only Hermès and Chanel. So these are our main competitors as they have this history, their savoir-faire and quality of their craftsmanship - producing something incredibly beautifully made.”

True luxury can be considered the pinnacle of luxury, as the brands included in this subcategory will have a rich heritage, but in addition, they will pursue excellence in the products and the experience they deliver. Many luxury companies can deliver excellence but only a few can combine that excellence with a rich heritage. It should be noted that in the literature, true luxury is not necessarily associated with excellence but with exclusivity and scarcity (Brun and Castelli, 2013).

In summary, over time, brands shape their DNA as they get to know their public, and understand where they need to position themselves in order to satisfy their public. That is why long-standing brands like Hermès, Channel, Louis Vuitton or Ferrari have a clear identity and are able to devise strategies that are aligned with that identity. Some brands, like Hermès, Channel or Louis Vuitton will draw on their history and tradition to create luxury, while others, such as BMW or Apple, will draw on technology and design.

4.2.1.2 Luxury Goods vs. Luxury Services

In addition to the differences between heritage and non-heritage brands, there are also differences within luxury depending on whether a company is offering tangible or intangible luxury or, in other words, good or services. Within luxury products, brands will invest in R&D/Design to create a product, and then, will sell it to customers, together with the customer experience, at their own physical stores, online, or through third-party distributors. Within luxury services, the physical product is just a small part of what is sold to the
customer, and the core part of it is made by the actual experience. This intangibility of luxury services means that they cannot be ‘touched, seen, tasted, heard or felt’ in the same way as luxury goods (Pei Mey Lau et al., 2005, p. 48).

Additionally, in the case of intangible luxury, the service being sold is created for the customer at the same time as it is being delivered (Pei Mey Lau et al., 2005). Furthermore, the service delivery is visible by the customer, which makes it more difficult for service brands to hide mistakes or quality issues than for luxury goods (Lee and Hwang, 2011). Therefore, the business model for a luxury hotel or restaurant will not be the same as the business model for a company selling leather goods (Lee and Hwang, 2011).

After completing a 2.5-hour meal at a Three-Michelin Star restaurant, diners leave with no physical products. Conversely, when someone goes to a Louis Vuitton store to buy a $2,000 Louis Vuitton bag, the situation is very different. The bag is already made, and it is a matter of asking for it to a sales associate, who, after showing it to the customer, can pack it and get it ready to give it to him/her. In this case, the entire process can take 15 minutes and the customers will leave with a physical (or tangible) bag. This tangibility, together with the fact that the quality of the bag will not vary from one Louis Vuitton store to another store (heterogeneity); the ability of the bags to be stored or inventoried (non-perishability), or the fact that the bags are not created when the consumption takes place (separability) are the key elements that distinguish services from goods (Pei Mey Lau et al., 2005).

The previous example illustrates that there are differences between intangible and tangible luxury. These differences were highlighted during the interviews. An interviewee from an iconic brand offering luxury services in the French Riviera stated:

“For the hotels, the value we can bring is through heritage, the image... we need to surprise people, to provide thrill and adrenaline for those going to [French Riviera destination]. We do that through exciting sports, competitions... but also when think about [non-sport activities],}
that are more about the emotion... The other area is care... the service, the wellness, the security... When you have money, the first thing you want is security. Then you want good health.”

Based on this comment, the model for non-tangible luxury would be centered on the emotional or experiential aspect of the nontangible, or in other words, the experience provided by the brand (see section 4.3.2.4 for additional discussion on experience).

Another consideration is that within luxury, there are luxury goods brands expanding into luxury services to take advantage of the strong brand names they have built. With respect to the transferability of business models from tangible to intangible luxury, a stakeholder stated the following:

“I do not feel that the brand equity models from the tangible good companies can be transferred to intangible good companies.”

This indicates how luxury services and luxury goods require different models, based on the nature of their offerings. Consequently, a brand like Armani, Bulgari or Versace may face challenges as they expand their brands into the service/hospitality sector using the same model they use for their tangible product lines. Similarly, a brand like Mandarin Oriental or Four Seasons would probably be unable to venture into luxury goods with the same business model they use for hospitality services. For example, as stated by Lee and Hwang (2011), hospitality brands need to focus on critical aspects such as service quality, food quality, menu items, staff and servicescape (physical environment). While product and service quality need to be present in luxury goods, these elements do not need to be created at the time when the product is presented to the customer, which means that the models that luxury goods and service brands need to follow differ considerably.

It is important to mention that there is limited literature looking at the differences between the models used for tangible and intangible luxury. For example, Keller does not make a distinction between goods or services brands while discussing luxury brands (2009). Shostack (1977) considers that goods and
services are different, but mainly from a marketing perspective, as they are marketed differently. Kapferer (2009) explicitly categorizes goods and services into different groups. Kapferer (2012) also considers that luxury services and goods share common elements such as scarcity. In his view, scarcity perception can be created by making it difficult to access a service, like for example, when booking a table at a famous restaurant.

Thus, these differences between these business models are likely to have implications for CSR and brand value. For instance, in absolute terms, the environmental and social impact of a restaurant like Noma in Denmark is likely to be lower than a luxury brand producing coffee, bags or cosmetics. Therefore, even if Noma is committed to ‘more comprehensive CSR implementation’, it will be significantly easier for them to implement such CSR practices than for brands producing coffee, bags or cosmetics. In terms of brand value, the factors creating brand value are not likely to be identical for products and services (Christodoulides et al., 2015). For example, the Noma brand is not likely to be impacted by counterfeiting or controlled distribution as everyone knows that there is only one Noma and the brand does not operate within other luxury categories.

In summary, while both tangible and intangible luxury have an experiential aspect, the experiential aspect is more significant for luxury services. Correspondingly, CSR, as well as the factors creating brand value in both models, are likely to be different. For this reason, as discussed later in Chapters 6 and 7, it is important to be aware of the non-homogeneous nature of luxury when looking at CSR and the role of brand value on tangible and intangible luxury.

4.2.1.3 Brand Category

Within luxury, in addition to the differences between heritage and non-heritage brands, and between luxury goods and services, there are also differences by category, which would depend on the category a company is in. As outlined in Chapter 2 (see section 2.1.3.1), examples of these categories include fashion,
fragrance and cosmetics, wine and spirits, watches and jewelry; or products, perfume, services and high-tech.

There are considerable differences across these luxury categories. The key differences are discussed below. To begin with, within the category of fragrance and cosmetics, an interviewee from a haute-couture house stated:

“... You have something like makeup or skin care, or fragrance where you want to build the classic over a long period of time. You have news coming in and out, but for example, you have [product name] as a pillar for the brand forever and you want to make sure you continue to have a loyal user.”

In terms of fashion, the same interviewee added:

“The staff in stores do not have access to that in advance of the show. That is a surprise that is presented to everyone, so they have to be able to react very quickly to see what aspects of that collection are going to be appealing to different types of clients and the different needs of clients.”

On jewelry, an interviewee from a jewelry brand owned by one of the largest luxury conglomerates in the world, stated:

“With jewelry, there is an element of confidence when you buy it, the fact that is branded adds a luxury element into that. So in jewelry, there is a very different business model.”

With respect to timepieces, an interviewee from a brand owned by a different luxury conglomerate, indicated that timepieces can be seen as a:

“Lifetime piece, a long-term investment, a collector item. It is more a male driven business than a female driven one.”

On wine, an interviewee from a brand specialized in luxury services stated:

“Sometimes things can be considered an asset, while some are commodititized. For example wine is more commodity-like in the way it is sold.”
These quotes exemplify the significant differences across luxury categories, which inherently result in the need to have different luxury models, depending on the category. In terms of the literature, authors such as Bruce et al (2004) and Kapferer (2009) concur with these views. Furthermore, based on the input provided during the interviews, there is agreement with these proposed categories. However, an additional outcome emerging from the interviews is that interviewees provide additional insight from an industry perspective on these categories, so that it is possible to gain a better understanding as to why luxury is not homogeneous.

For instance, for *fragrance and cosmetics*, a key characteristic is that brands will need to have a pillar or ‘star’ product that will be the core of their offering. The reason behind this, is that through the halo effect, consumers with a favorable view of ‘star’ products, are likely to react positively to other messages sent by the brand (Hsieh and Li, 2008). Consequently, a loyal customer of Dior’s J’Adore, may be more likely to buy other Dior fragrances such as Miss Dior or Poison. Also, considering that fragrances and cosmetics have more accessible price points than other brand categories, these products will usually be sold as ‘mass products’, and brands will not exert the same level of control and customer experience as, for example, pret-a-porter or ready-to-wear.

Similarly, for *wine and spirits*, considering that these products are ‘commodity-like’ items, companies need to highlight the experiential or lifestyle attributes of their brands, rather than the product itself.

For *jewelry and timepieces*, brands need to showcase the intrinsic value of the goods, and emphasize their investment-type value. Additionally, for some luxury categories such as beauty products and jewelry, there will also be a stronger emotional association with the customer that luxury brands need to highlight.

An interviewee from a luxury brand specialized in diamonds, stated:

“With diamonds there is an emotional link that does not exist with other luxury items... when wealthy women get sick of a bag, for example, they can give it away, but with diamonds, they are not giving that away.”
Likewise, an interviewee from a French luxury brand owned by one of the largest luxury conglomerates in the world stated:

“Because they [customers] are putting it on their skin [the cosmetic product], they have a different reaction as it is how they face the world everyday.”

These comments highlight how luxury differs from category to category, and how brands require different strategies for each category. Accordingly, brands need to ‘tailor’ the emotional link they want to create with their customers; based on the products they are selling. In addition, depending on the category, they will also need to ‘adjust’ other aspects such as pricing, and key product attributes such as intrinsic or lifestyle value.

4.2.1.4 Global Brands

In addition to brand category, luxury brands can also be classified based on their geographical markets. While there are hundreds of luxury brands, only a few can be considered global. Examples of global luxury brands include Hermès, Chanel, Louis Vuitton, Cartier, or Dior. Global brands have specific characteristics not present in non-global brands. During the interviews, interviewees highlighted these characteristics.

First, global brands are highly visible, and they are in the public eye, due to the products and services they offer and how these are marketed. As a result, it is through ‘positive initiatives’ that global luxury brands can increase their reputation and desirability. This increase in reputation and desirability can lead to higher brand value. To emphasize the importance of brand value for global brands, an interviewee from one of the largest luxury conglomerates stated:

“In a global economy it is even more significant when a company is higher up in brand value versus when it is not.”

This suggests that global luxury companies that leverage their brand value are going to be more significant than the ones that do not. By managing brand value and potential brand risks (like the risk of not being perceived socially responsible); global luxury brands are likely to become even more relevant. For
example, based on data from Interbrand (2015), Mercedes-Benz and BMW have similar brand value (approximately $37 billion dollars). However, if Mercedes appoints a team of brand managers and high-level brand leadership charged with tracking and strategically managing the value of the brand, then Mercedes could achieve a higher brand value, and as a consequence, become more relevant than BMW within the luxury car category.

Furthermore, an interesting consideration is that, as discussed earlier in this chapter, everything within luxury is related to time. Building a brand takes time and, therefore, not every brand within luxury can expect to become a global brand. With respect to the difficulty of becoming a global brand, a stakeholder specialized in luxury indicated:

“We have seen all of the old-time brands, which were fashion houses, that have used their brand elasticity to extend and revive themselves. But we have not seen global luxury brands that come up from no place.”

This interviewee highlights how it is virtually impossible for a luxury brand to become global ‘overnight’. In fact, most of the existing global luxury brands have existed for decades. For example, Burberry was founded in 1856, but it was only in the 1990’s when the brand started to take off as a global brand. This is something that non-global luxury brands, especially emerging luxury brands, need to take into account. Brands need to ensure that they grow naturally, without trying to pursue aggressive strategies such as mass production and distribution or price discounting to drive growth. In the medium- or long-term, such strategies will affect a brand, and it will not necessarily lead to a global brand status.

Additionally, for well-established non-global luxury brands and existing global luxury brands, an important factor that needs to be considered is brand elasticity. As stated in the previous quote, elasticity allows brands to “extend and revive themselves”. Thus, instead of trying to expand their market by going downstream, luxury companies should try to expand horizontally, by using their brand elasticity; as long as it is within the DNA of the brand. As an illustration, a brand currently producing only leather handbags, could start offering
additional leather accessories, such as wallets. By doing so, the brand would preserve its upper class and prestige perception but, at the same time, would increase its revenue.

With respect to the literature, authors do make a distinction between non-global and global brands (See: Johansson et al., 2012; Kim et al., 2012; Steenkamp, 2014). However, the comments provided during the interviews provide insight from the industry perspective on why global brands are different. For the most part, the standing of global luxury brands, including their brand value, will depend, on the strategies undertaken by the brand, and on how their brand value is managed. Lastly, creating a global luxury brand is a long-term action, and a global luxury status will not be achieved by only increasing sales revenue. Thus, there is more to a global luxury brand than just being able to sell their products in selected stores in Madison Avenue in NYC; in Avenue Montaigne in Paris; in Ginza in Tokyo; or in Via Montenapoleone in Milan.

In summary, this section discussed the main differences within luxury as stated by interviewees. While there are an unlimited number of approaches to categorize luxury brands (Kapferer, 2009), the key point to consider is that the luxury industry is not homogenous. For this reason it is not clear if there can be a single brand value model that is applicable to all luxury brands. On the contrary, despite these differences, and as presented in the following section, there are common factors or determinants that create brand value in luxury. To recap, while these factors or determinants are discussed below, the remaining questions that need to be addressed are: Given these differences within luxury, is it possible for the luxury industry to have a single brand value approach?; Are there any key differences within the luxury industry that need to be considered in terms of brand value? These questions are addressed in Chapter 6 (see sections 6.8 and 6.9).

4.2.2 Industry Perception

As discussed in Chapter 2 (section 2.1.1), there is no single definition of luxury, and “each individual potentially has its own definition of the concept of luxury”
(Kapferer and Michaut, 2015, p. 9). During the interviews, interviewees highlighted the key elements that constitute luxury for them, namely quality, craftsmanship, and scarcity. The elements discussed by interviewees were aligned with the elements of luxury discussed in Chapter 2 and all are essential in luxury. With this in mind, interviewees also highlighted a number of strategic factors that, in their view, need to be managed by brands. These strategic factors are: Upper Class and Prestige Perception, Emotion, and Customer Experience. It is important to note that since Customer Experience was also identified as a contributor to brand value it will be discussed in section 4.3.2.4 below. In what follows there is a discussion of upper class and prestige perception and emotion.

4.2.2.1 Upper Class and Prestigious

A key aspect of luxury is that, based on the interviews, it is related to upper class and prestige. For instance, interviewees stated that since its inception, luxury has been associated with prestige and upper class. Interviewees also indicated that creating a perception of prestige and being upper class is essential within luxury. In reality, these two strategic attributes cannot be isolated and need to interact with other attributes of luxury. An additional consideration is that there is usually a fine balance between prestige and upper class perception and company revenue. These elements are discussed and analyzed in detail below.

First, it is important to take into account that the association of the luxury industry with being upper class and prestigious can be considered a foundational element of luxury. This association of luxury with prestige and upper class is consistent with the attributes of luxury discussed by Hansen and Wänke (2011), Heine and Phan (2011), Nueno and Quelch (1998), Tynan et al (2010) and Walley and Li (2014), as presented in Chapter 2 (see section 2.1.1 for further discussion). While in the literature upper class and prestige are considered definitional characteristics of luxury; based on the input received from the interviews, these attributes are also strategic factors. As such, these factors need to be managed and leveraged accordingly by luxury brands. With regard to
these two factors, an interviewee from a haute-couture brand stated the following:

“The foundation of French luxury is that it was driven by French royalty and the kings. Louis XIV wanted to pursue perfection and surrounded himself with the finest craftsmen of every kind. They were trying to make the most perfect shoe, cakes, gardens, all to please the king but create this culture of striving to continue to excel and be better and produce things of higher value and higher beauty...that still remains at least for the [brand name] and the [conglomerate name] brands.”

To highlight the importance of upper class and prestige perception in luxury, a stakeholder specialized in brand value stated:

“Perception of [being] upper class and approachable are the most important for luxury.”

To complement the previous statement, another stakeholder specialized in luxury added the following:

“The majority of luxury companies are actually focused on the quality lever, which is related to the prestige and perception of the brand.”

The previous two comments reinforce the strategic importance of upper class and prestige within luxury. However, these two strategic attributes do not exist in isolation and need to be complemented with other luxury values such as quality or approachability. For example, a perception of prestige cannot be created if a brand is offering a product of low quality; as brand perception and quality have a strong influence on luxury consumption (Husic and Cicic, 2009).

To exemplify how luxury brands create this perception of upper class and prestige, an interviewee from a multinational luxury brand specializing in services stated:

“We are dealing with individuals and institutions globally and the people who do it, are typically fairly educated, socialized, connected and sophisticated because of the clientele they are working with.”

To put the previous comment into context, this quoted company sells multi-million dollar products, sometimes ranging into nine figure prices. To be able to
sell those goods, company employees need to be on par with their offering. Therefore, by recruiting educated, socialized, connected and sophisticated employees luxury brands can create this perception of upper class and prestige.

A further consideration is that upper class interacts with other factors such as approachability. Similarly, prestige also interacts with other luxury components such as scarcity perception. The interaction between upper class and approachability can be illustrated by the Alain Ducasse brand. Alain Ducasse may have some of the most upper class restaurants in the world. Regardless of his excellent reputation, his staff has been trained to create an elegant, but non-stiff atmosphere, resulting in a more comfortable dining experience for customers. This elegant but comfortable experience is what makes the Alain Ducasse brand more approachable.

In terms of prestige and scarcity perception, an interviewee from a French brand included in Interbrand’s Best Global Brands list stated:

“We sell luxury goods to many many people but luxury, by nature, is also exclusivity.”

The previous comment can be exemplified by Hermès pocket squares. Each Hermès store has dozens of pocket squares in stock. However, when a customer wants to see the pocket square designs they have at a store, the store associate shows a tray with each design. This gives the product an increased air of exclusivity and prestige that would not be achieved if they would have dozens of pocket squares on display. This exemplifies how luxury companies can create a perception of scarcity based on their sales strategy. As a result, depending on the strategy pursued by luxury brands, they can increase the upper class and prestige perception of their products, although the products themselves are not scarce per se.

Another perspective that can be derived from the previous comment is that there is a delicate balance between sales volumes (due to a large number of customers) and upper class and prestige perception. As mentioned by Hennigs et al (2013), luxury brands face the challenge of balancing growth with
overexposure. Consequently, if a brand is considered prestigious and upper class, then it is likely to sell more and more products, which in the end could result in brand overexposure. To keep this fine balance between sales growth and overexposure, luxury brands can recur to various practices, including reducing production volumes of highly popular products, increasing their prices, or even slashing product lines altogether.

In summary, upper class and prestige are highly attached to the perception of luxury. While the input provided by interviewees suggests that upper class and prestige perception are strategic components of luxury, it is still not clear how the customer perception of luxury is related to brand value. Some remaining questions that need to be explored to gain a better understanding of these issues are: Can upper class and prestige perception influence the financials of a luxury brand? Can these perceptions have any influence on CSR and other determinants of brand value? Lastly, are upper class and prestige perception related to brand value? These issues are explored in Chapters 5 and 7 of this thesis.

4.2.2.2 Emotion

Another strategic characteristic of luxury highlighted in the interviews is that it has an emotional aspect. Interviewees stressed the dream aspect of luxury, and how one business segment can feed into another to project the dream of the brand to customers. An interviewee from a French haute-couture house stated:

“The couture business is the signature of the house... This is the heart of the business from a creation standpoint. It creates a pillar effect for everything else we do as it allows to inspire some of the more commercial sectors like hand bags or fragrances that are more accessible to clients and allow them to have a piece of that dream...”

This comment provides insight into how brands with multiple offerings can use their top-of-the-range lines to drive customer emotions, so that they can create a dream. An important consideration is that despite only being a handful of haute-couture houses in the world, brands without haute-couture lines may also be able to create a dream through their top-of-the-range lines. For example, a
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brand like Armani uses its most exclusive brand, Giorgio Armani, to create a dream for customers buying Armani perfumes or Armani cosmetics, or clothes from its most economic clothing line, Armani Exchange. Therefore, irrespective of their price range, customers buying products from any Armani brand will be able ‘to feel the emotion’ that owning and using an Armani product gives. Likewise, there are also brands like Louis Vuitton, which only a few years ago introduced a ready-to-wear collection. Louis Vuitton does not inspire its bag or accessory line on its ready-to-wear collection, but instead, on the traditional elements of its travel products, or its brand DNA. In fact, many Louis Vuitton products such as ties or jewelry are inspired in their monogram or Damier pattern, which were originally devised for their travel products. Consequently, in this case, Louis Vuitton travel products are fueling that dream into other items within their brand universe.

In short, a dream can be created using a core range of products as a source of inspiration; together with values associated with the DNA of a brand. However, other luxury sectors that do not have a haute-couture element, like wine and spirits, food or jewelry; need to create an emotional aspect by relying solely on a message, story, or a communication strategy (Ramchandani and Coste-Manière, 2012). This can be the case for Krug champagne, which is not associated with any other product. Thus, to create emotion and fuel the dream surrounding the Krug brand, it is necessary to use marketing strategies highlighting the vision of Joseph Krug, Krug’s founder, who created a new blend of champagne and founded this champagne house.

The importance of creating emotion within luxury was implicitly highlighted by a stakeholder during the interviews:

“Defining a lifestyle and an image...because there is a story that you are telling and people do not put those pieces together on their own.”

Based on this comment, the story, or the source of inspiration to fuel emotion, and the dream, are elements that can help justify pricing. Customers are not only buying a simple product, but also the story and inspiration that comes with that product. This suggests that luxury brands need to work strategically to be
able to create emotion. An interviewee from a jewelry brand listed in Interbrand’s Best Global Brands provided some insight into how they work on creating a dream from a strategic perspective:

“We talk a lot internally about sharing the [brand name] dream, what it means to own a piece of [brand name]... we want to inspire our clients to become part of that dream.”

This comment suggests that it is essential for luxury brands to ensure that their customers are attached to their brands and their products and feel an emotional connection with them. If a luxury brand is not successful at creating a dream, then it will ultimately fail, as this is a key element within luxury. A stakeholder from a brand not connected to Lancel, stated the following during the interviews:

“Lancel... Very high-quality, considered luxury, but quite frankly not luxury in terms of prestige, dream... They sold it because it is not personified by anything. There is no heritage, there is nobody behind it, and just a bunch of bags.”

This quote illustrates the story of Lancel, a French company founded in the late 1800’s, which was owned by Richemont until 2013, when it sold it to a Chinese group. Richemont is a leader within luxury, and in particular, it is the parent company of prestigious luxury brands such as Cartier and Van Cleef & Arpels. Despite Richemont’s expertise in luxury, Lancel’s products were and still are undifferentiated, so there was no reason for customers to buy Lancel versus other luxury brands within a similar price range such as Louis Vuitton or Gucci. As a result, despite its strong heritage Lancel ultimately declined because it failed to capitalize on communicating a story, creating emotions, and project the dream of the brand to customers.

In terms of the literature; luxury is considered to have emotional aspects. For instance, authors state that: Luxury can make someone stand out (Chevalier, 2012); it can bring esteem to the owner (Vigneron and Johnson, 2004); it can be sensed and it can allow the owner to belong to a social group (Vickers and Renand, 2003). However, above all, “luxury sells dreams” (Kapferer, 2015, p.
7). This dream factor constitutes a considerable difference between luxury and non-luxury. The interview quotes discussed above support the views from the literature regarding the importance of the emotional aspects of luxury. However, based on the input provided from the interviews, it is possible to understand how luxury brands create a dream; how a dream (or the emotional aspect of a brand) can help justify pricing; and finally, that it is absolutely essential for luxury brands to create an emotional connection with their customers and project the dream of the brand.

4.3 How Brand Value is Perceived and Created in Luxury

The two previous sections in this chapter discussed and analyzed two themes, CSR and luxury. With regard to the first theme, the discussion addressed the main drivers, implementation status, and barriers to implement CSR. With respect to luxury, the discussion centered around how the industry perceives luxury and the different types of brands and categories existing within luxury. This section discusses and analyzes the last remaining theme: Brand value. As was discussed earlier, brand value is one of the most prized assets for firms (Christodoulides et al., 2015; Davcik et al., 2015). Thus, the purpose of this section is to discuss and analyze how the luxury industry perceives brand value, and the factors that, in the opinion of interviewees, can create it, increase it or decrease it.

4.3.1 How Brand Value is Perceived

Despite the importance of brand value in luxury (see section 2.3 in Chapter 2), luxury brands do not seem to actively manage brand value, as the key asset it is. To emphasize this point, an interviewee from a luxury brand specialized in luxury services indicated:

“For [brand name], as a company, it has not been historically something we focus on. We are privately held and not publicly traded... We are interested in what people have to say about [brand name] and its brand value, but we are not seeking it in the same way or degree as other companies.”
This comment acknowledges the importance of brand value as a general concept. However, for this company, brand value is not perceived as something pertinent to them. To put it differently, this view fails to recognize that the prominence this privately-held brand has within the luxury industry is directly related to its high brand value, irrespective of whether or not it is measured, tracked or leveraged by the brand. As stated in section ‘research questions’ in the Introduction; in this thesis, leveraging brand value refers to the action of strategically managing this asset by luxury brands, in order to maximize it.

The comment also shows a lack of understanding of brand value, and that if brand value is managed correctly, it can even increase the standing that this brand already has further within the world of luxury. Additionally, this comment exemplifies how for privately-held luxury companies, brand value is not perceived as a strategic asset, as it is not actively managed by the brand. This finding can be explained by the fact that privately-held companies are subject to lower transparency and disclosure requirements than publicly-held companies, and also to less intervention by stakeholders and investors.

However, this situation is not exclusive to privately-held luxury brands, as it is something that can also occur in publicly-held brands. A brand manager from a French brand included in Interbrand’s Best Global Brands list, which is owned by one of the largest luxury conglomerates in the world, stated:

“I am going to guess that the international team finds it of value but at the end of the day it is an independent entity that is very hard to differentiate how they measure all these factors. Interbrand is of course a very well-known company, so they carry weight. However at the end of the day it is very subjective.”

The brand manager is ‘guessing’ that the value of the brand is important. This interviewee sees brand value as something subjective, and as such, he/she does not know if the company tracks it or benchmarks it. Therefore, despite the importance of brand value in the literature (See: Davcik et al., 2015; Okonkwo, 2007), luxury brand managers appear to understand it differently. For brand
managers, brand value is ‘interesting’, ‘has value’, it is perceived as ‘subjective’ and it is not considered to be actively managed by brands.

A further consideration that needs to be made is that for senior brand leadership, the perception of brand value is different than for brand managers. This suggests that there is a ‘disconnect’ between both perceptions, but also on how brand value is approached by brands. More specifically, brand value is not managed or tracked by brand managers but by more senior brand leadership. For example, the CEO of a luxury brand listed in Interbrand’s Best Global Brands stated:

“Brand value is very important to us... retaining brand value and increasing it, depending on the market. It is not the number one item we focus on. The brand and the reputation of the brand, and the image of the brand come first.”

This interviewee is clearly recognizing the importance of brand value in terms of firm’s performance, together with the need for the brand to retain it and preserve it. Also, it is important to note that for this interviewee, the construct of brand value only refers to the actual valuation of the brand. This is a different perception to that proposed by Feldwick (1996), who defines brand value as the monetary valuation of the brand, and loyalty and brand image. Therefore, if Feldwick’s approach of brand value is used, for this brand, brand value would be “the number one item they focus on.”

This view of brand value was complemented by a Managing Director (stakeholder) specialized in luxury, who stated:

“The successful luxury good companies have always recognized brand equity, and it is the long-term excellence of the management groups around the brand equity that have made the cut that differentiated them.”

The previous comment suggests that in order to have high brand value, it is necessary that company management tracks it, benchmarks it, and leverages it. This should not only be done by senior brand leadership, but by brand managers,
so that all brand personnel can work in tandem to maximize brand value. Given these points, this excellence around brand value will result in company success. This is especially true for brands that already have high brand value. For instance, luxury firms included in Interbrand’s Global Best Brand are more likely to care about brand value, as it is something they want to preserve. This was stated by an interviewee (CEO) specializing in brand value:

“The companies in the list [Interbrand’s list]... Cartier, Prada, Tiffany, Louis Vuitton care. Their business relies on being able to preserve that. And so, they have some of the most talented brand people in the world working with them. What percentage of their population are talented brand experts? It is much higher than in places where brands are less important to business.”

This suggests that by investing in talented human capital, and by focusing on both branding and brand value, successful luxury brands will be able to stay on top. To provide further insights into how brand value is viewed by senior brand leadership within luxury, a Director from a French haute couture brand stated the following:

“We evaluate each category of product and the things they deliver. Services are an integral part of the luxury experience that you cannot disconnect from the actual sales performance, so services is highly valued at the company and must be part of the ultimate valuation of the brand.”

This input highlights how using brand and product valuations can help luxury brands benchmark and leverage their brand value. As a side note, this brand operates within different luxury categories, and some of these categories are used to fuel/inspire other categories. As a result, the valuation the interviewee is referring to, is not exclusively financial but considers the intangible value provided by the brand’s core categories.

As has been noted, luxury brands sell these two components. Therefore, brands need to evaluate both the product and the experience when assessing brand value. Equally important, as mentioned earlier in this chapter (see section
4.1.2.1), is that luxury needs to have a long-term vision, and this long-term vision needs to translate into brand valuations. With this in mind, brands need to be evaluated in the longer term; as it is not about today's brand value, but about the past and future of the brand. As put by an interviewee from a French luxury brand, the ultimate objective of a luxury brand is that:

“[Customers] become more and more engaged and the brand has a deeper emotional connection with the client over time. This is so important to the luxury experience and so important in the long-term valuation of the brand.”

Ultimately, by focusing on the emotional aspect of the product and the customer experience, luxury brands will be able to have more engaged customers. Then, these deeply engaged customers will demand brand products repeatedly. Subsequently, as a brand has a significant number of repeat customers, then, the brand value for that brand increases, as having repeat customers is a sign that the brand is relevant and desirable. Again, as a key characteristic within luxury, long-term brand value can only be achieved gradually and, therefore, it is essential that luxury brands focus on longer-term performance, instead of shorter-term performance (Simon and Sullivan, 1993).

To recap, brand value is a key asset within luxury that needs to be accounted for, retained and preserved by luxury brands. Brand value management needs to be actively pursued across all levels within a brand, from senior leadership to brand managers. Moreover, active brand management should apply not only to publicly-held brands, but to privately-owned brands. Ultimately, as discussed later in this chapter, brand value is contingent with how a brand is perceived by consumers. Accordingly, it is essential to keep track of it and leverage it to ensure that brands are creating desirability. Nevertheless, it is important to highlight that brand value is a complex construct, as it is created by multiple factors or determinants. The following section discusses and analyzes the input received from interviewees with regard to these factors.
4.3.2 Factors Creating Brand Value

In terms of what elements create brand value, interviewees had multiple views; and there is no consensus within the luxury industry on what creates brand value. In fact, many of the determinants of brand value mentioned by brand managers overlap with the elements used to define luxury. Also, there seems to be some confusion between brand value and the values or characteristics of a brand. Despite the different opinions on the topic, the majority of the interviewees considered that four factors contribute to brand value in luxury: Company size, control, marketing, the product and the customer experience. This implies that the luxury industry may be able to increase, preserve and leverage its brand value by focusing on CSR (discussed earlier in this chapter) plus these determinants. The sections below provide an overview of how these factors were perceived by the interviewees, including the strategies that, in their view, luxury brands can pursue to increase their brand value.

4.3.2.1 Company Size

Company size can influence brand value (Melo and Galan, 2011; Torres et al., 2012); and therefore, company size can have an impact on how a luxury brand creates, increases, manages or leverages its brand value. The importance of company size for brand value was highlighted by interviewees from emerging and well-established luxury brands, and luxury stakeholders. To exemplify how larger brands can have an edge over smaller brands, an interviewee from an emerging luxury brand stated:

“The luxury groups have public relations. And they have people who handle the strategy. They have it... We do not have too much money to be able to do that.”

This interviewee implies that company size, in this case, measured as access to capital, can allow luxury brands to invest in brand-building initiatives. Because of budget limitations associated with a smaller brand size, a common strategy pursued by small and emerging luxury brands is to hire external companies to handle their public relations (PR), marketing and sales, something that can have
a detrimental impact on them. With regard to this, the previous interviewee added:

“They [external PR firms] just need to have that marketing mentality instead of, oh, you [client] want to take orders of this piece, I [PR firm] can send it so that you [client] can take pictures of it and then send it back [PR firm]. That is more like reactionary.”

This comment suggests that company size can create restrictions for small luxury brands. Because of the lower amount of financial resources available to smaller brands, smaller brands have difficulty in engaging in proactive marketing efforts, and instead, they tend to focus on more reactive marketing. In other words, given their limited resources, smaller brands are not able to launch large-scale campaigns to drive brand awareness. Also, since some smaller brands need to outsource their marketing and PR efforts to third parties (as is the case with emerging luxury brands), those brands may have difficulty in conveying their brand message to customers. Consequently, due to this limited awareness, it is more difficult for smaller brands to drive desirability than for larger brands, which results in potentially lower brand value for smaller brands. Still, a key point to remember is that the advantages associated with larger company size expand to areas other than PR and marketing. To illustrate this, an interviewee from a French brand owned by one of the largest luxury conglomerates in the world stated:

“It is very difficult to run a luxury brand on a global scale.... Part of the genius of [conglomerate name] brands is that they are able to take that beautiful creation, preserve it, protect it, and expand it to a global level.”

This interviewee considers that company size, which in this case is associated with being owned by a large luxury conglomerate, can influence brand globalness and, similarly, can help preserve a brand. Large brands have access to global networks to make their products available in key luxury markets around the world. Likewise, to preserve their brands, luxury brands need to protect their intellectual rights and ensure that their supply and distribution is controlled, so that they can shield their brand reputation from damage.
Furthermore, luxury brands need to ensure the excellence of the product and the customer experience they offer, and that their products are distributed selectively to avoid brand overexposure. Despite that all these factors can influence brand value, smaller brands may have difficulty in pursuing them, given the high cost to implement them. An additional area where larger luxury brands can have an advantage over smaller brands is the ability to hire and retain top talent. In relation to this, an interviewee from a haute joaillerie brand owned by one of largest luxury conglomerates in the world stated:

“If someone would be buying [brand name], they would be buying from 1,000 people [the number of workers involved in creating jewelry pieces for this brand], who are very passionate and have expertise and knowledge on the brand.”

This comment suggests that larger luxury brands may be able to back-up the product and the customer experience within their brands with higher-level expertise than smaller brands. Accordingly, larger brands have a better ability to appoint prestigious creative directors, brand ambassadors, marketing executives, designers, competitive R&D/Design teams, and sales staff. The expertise of brand staff is likely to have an impact on the product and the experience emanating from the brand, and lead to greater brand awareness, desirability and, hence brand value.

The findings from the interviews regarding the relevance of company size for brand value are aligned with the literature (See: Melo and Galan, 2011; Torres and Tribó, 2011). However, these authors fail to discuss the specific reasons why company size can result in greater brand value within luxury. These reasons were addressed by interviewees in the qualitative phase of this research and, provide insights on why company size can be relevant for brand value. As was discussed and analyzed above in this section, company size can affect how a brand markets its products; how and where a brand can distribute its products; how a brand can be preserved; and lastly, that brand can hire competitive human talent.
It is important to note that the relevance of company size for brand value is not absolute. Brands do not necessarily need to be large in order to be successful in the luxury marketplace. In fact, many brands interviewed during this research were emerging luxury brands. While the emerging companies interviewed mentioned that they experienced challenges inherent to their small size, they were able to overcome many of those challenges. An interviewee from an emerging brand stated:

“Because we grew organically, as the product was made, people kept buying more and more… we focused on making the fit right; making it fun and exciting, and true to what we thought it was… that became our branding.”

The previous quote illustrates how such a relatively small brand, was able to grow without having to spend significant resources on marketing, R&D/Design, the experience they provide to their customers, their supply chain, and controlling its distribution. This suggests that brands do not necessarily need to be large to be able to create and preserve brand value; as there is evidence that newer brands can become serious competitors of well established brands (Silverstein and Fiske, 2003).

In summary, company size can influence brand value in luxury. However, even with limited resources, smaller luxury brands can also be successful and generate brand value. Still, a question that remains unanswered is: Is there evidence that business size within luxury also matters for brand value when analyzed empirically? To gain a better understanding of how company size can affect brand value, the relevance of company size for brand value will be explored empirically in the next chapter.

4.3.2.2 Control

As discussed in Chapter 2: Literature Review, controlled distribution is an important characteristic of luxury (Davcik et al., 2015; De Barnier et al., 2012; Fionda and Moore, 2009). While control of the distribution chain is essential within luxury, other types of control such as capital control (e.g. own the
majority of the shares of a brand) are also important. Still, as discussed by interviewees, achieving full control in luxury is difficult. This section provides an analysis and discussion on why control is important for brand value and how brands can exert higher control even if they cannot fully control its distribution.

To illustrate the importance of control in luxury, an interviewee from a global luxury brand stated the following:

“*You have to be a very wealthy company to be able to do that [have full control], as it is very expensive and requires major investment. We are fortunate to have this as it is a differentiator.*”

Based on this comment, having full control in luxury is not only positive, but a differentiator, as it is something that only a select number of luxury brands can do. Still, in reality, most luxury brands, even most of those included in Interbrand’s Best Global Brands list, need to rely on third party partners to distribute their products. This reliance on third-parties to distribute luxury products creates challenges for the industry. In terms of these challenges, an interviewee from an emerging luxury brand stated:

“*The main problem is that if you sell through another store, you do not control it - you are at their mercy.*”

When luxury brands own their own stores, it is easier for them to create and deliver a customer experience. They can offer this experience as they control what they sell to customers, how, and the price points. However, when a brand is not able to sell exclusively through its own stores, the brand is at the ‘mercy’ of a distributor, department store or wholesaler. For instance, if a small luxury brand sells exclusively through Neiman Marcus (an American chain of luxury department stores), the brand will be competing against other brands sold at Neiman Marcus. While brands can make agreements with department stores regarding how they display brand products; it is still difficult for the brand to stand out and give a brand-specific experience to customers buying the brand. Consequently, if a brand cannot effectively deliver an excellent customer experience, then the brand will not be able to drive desirability, which then could lead to a lower brand value.
Conversely, when a luxury brand owns its own stores, it can decide how it is going to display its items, which items should receive prominence, what products and brand information store staff need to tell customers about, and what store staff need do to create an experience for their customers. As put by an interviewee from a French haute couture house:

“There are several steps between the brand and the actual client. This adds complications on how the brand can capture and communicate with that client. The brand often has to go through a filter [retailer] that it does not totally control.”

As a result, having a retail space (either physical or online), which is controlled by the brand is highly important within luxury. Nevertheless, it is difficult for luxury brands to own the totality of their retail spaces. In those cases, it is still possible to implement strategies to counterbalance the impact of not having full control in their distribution. To illustrate this point, an interviewee from a fashion brand stated:

“[Control] is more complicated when you have several hundred points of distribution versus a few points of distribution, and employees that have Neiman Marcus on their paycheck, not [brand name]. So we need to customize our own education process... we educate to whomever is going to touch that client.”

The previous comment suggests that by training third-party staff responsible for interacting with customers, luxury brands can convey their brand message without having to employ that staff directly. Moreover, another strategy that luxury brands can pursue is to engage brand ambassadors to drive brand awareness. An interviewee from a haute jewelry brand which sells through its own stores but also through third-party distributors stated:

“[Our] clients have access to a team of ambassadors that they can talk to.”

Brand ambassadors can vary from celebrities endorsing brand products or driving brand awareness and desirability; to non-celebrity brand fans who represent the brand and convey the brand message to customers. Examples of brand
ambassadors are Leonardo DiCaprio for TAG Heuer, George Clooney for Omega, Rihanna for Dior. A brand ambassador strategy is an important way to create awareness, drive desirability and provide a customer experience in luxury even when a brand has limited control of its distribution. It must be noted that a brand ambassador strategy is not only applicable to large luxury brands. Even small luxury brands recognize the importance of such a strategy and can incorporate it into their brands. An interviewee from an emerging jewelry brand indicated:

“We divided the US into areas and we want to have ambassadors in each of them. Trust is extremely important in the [luxury] industry, as people trust their friends.”

To exemplify this, if a customer from New Hampshire wants to buy a piece from a prestigious New York-based jewelry brand with no stores outside Manhattan; that customer could go to a third-party jewelry store carrying that brand in his/her State and look at the product in there. Once that customer arrives to that local store, brand-trained staff working at the third party store could offer brand products to the client in the same way someone would do at the brand’s own store in New York. Additionally, the staff could even refer the customer to a brand ambassador if more information on the brand or the product is sought. This illustrates how, by working closely with third-party distributors, luxury brands can counteract the disadvantage of not having full control in their distribution.

An additional consideration is that third-party partners can also help luxury brands increase their brand revenue. For instance, to drive revenue, some brands may be compelled to have multiple partners to increase the distribution outreach of their products. However, there is usually a tradeoff between having full brand control and potentially lower sales; versus having less control and potentially more revenue. Thus, there is a delicate balance between control and revenue that luxury brands need to maintain. An interviewee from a luxury brand owned by one of the three largest conglomerates in the world stated:

“Our [third party/department stores] sales are outstanding... we create specific lines for them, even if it is one or two rings. There is work in
process. They [store] talk to our design team and work together. So we have this partnership based on differentiation for the last 2 or 3 years with them and it works very well. We have to keep our best client happy while still maintaining the distribution.”

As evidenced by the previous comment, some of the largest clients of luxury brands are third parties such as department stores. Therefore, it is in the economic interests of luxury brands to select suitable partners to distribute their products. By working closely with them brands can distribute their products without affecting the brand experience, and without diluting their brand value.

An additional dimension in terms of control highlighted during the interviews is capital control. It is ultimately through capital control that a brand can be able to pursue long-term policies aiming at benefiting the brand. With respect to capital control, a stakeholder not associated with any of the brands mentioned in this quote, stated:

“One of the essential differentiators in the luxury group area is control...it is control of the company...capital control. LVMH, Hermès, Chanel, Gucci, these are all examples were the control has demonstrated substantial growth. LVMH, Arnault, reins with an iron fist. Chanel, the Wertheimer family is the only who is the decision maker. Hermès, they control 70 or 85% of the listed capital; but it is more than 51%. They control their game and make all their decisions. And that provides consistency. Those are people and families that have been consistently dedicated to the luxury industry...”

This suggests that the concept of control goes further than just controlling the distribution. If a brand cannot make decisions because the decision-making process is in hands of investors who are only focused on dividends and short-term financial gains; then the importance of being able to control its distribution will be secondary. Not having capital control in luxury can result in frictions between brand managers and investors. As a result, investors’ short-term financial objectives may not be compatible with managers’ long-term vision for the brand.
For example, to drive short-term revenue, investors may want to increase points of sale. However, an increase in sales based on multiple points of sale could result in brand overexposure. Thus, this strategy could be perceived by brand managers as risky. An example of this can be Michael Kors, who sold the majority of the shares he owned from his own company (Solomon, 2014). Michael Kors' brand has experienced over 75 percent in revenue growth in the past three years (Michael Kors Holdings Limited, 2015). However, despite its success, the brand is becoming overexposed, as more and more people demand it. Accordingly, while it is possible to go to a Michael Kors boutique and pay $200 dollars for a handbag, brand customers can also get original Michael Kors bags at heavily discounted prices at hundreds of off-price department stores like Century 21, TJ Maxx (TK Maxx in the UK), or even Marshalls. Thus, despite its high revenue growth, for a brand that intends to position itself as luxury, this strategy is not likely to succeed in the long-term, as the value of the brand is being diluted.

A further consideration in terms of capital control is that luxury brands should do everything they can to avoid giving away company control. As more family-owned luxury brands try to gain access to capital, it is essential that they keep their hegemony in the decision-making process within their brands. As stated in the previous interview quote, the ultimate goal of exerting control is to create consistency within the brand. It is this consistency in terms of brand distribution, supply chain or decision-making that will preserve brand value and will increase it over time.

To recap, control was considered by interviewees to be important for brand value. According to the literature, controlled distribution can be a contributor to brand value (Jones, 2005) and is an important component of luxury (Fionda and Moore, 2009; Keller, 2009). While the importance of exerting control in distribution is relevant within luxury, it is important to highlight that this was not empirically tested by these authors. Moreover, an outcome from the interviews is that control within luxury does not necessarily need to be limited to the distribution chain. Control can also encompass capital control and supply
chain control. The literature expressly highlights the importance of controlling the brand image (Keller, 2009; Nueno and Quelch, 1998) and the supply chain (Cooper et al., 1997; Ross, 2013). However, the literature fails to discuss the importance for the luxury industry of other types of control such as capital control or management control. Additionally, it also does not discuss alternative strategies that luxury brands can pursue when they cannot exert full control. Hence, the input provided by interviewees gives additional insights into these other aspects of control, which is an important factor of brand value in luxury.

Based on the above discussion analysis, control is an important factor of brand value in luxury. However, it is not clear if having fully controlled distribution is empirically relevant in terms of brand value or how luxury is perceived. Accordingly, the empirical relationship between having fully controlled distribution with brand value and luxury perception will be analyzed and discussed in Chapter 5.

4.3.2.3 Marketing

To create brand awareness and drive desirability, luxury brands need to convey their brand message and to promote their product offering to consumers. This information can be communicated through marketing. Thus, based on the effectiveness of their marketing message, luxury brands can increase desirability and their brand value.

During the interviews, interviewees discussed how luxury brands pursue different marketing strategies. However, there was no consensus among interviewees on which strategies may work best. Nevertheless, interviewees agreed on the importance of experiential marketing within luxury. Also, interviewees stated that marketing within luxury varies depending on the category a brand is in; and that the success of marketing efforts is not linked to the amount of money spent by a brand. These aspects are discussed and analyzed in this section.

To begin with, it is important to highlight that the luxury industry pursues a wide number of marketing activities ranging from advertising campaigns; or setting-up
schools to teach customers about how products are made; to creating exhibitions in collaboration with world-class museums. During the interviews marketing was considered to be a key factor of brand value, which is in line with the literature (Ailawadi et al., 2003; Stahl et al., 2012; Yoo et al., 2000). However, due to the heterogeneous nature of the luxury industry, there was no agreement among interviewees regarding which marketing approaches can create higher value. Despite this lack of consensus, interviewees considered that marketing within luxury is becoming more experiential, and this is something essential to have in order to create brand value. A stakeholder from a firm specialized in brand value stated the following:

“You know so much about [brand name] because of their communication, advertisements, and sponsorships they have done over the years... These are the traditional tools of marketing... Now it is more experiential considering that if I am interested in buying [a brand], I may go and talk to people online or using mobile to know their experiences. I may see what people are saying or how it shows up in the social mobile connecting world... It is much more the complete true experience of these brands that I have access to today.”

This comment highlights how traditional marketing tools such as advertisements and sponsorship are no longer enough to create brand awareness and desirability in luxury. Luxury brands need to pursue marketing activities that engage customers and allow them to participate with the brand. This suggests that there is a need within luxury to move from ‘traditional’ marketing to ‘experiential’ marketing.

For instance, for a brand like Hermès, it may make sense to run a one-page ad in a Metropolitan Opera playbill. However, that Hermès ad needs to be complemented with experiential activities. Real-life examples of these activities pursued by Hermès include in-store events with artisans; a pop-up area in an upscale shopping mall where customers can play games; or an online portal with videos and multimedia brand content. With respect to how these activities can help a brand, an interviewee from a jewelry brand included in Interbrand’s Best Global Brands list stated:
“[Marketing] definitively contributes to brand value... we have so many different ways they want to connect with the consumer.”

This comment highlights the importance of having multiple approaches to marketing, as long as these allow a brand to effectively connect with its customers. Through this engagement, the customer co-creates value in a setting where the brand becomes an experience (Payne et al., 2009). Consequently, by engaging their customers through experiential marketing, luxury brands will be able to co-create brand value, together with customers. This suggests that, in marketing, success is not necessarily contingent with how much money a brand spends. Put it another way, luxury brands can only control their own marketing, but they cannot control how customers talk and feel about brands. This is an important consideration, as in the literature, marketing expenses are widely used as an intensity measure of marketing efforts (Chu and Keh, 2006; Melo and Galan, 2011; Stahl et al., 2012; Torres and Tribó, 2011).

To emphasize this point, a stakeholder from a company specialized in brand value stated the following:

“Marketing is extraordinarily important to brand value, especially some minimum amount... It does not necessarily need to be marketing dollars spent... It could be different kinds of marketing... it is making sure that people are experiencing the brand.”

Thus, even if luxury brands have limited spending in traditional marketing like print, TV, or press; they can still be very effective by using alternative marketing tools such as brand ambassadors, brand alliances, collaborations, social media/bloggers and organizing targeted events). After all, it is about making sure that people experience the brand. For instance, an interviewee from a brand owned by one of the largest luxury conglomerates in the world stated:

“Our company does not conduct any marketing at all. Our marketing strategy is based on word of mouth or books and catalogues. We have a Facebook page.”
The implication of this finding for this research is that marketing within luxury is comprehensive, and its intensity cannot be solely measured based on money spent. For this reason luxury companies need to find alternative approaches to measure how their marketing actions contribute to brand awareness and desirability.

Another consideration arising from the interviews is that marketing is likely to vary by brand category. An interviewee from a French brand stated:

“For fashion, marketing actions are more targeted, as the products are found in a much lower distribution, and because the price points are much higher. Therefore the potential audience for fashion is by definition narrower, so we can target most of our communication to very specific publications and channels that reach that target; as well as direct CRM [Customer Relationship Management] communication.”

With this in mind, a stakeholder specialized in luxury complemented the previous comment by stating:

“Brands have different strategies depending on the product they sell. Think about Mercedes - all classes; BMW - 700 - 100 series; Armani - Giorgio Armani - Armani Exchange; Ralph Lauren - Purple label to Chaps.”

This suggests that for items such as couture, top-of-the-range jewelry or cars, marketing will be very targeted (narrower) while for items like cosmetics or fragrances it will need to be more intensive (more widespread).

A final consideration regarding marketing is that in addition to being experiential, marketing actions need to be consistent with what a brand represents. The goal is to preserve the brand but do not overexpose it. For the most part, it is all about engaging the customer in a different way; as stated by an interviewee from one of the largest luxury brands in terms of brand value:

“The key is to come-up with things that are interesting that nobody does. Just reminding people that you are out there.”

In summary, as outlined in this section, marketing is an important contributor to brand value. However, within luxury, marketing actions need to be more
experiential. It is also necessary to keep in mind that the success of marketing actions is not necessarily linked to the amount of money a brand spent on marketing. Nevertheless, given the amount of funds spent by the luxury industry in marketing activities, it is still not clear if marketing expenses contribute to create brand value and to create a luxury perception of brands. These two aspects are explored empirically in the next chapter.

4.3.2.4 Product and Customer Experience

Luxury brands do not only sell products (or services, in the case of service companies) but also a customer experience (Atwal and Williams, 2009; Granot et al., 2013; Silverstein and Fiske, 2003). Both offerings constitute the core offering of a luxury brand and, accordingly, they can be an important contributor to brand value. To clarify, product will be defined as an item or service sold by a luxury brand. On the other hand, customer experience will be defined as “brand-related stimuli that are part of a brand’s design and identity, packaging, communications, and environments” (Brakus et al., 2009, p. 52); a definition based on a conceptualization of brand experience. To put it differently, the customer experience is everything that the brand offers to customers in addition to the actual product or service they sell.

To explain, examples of products are a Louis Vuitton handbag, an Hermès watch, or a bottle of Krug champagne. Examples of customer experience are a special invitation to a Louis Vuitton saloon to see a new collection of handbags; the typical Hermès orange box with a brown ribbon in which a watch will be packed; or a semi-private tour of Krug’s cellars in Reims, France followed by a champagne tasting. This section discusses and analyzes interviewees’ views on the specific elements within the product and the customer experience that create brand in luxury.
Product-Related Attributes

With regard to luxury products, interviewees referred to two aspects that are key within luxury: COO; and R&D/Design and innovation. Interviewees’ views on these two aspects are outlined below.

Country of Origin

In terms of COO, many luxury brands consider that it is important to associate themselves with a country. This association can be established based on the history of the brand; or the place where it manufactures, designs or sources its products. Certain countries are associated with innovation, design, prestige, and workmanship (Aiello et al., 2009). Thus, depending on what country-related attribute a brand wants to highlight, a brand will create an association with the corresponding country. This association can also be important for some consumers, as COO is one of the factors luxury consumers consider when buying luxury goods (Godey et al., 2012).

Based on the input received from the interviews, the reason why luxury brands associate themselves with a certain country is to create the perception that the brand produces the best possible product. To emphasize this, an interviewee from a niche textile brand owned by one of the three largest luxury conglomerates in the world stated:

“All our products are made in Italy and they are considered the best in the world.”

For this brand, despite that they source their raw materials from many countries, a key differentiator for them is that their textiles are made in Italy, a country associated with the production of luxury fabrics. Similarly, as mentioned above, luxury brands producing other types of goods are likely to associate themselves with other countries, depending on the area of expertise of the countries in question. Likewise, a stakeholder from a consulting firm specializing in brand value stated the following:

“How much of the Swissness do [brands] want to play up? It is a very finely defined image - precision... The country’s perception does not
change at all over time... So if we make our brand very Swiss, we are signing in for a very limited but clear set of associations... In luxury, if you talk to the emerging markets in China for instance, they are very sensitive to Cartier coming from France; or Prada coming from Italy, and Tiffany from America. That difference is very important and matters to a lot of people."

This comment highlights the importance of associating certain luxury categories to particular countries; for example, perfume or champagne to France, or timepieces to Switzerland. These countries are perceived to have an edge in those categories, so brands want to create an association with them in order to highlight certain attributes in their products. It is important to note that associating a luxury brand with a given country may not always be in the best interest of a brand, as once an association is made, it will be very difficult to change it. With regard to this, an interviewee from a diamond brand stated the following:

“Right now everything at [brand name] are aggregates, so we do not know which country they come from. We have looked at the market for provenance brands and they are getting no brand margin. So the message we are getting from people spending their dollars is that it does not matter to them.”

This comment suggests that for a luxury brand specializing in diamonds, it would not make sense to create an association with Africa, even if it is widely known that some of the best diamonds in the world come from Africa. In this case, associating a diamond brand with Africa could remind customers of the inequality, human rights problems and corruption prevailing in some of the areas where diamonds are mined. For instance, traditional luxury firms with production originally limited to France, Italy or Switzerland now produce some of their lines in developing countries. Thus, it is not in the interest of these brands to make an association with these developing countries. To illustrate this, an interviewee from a European brand included in Interbrand’s Best Global Brands List stated:
“All [our] leather goods and best sellers are made in the United States... sometimes people even come and say they do not want US made but [European country] made.”

This comment suggests how even brands with a strong association with a particular country have moved part of their production to other countries, due to economic reasons. Still, when a European brand moves its production, certain customers used to buying European-made products from that brand may still want a European-made product. This evidence from the interviews contrasts slightly with Thakor and Lavack (2003) who consider that consumers may not care about where a product is manufactured, as long as a brand is clearly associated with a given country.

In the previous example, if some consumers care about where brand products are made, it is the job of the brand to educate them, so that customers can be certain that any brand products they buy, even if they are produced in a country like the US, will be identical to brand products made in Europe. By educating consumers, brand desirability and, consequently, the value of the brand, would not be affected. Ultimately, the key is that luxury brands do not compromise on quality or design if they move their production to other countries.

With respect to quality, a further consideration is that there are countries, like Italy or France, that are associated with high-quality (Aiello et al., 2009). Thus, a wallet made in Italy may be perceived as better quality and longer-lasting than a wallet made in China. Conversely, there are instances where an association of superior quality with COO can create issues for luxury brands. An interviewee from a French brand specializing in accessories stated the following:

“Sometimes customers think that [brand name] products have a lifetime guarantee. Customers have a perception that if a product is made in France or if it is luxury, it will last forever. It will last forever but it won’t if you run it over with your car, if you use it everyday, if it is the only bag you use everyday for five years... So there are a lot of issues around that.”
This quote suggests that, occasionally, luxury brands can be victims of their own success, in terms of COO perception. For example, a brand can highlight its association with France because of its savoir-faire in leather goods, or to Switzerland because of the precision of its timepieces. However, if a customer buys a French bag and it gets broken in two years; or a Swiss watch which needs to be serviced every year to keep the time, then a brand is likely to be perceived negatively as it would not be delivering on customer expectations. Hence, it is essential that brands do not overplay COO in their products, so that customers can have realistic expectations. This view contrasts with Macchion et al. (2015b) who consider that COO can give brands a competitive advantage but fails to identify the risks of overplaying COO.

In summary, it is important that brands evaluate whether or not they should highlight COO in their products. The effect of COO in brand value appears to be contingent with the category a brand is in, as not all luxury categories are compatible in terms of COO. Also, even if a luxury category is compatible with COO, COO is not essential in luxury (Godey et al., 2012) as its effect can be limited (Agrawal and Kamakura, 1999). This suggests that brands may be able to capitalize on the economic advantage of producing in other countries without damaging their brands. Given these points, it is still not clear if COO is correlated with other determinants of brand value. Similarly, it is not clear which brand categories COO may be relevant for. These questions are explored in Chapters 5 and 6.

R&D and Design

According to the literature, innovation (Fionda and Moore, 2009), design (Husic and Cicic, 2009; Vigneron and Johnson, 2004) and R&D (Beverland, 2004) are important elements of luxury. During the interviews, interviewees used design, innovation and R&D interchangeably to refer to the process of creating luxury products. Since innovation is related to R&D in the sense that R&D inputs can lead to innovation outputs (Kim et al., 2013), these two terms will be referred as R&D. In addition, design is related to product development, as in order to create a product or service, it is necessary to make a number of decisions. One
of these decisions is to work on the design that the product or service will have (Marsillac and Roh, 2014). Because of this linkage between R&D and design, and following Saunders et al (2005), these two elements are presented as “R&D/Design” throughout this thesis.

During the interviews, innovation, design and R&D were also considered important, as they can help differentiate products, drive brand awareness and desirability and, hence, contribute to brand value. One of the reasons why R&D/Design was considered relevant within luxury is that it can be a differentiator. An interviewee from a jewelry brand owned by one of the three largest luxury conglomerates in the world stated:

“[The brand] really creates works of art, so for us the R&D part is very important, as it is something it sets us apart.”

A stakeholder specializing in brand value complemented the previous statement with a similar opinion:

“If we are going to be talking about luxury, design is going to be a big driver of it. By design I mean their design philosophy, their creative talent. That is a big issue in luxury, as it is a big differentiator.”

Based on these comments, the ability to produce excellent products, with excellent design and innovative characteristics is key within luxury, given that this can help differentiate brands. It is because of these characteristics that luxury consumers can differentiate between Audi and Porsche (within the automobile category) or between Hilton and Mandarin Oriental (within the hotel category). As a result, by investing in R&D/Design, luxury brands may be able to create better products or services that lead to differentiation and greater brand desirability. For example, a handbag brand may be able to develop scratch-resistant or water-resistant leather; a sunglasses brand may be able to create a more durable and lighter material for their glasses; and a watchmaking brand may be able to develop water seals that do not need to be replaced over time.

All these developments, could lead to greater consumer demand and brand desirability, as long as they are considered to be relevant by luxury customers.
To put it another way, the fact that a brand develops something new does not mean that it will be demanded; so it is important to distinguish between ‘R&D/Design’ and ‘meaningful R&D/Design’. Thus, if a customer considers that a water resistant watch that does not need new water seals after a few years is irrelevant, the investment that the brand made in R&D/Design to create that product is not likely to have effect on its brand value. Consequently, R&D/Design decisions need to be evaluated carefully, so that they have a higher probability of success.

It is important to note that it is challenging for luxury brands to know in advance what R&D/Design undertakings will be successful, so brands should approach R&D/Design as an ongoing process. To illustrate this point, an interviewee from an emerging brand specializing in accessories stated the following:

“Sometimes it is better to move forward with a good idea rather than waiting too long. Then, it is possible to transform that good idea into an excellent one.”

This comment suggests that luxury brands can envision new ideas as work in progress. For example, a brand can develop a bag with certain materials and design characteristics, and then, based on the reaction of customers, update it to better satisfy these customers. By incorporating consumer reactions into actual products, luxury companies can perfect their products and, similarly, increase the desirability of their brands. As a note of caution, it is important for brands to realize that when they incorporate consumer opinions into their products, they should keep loyal to their own identity and brand DNA (Kapferer, 2009).

A further consideration regarding R&D/Design is that it is not equally important across luxury categories and even within brands. For instance, a traditional jewelry brand producing gold rings may be conservative from a R&D/Design point of view in the sense that the alloys they use in their rings are similar to the ones used by their competitors. In contrast, another brand focused on contemporary jewelry designs may experiment with new alloys and shapes to produce more ‘innovative’ designs. Thus, R&D/Design could be almost irrelevant to the former
brand but critically important to the later. With respect to how R&D/Design is different at every brand, an interviewee from a brand included in Interbrand’s Best Global Brand list stated the following:

“[R&D/Design] is not so important as we have other items demanding greater attention like the client experience. However, we know we need to be the innovator they [other brands] fear.”

This comment was complemented by an interviewee from another brand also included in Interbrand’s Best Global Brand list:

“For the brand, it is probably crazy to hear this, but the R&D we conduct is very anecdotal, is not formulated, it is not organized, it is ad hoc. We hear needs from the market and a team will try to design something to meet those needs... [R&D/Design] is about evolution and constantly making things that make sense in the modern world.”

The luxury brands above referred are specialized in jewelry and accessories. For these brands, what is essential is to ensure that they provide a superior experience to their clients and that they produce goods that will meet their needs. As a result, this suggests that the intensity of R&D/Design varies by brand category. Accordingly, R&D/Design will not be the same for Hermès or Christofle than for BMW or Ferrari. With regard to this, an interviewee stated the following:

“One of our internal goals is to be pioneering and innovative. Our products need to be in that spirit, so our new products need to be something that is within the value of the brand but offers something new and different that you cannot find in the marketplace... R&D can vary by business line. For watches it is more important than for jewelry.”

This comment reinforces the importance for brands to create distinctive products that differentiate luxury brands from one to another. Also, this comment suggests that there is a need for luxury brands with different business lines or categories to approach R&D/Design distinctly, as R&D/Design intensity can vary by category. To explain, Chanel (brand not included in the interviews) has various lines, including a watch line and a jewelry line. Thus, due to the nature of timepieces, the brand needs to invest more resources towards...
R&D/Design for its timepieces than for jewelry. For jewelry and watches, Chanel needs to offer exquisite design with excellent materials; but, for watches, it also needs to ensure that products have excellent precision machinery that will provide multiple years of service. Likewise, a similar situation occurs within fashion, as luxury brands need to design new products for at least two collections per year, given the constant changing nature of the fashion category.

In summary, luxury brands need to be aware that R&D/Design is essential within luxury, as it can help differentiate their brands. However, as discussed by Riley et al (2004), the importance of R&D/Design varies across brands. However, the input received from interviews highlights that R&D/Design also varies by luxury category, and that the success of R&D/Design efforts will depend on whether customers consider those R&D/Design efforts relevant for them. Accordingly, R&D/Design will only be able to increase brand value if it is considered relevant by consumers. Hence, luxury brands need to adjust their R&D/Design efforts to ensure that their undertakings in this area are met by consumer demand. A final consideration is that despite the importance of R&D/Design, as highlighted by interviewees, there is still not empirical evidence that R&D/Design contributes to brand value in luxury and how relevant it is as compared to other determinants of brand value. These aspects are explored in Chapter 5 of this thesis.

**Customer Experience**

As was discussed in Chapter 2 (see Table 1: Attributes in Definitions of Luxury), high price can be considered an attribute of luxury. Accordingly, luxury products tend to have high prices, but in most cases, the products themselves are not highly differentiated. To illustrate this characteristic of the industry, a stakeholder from a firm specialized in brand value stated the following during the interviews:

“When you have a very low level of product differentiation... for example a watch. A watch is mechanics that keep time, so it is totally undifferentiated. So the brand, that says something about who you are,
becomes almost the entire value of that purchase...with luxury goods, their business model is predicated on charging extraordinary high prices.”

This comment highlights the importance that the brand has to be able to justify high pricing. For example, if a customer is looking for an exclusive leather bag, he/she may go to Chanel, Dior, Hermès or Bottega Veneta and pay $5,000 dollars for it. The bags from those brands will have similar pricing and will also share like features such as high-quality and exclusive design. Still, despite the similarities, a customer will select one of those three bags based on how he/she perceives the brand. This perception is, in part, shaped by the customer experience provided by the brand. In luxury, there is an experiential component which consists of an interactive process with customers (Tynan et al., 2010) and, as a result, luxury brands can no-longer differentiate solely on the products they sell.

The concept of customer experience is not new per se, but at a time where luxury brands are trying to differentiate themselves, it is becoming increasingly important within the luxury industry. Brakus et al (2009) and Atwal and Williams (2009) consider that brand experiences occur in different contexts, and they can have different dimensions, ranging from affective to sensory, emotional, intellectual or behavioral. These experiences are generated when customers interact with products, when they conduct store visits, when they respond to communications, when they participate in events, PR efforts, or react to advertising conducted by a brand (Schmitt et al., 2014).

Due to its nature, brand experience can be physical (when these interactions are in-person) or online (when the interactions occur through digital/online means). Offering a brand experience is essential in luxury, as it is something that directly influences luxury consumers. For this reason, depending on how luxury consumers are influenced by a brand, they will have different perceptions. These perceptions will drive brand awareness and desirability, which will ultimately influence the value of a brand. The following subsections analyze and
Results, Analysis and Discussion from Qualitative Phase

discuss the importance of the customer experience within luxury, and how consumer perceptions create brand value in this industry.

Physical Experience

As outlined above, luxury brands can create a customer experience by engaging with consumers in-person, through brand communications, or in a physical space such as a store. In the words of an interviewee from an emerging luxury brand, the brand experience includes the following aspects:

“How good we are with our customers, how we communicate with them, how we treat them, how we interact with them, the customer service, how we engage them, and how we treat them to a higher level.”

As put by this interviewee, the physical brand experience in luxury is comprehensive in nature and it can include everything, from calling customers to wishing them a happy anniversary, to welcoming them at a store, offering customized items, or inviting them to a product launch. An important observation is that this characterization of brand experience is in line with the literature (See: Atwal and Williams, 2009; Brakus et al., 2009; Schmitt et al., 2014) as it includes sensory, affective, and intellectual elements resulting from visiting a store, responding to brand communications or participating in brand events.

Thus, to create an experience, luxury brands can adopt a number of different approaches. An interviewee from a brand owned by the one of three largest luxury conglomerates in the world exemplified how they create an experience for their customers:

“The idea of luxury is that you walk into a store and you experience something. If you walk into the Milan store there is hardly any jewelry out. The idea is to sit down with the associate, get a sense of what your life looks like and then start taking things out. They know everything about me, what I like, how many children I have, my wife, where I go on vacation… The idea is that you spend the time there… that you will never be forgotten.”
While for this brand the brand experience involves talking to the client at the store; for other brands the experience could be about inviting customers to a trip or a gala dinner. In the end, it is all about relationship management, and learning about customers, so that brands can anticipate what customers want. An important consideration and a challenge for luxury brands is the fact that brands have many different types of customers. For example, at Chanel, there will be customers exclusively buying haute couture, and customers exclusively buying make-up or fragrances. Customers are not homogenous and each of them may have different expectations in terms of service (Gagliano and Hathcote, 1994). Therefore, luxury brands need to be able to create an experience for all of them.

An additional consideration regarding brand experience is that it is brand-specific. In other words, since every brand is responsible for creating its own brand experience, the experience provided by each brand will be different (Brakus et al., 2009). For example, Tiffany & Co. can provide a sensorial experience when showing a piece of jewelry to a customer, and an emotional one when they sell an engagement ring. Similarly, Louis Vuitton can generate an affective experience by inviting a couple to one of their saloons on their anniversary and surprising them with a complementary photo session to celebrate the occasion.

As discussed by Fournier (1998), there are different levels of brand relationships. However, the ultimate goal of the brand experience is to create a deeper relationship between the customer and the brand, which will ultimately result in greater brand desirability and greater brand value. To illustrate this, an interviewee from a French luxury brand stated the following:

“[The luxury experience] starts with the first engagement a customer has with the brand; the communication they see in the media and the digital landscape, and the engagement that encourages to pursue a deeper relationship with the brand.”

The importance of brand experience is even higher within luxury services. For example, for diners visiting Joël Robuchon’s Three-Michelin Star restaurant in
Macau the experience starts from the moment diners are welcome to the restaurant, when they are seated in a table with a panoramic view of the city. Then, it continues with the arrival of a complementary amuse-bouche, and by the delivery of small courtesy dishes between courses. These dishes are not listed on the menu and create a surprise factor to customers. The experience finalizes after dessert, when a cart full of complimentary sweet indulgences arrives tableside for diners to select what they want. In summary, at Robuchon, the taste and quality of the food is only part of what is on offer. Thus, in addition to outstanding food, the experience is what matters.

**Online Experience**

Traditionally, luxury brands created experiences for customers at their stores and at targeted events. However, given that the luxury landscape is changing, online is becoming more and more relevant within the industry. Online provides luxury brands with an opportunity to showcase their products more extensively and to complement the physical experience they already provide. Nevertheless, the emergence of online is also creating challenges for luxury brands, as they need to adapt their processes to create an experience that is comparable to what is physically provided by the brand.

With regard to the importance of the online experience provided by luxury brands, industry data shows that online shopping has been growing steadily. In 2015, online grew 40 percent (D’Arpizio et al., 2015). Nevertheless, although online sales are currently growing, only seven percent of luxury products are sold online (Bain & Company and Fondazione Altagamma, 2016). Regardless of this limitation, more and more customers are using online as a complement to the physical experience provided by brands and, therefore, it is an essential aspect that all luxury brands need to offer. To illustrate the importance of online, an interviewee from a French couture house stated:

“[Online] is an equal part of the luxury service because these customers are shopping 24 hours a day and buying very high-end items. We need to be sure that the items are presented in a way that still captures the imagery and all of the content we have to offer.”
This comment not only highlights the importance of online for luxury brands, but suggests that it needs to be done carefully, so that it is on par with what is expected from the brand. In other words, brands need to be selective about the imagery, the content and the service that will be offered online, so that it is consistent with how the brand wants to be perceived. As is the case with the physical experience, luxury brands need to allocate resources to ensure that the brand provides an excellent online experience. With respect to the importance of investing in online, an interviewee from an emerging brand specializing in accessories stated:

“In terms of the website specifically, we have put a lot of money into photography and having as good images as we can of the product. In terms of the technology of the website, doing AB testing, where the buttons are placed, what is the check out like, steps to check out (easy, smooth, one step), analytical best practices.”

This comment highlights the strategic importance of online within luxury, and the need for luxury brands to offer an excellent online experience to their customers. To emphasize this, an interviewee from a brand included in Interbrand’s Best Global Brands list stated:

“When we talk to our big clients, some of them like the convenience of shopping online. They may actually come to the boutique, look at something, try it on, and then go home, think about it, and purchase it online.”

As the previous comment indicates, online now complements the physical experience provided by brands. In essence, the goal is to offer a more comprehensive brand experience to customers using all the means available to luxury brands to create desirability and drive demand. A point often overlooked is that despite the importance of online, there is still some hesitancy among luxury brands to pursue online. With this in mind, an interviewee from one of the largest luxury brands in the world in terms of brand value stated the following:

“French companies do not believe in online like American companies. They do not understand it and do not want it. [Brand name] has stores
all over the world, so they do not want to see that online takes it away. It is a scary proposition for a large luxury goods conglomerate. There is still an element of fear when it comes to online business.”

This statement suggests that there are cultural differences in how to approach online. In addition, the statement suggests that luxury brands face uncertainty given the difficulty in adapting their business models. As a result, the online and physical experience can work in tandem. Traditionally, luxury has been about providing a physical experience, and having physical stores where customers can experience the brand. However, that model has changed and now physical and online feed each other. It is important to highlight that luxury brands still need stores, but they need to balance their physical presence with their online presence. Consequently, brands may need to migrate some of that experience from physical to online. An interviewee from an emerging fashion brand stated the following:

“The retail market in the next few years, is increasingly going online; their price point in the next 5 or 6 years will be sold half online. This is dramatic.”

One of the main reasons why luxury brands are hesitant to undertake online is the difficulty to create an emotional connection with customers, a pillar in which the luxury business model is built in. When a customer goes online, that customer cannot touch, smell, see or taste a product; so brands are limited to sounds, graphics, text and video to create a connection. This is a reason why brands are pushing for online concierges or brand ambassadors, to help create that connection. An interviewee from a French brand specializing in jewelry elaborated on this:

“You can always talk to someone, even if you order online you have an option to call and speak to someone who is very knowledgeable of the products; so there is a personal connection.”

An additional aspect to note is that luxury brands have a number of tools at their disposal to create an online experience, including sophisticated packaging, free shipping and returns, and additional product information. For example, while delivering a product, luxury brands can wrap it in more beautiful packaging than
what it is normally offered at a store. Then, there is a possibility of offering free shipping and free returns, or using the brand’s website to provide more extensive information about the brand or the product than what customers may get at the store. For the most part, creating an online experience can be more challenging than creating a physical experience. However, luxury brands have the tools at their disposal to try to create this experience and drive brand desirability and demand.

All things considered, it is important to note that despite the existence of tools to help create an online experience; based on the insights from both the interviews and the literature (See: Okonkwo, 2009; Riley and Lacroix, 2003), the luxury industry has a long way to go in terms of online adoption. Despite this limited adoption of online, interviewees are aware of the importance of online and the need for luxury brands to invest in creating an online experience. Accordingly, online was perceived by interviewees as a strategic factor. For this reason, interviewees were working towards creating an online experience for their brands. Thus, these findings suggest that, unlike stated by Oknokwo (2009) and Riley and Lacroix (2003), more and more luxury brands are recognizing that online is now essential and can add value to their brands.

Consistency

It is important to note that while creating an experience, luxury brands need to ensure that the experience they provide is consistent with what the brand offers. With regard to the importance of such consistency, a stakeholder stated the following during the interviews:

“If you cannot deliver and there is no promise behind it, you cannot build a luxury brand.”

This comment highlights how it is not all about creating a random customer experience, but about delivering something that lives up to that promise. The implication of this comment is that brands need to ensure that what they are providing is consistent with the experience they want to convey (Atwal and Williams, 2009) and that the brand promise will be delivered (Ghodeswar, 2008).
For example, for a brand like Coach, the strategy of creating an experience through setting-up saloons with private product viewings for frequent customers may not be appropriate; given the large number of customers that Coach has, and their more accessible price points. Conversely, for a brand like Hermès, which is much less accessible and has a more upper class clientele, a saloon strategy to create a superior customer experience would be more appropriate. Likewise, Coach’s strategy needs to be consistent with their offerings. Despite its good quality, Coach cannot legitimately claim that it has the best leather products in the market, as it would not be consistent with its brand promise. As stated by a stakeholder specialized in luxury:

“If a company is making promises, it should deliver.”

To summarize, it is important that luxury brands tailor the experience they want to offer to their actual brand promise. If a brand does not deliver on its promise, it will negatively affect how the brand is perceived.

4.3.2.5 Consumer-Based Brand Value

As discussed earlier in this chapter, consumers will form an opinion on how they feel about a brand, how much they know about it, and how different and relevant they think a brand is; based on how they perceive a brand itself and the product and the customer experience provided by luxury brands. These perceptions can shape consumer opinions regarding customer satisfaction and loyalty (Brakus et al., 2009) and consequently, consumer-based brand value (Torres and Tribó, 2011). Thus, if a brand offers a good customer experience to consumers, consumers will desire the brand, will demand it, and will be more satisfied with it. Then, as consumers demand the brand, the brand will be able to increase its revenue, which then will lead to an increase in brand value. Therefore, due to the involvement of consumers in this value creation, consumers have a key role in creating brand value in luxury (Payne et al., 2009).

To exemplify the consumer’s role in the customer experience, a stakeholder stated the following:
“I have a Nespresso machine in my kitchen... When I look at the machine I do not consider it high-quality. When I look at their advertisements on tv, that is luxury. That is the connection they created... They have the most basic product underneath Nestle with those capsules, but they make you feel that there is something special about that.”

This quote illustrates how luxury brands can create an experience, based on how they communicate with customers about their products, how they pack them, how they set-up their stores and distribute them. An interviewee from an emerging jewelry brand made a comment in the same direction by stating:

“We create an experience at our store by using beautiful materials, hand-made products. Customer service is essential. For example writing hand written notes, attention to detail, having a database of customers... we want to make people feel special.”

This comment was complemented by another interviewee from a luxury service brand:

“The overall experience for the client is probably the most important. The quality of the materials, entertaining, quality of the works that are presented to them, the degree towards something is bespoke, as they feel special. That is probably the most compelling part of that brand experience and adds the greatest value.”

These comments exemplify that to create an experience, luxury brands use their product offerings to make customers feel special. Then, as brands succeed in making customers feel special, they will be able to create consumer-brand value. During the interviews, it emerged that consumer-based brand value can be captured into four pillars: Energized differentiation, esteem, knowledge and relevance. These four pillars have been analyzed in the literature (See: Aaker, 2011; Lehmann et al., 2008; Stahl et al., 2012), and are discussed in section 3.3.2.3 of this thesis (Consumer Data Extracted from BAV Database).

Accordingly, the pillars are able to capture how brand actions create consumer-based brand value within luxury.
The sections below discuss and analyze the importance of these four pillars to create, preserve and leverage brand value within the luxury industry.

**Energized Differentiation.** In the view of Aaker (1992), differentiation can provide customers with reasons for buying a product and creating positive feelings. As a result, having a reason to buy a product creates brand demand. This demand, as long as it does not overexpose a brand or make it ubiquitous, can positively affect brand value. Given the highly competitive environment of the luxury marketplace, interviewees stressed the importance of differentiating luxury brands through service, experience, convenience and customer service. Thus, due to the low degree of product differentiation within luxury, brands need to differentiate themselves through the customer experience they provide; as stated by a stakeholder specialized in brand value:

> “Because your product is undifferentiated, you have to tell the world that it is different. Price is probably the most important and loudest signal you can send to say this is different. Now the rest of the experience has to prove that it was worth it.”

This comment suggests that within luxury, brands need to ensure that their price points are higher than comparable non-luxury products, so that products are not perceived as non-luxury, solely because of their price. Similarly, across luxury, brands still need to track pricing, and adjust it accordingly depending on the segment they are in. For example, a brand like Chanel, which can be considered top-of-the-range within luxury, needs to ensure that its products are priced higher than those of its competitors from other luxury brands such as Gucci or Burberry.

For instance, within luxury, desirability can be driven by aesthetic features but also by high prices, as the latter increase the social status of a product (Brun and Castelli, 2013). Hence, if a brand has the right product and markets it accordingly, then, by having a higher price than its competitors it is possible to differentiate that brand. However, once a brand has implemented an appropriate pricing policy, then it needs to create differentiation based on the experience it delivers.
It is important to note that luxury brands are competing in a dynamic marketplace, which implies that the way brands create differentiation can change, based on specific market conditions. To illustrate how differentiation can change due to market conditions, a stakeholder from a firm specializing in brand value stated:

“Drivers change over time... During the recession a differentiator could be a brand that makes me feel pampered, but it is accessible... for example Starbucks. Then when people are willing to spend more money those differentiators are going to change. So it depends on time and category.”

This suggests that during a recession, coffee consumers can go to Starbucks to ‘feel pampered’, as its coffee is relatively accessible and provides an experience through internet access, well-designed stores, and customer-service-oriented staff. This previous finding is in line with Carrigan and Pelsmacker (2009) who consider that during economic downturns, small luxuries can substitute big-tag luxury purchases.

Nevertheless, once economic conditions change, brand differentiation may need to be readjusted. Indeed, Starbucks customers could decide to switch to illy or Nespresso coffee bars, which are more expensive, but provide a better experience than Starbucks. Similarly, a typical Mercedes-Benz customer who owned a C3 Series before the recession, but switched to a Mini Cooper during the crisis, may go back to Mercedes once the economic situation stabilizes.

In brief, what differentiates a luxury brand now may not differentiate it in the future, if market conditions change. Therefore, luxury brands need to keep scanning the market on regular basis to ensure that what the brand considers a differentiator is still considered a differentiator by customers.

A further consideration mentioned by interviewees is that a brand can differentiate itself depending on the category it is in. A stakeholder specialized in brand value indicated the following:
“If you are within a category that is all about heritage, having a longer heritage would be a differentiator. For example, if you start innovating more than other brands that have been present for let’s say 100 years it is also a differentiator.”

This suggests that luxury brands should not seek to differentiate themselves from all luxury brands, but rather from luxury brands within their same category. For example, if Louis Vuitton wants to ensure that it provides the best customer experience within luxury, it needs to ensure that the experience it provides is superior to that provided by Chanel and Hermès. Similarly, to be a leader in terms of customer experience, Cartier would need to ensure that it provides a better experience than Tiffany & Co. or Van Cleef & Arpels.

Moreover, another point raised by interviewees is that it is possible to differentiate a brand by moving it upwards. More specifically, an interviewee from a luxury service brand from the French Riviera stated the following:

“We should always look for what provides the highest excellence... it is something nobody can match.”

This comment stresses how within luxury, the pursuit of excellence is of utmost importance. Therefore, to create differentiation, luxury brands can position themselves higher within that spectrum of excellence. For example, a brand like Coach, which can be considered satisfactory in terms of quality and experience, could decide to move upwards to improve quality and enhance the experience it provides to its customers. Still, within luxury, brands need to be careful in their strategies to position upwards, as changing customer perceptions is a difficult undertaking, given that, as stated by Kapferer and Bastien (2009), these strategies may not work in practice.

In summary, as discussed above, luxury brands can create brand value by differentiating from other luxury brands. Brands have a number of tools at their disposal to differentiate themselves, ranging from offering a superior customer experience, to increasing pricing, and going further upmarket. Additionally, luxury brands can also create differentiation based on CSR implementation
(Carrigan et al., 2016; Kapferer and Michaut, 2015; Liu et al., 2014), COO (Kapferer, 2009), R&D/Design (Chevalier, 2012), or control (Fionda and Moore, 2009), as discussed earlier in this chapter under those sections. Ultimately, there is no right or wrong formula regarding the approach that brands need to pursue to differentiate and maximize their brand value. The key is that brands seek excellence in everything they do, which, as a result, will make the brand more desired by consumers and, hence, will increase the value of the brand.

**Esteem.** According to Stahl et al (2012), high esteem indicates that a brand is viewed favorably; and a brand will be evaluated favorably if it has important attributes. This suggests that luxury brands that rank higher in esteem are more likely to be favored by customers, and this, in turn, could increase their brand value. During the interviews, interviewees concurred that esteem can influence brand value. From their perspective, brand esteem could be driven by three main factors: Brand logo, brand name, and outstanding customer service.

With regard to brand logos, an interviewee from one of the largest luxury brands in the world stated the following:

“We believe we are attractive to probably 99% of our customers, because we have a logo that is on our products which is widely recognizable and people want to participate in this kind of luxury logo.”

While the percentage provided in the previous comment could be perceived as anecdotal, the comment illustrates how luxury brands can drive consumer esteem by having a logo or a brand name, that are widely recognized. The importance of these two factors was highlighted by a stakeholder who indicated:

“Frequently people speak about brand but they do not understand what it really means. They think it is a logo or name.”

Thus, for a group of luxury consumers, the fact that a bag or pair of sunglasses has a logo or a prominent brand name can make a brand more attractive. Nevertheless, this comment implies that while displaying a brand’s name or logo in a product can drive esteem, these two factors are not everything a brand needs to focus on. For instance, displaying a logo is something that luxury
brands need to complement with other brand attributes, such as an excellent customer experience and excellent quality and design. Additionally, it is important to point out that there are instances where brand logos can create risks for brand esteem. If a brand has high esteem and a prominent logo, there is a probability that the brand could become ubiquitous, either, because of high sale volumes, or high sales combined with counterfeiting. In that case, ubiquity could result in reduced brand esteem, something that, in turn, would decrease brand value. This issue was highlighted by an interviewee from a French luxury brand:

“It is a huge challenge as we have a very recognizable logo. It is an objection we hear from clients everyday and it is a major risk.”

This comment indicates how luxury brands need to weight carefully how much brand exposure they want to get, as getting too little would not maximize their brand value prospects, but getting too much may dilute the value of their brands. As stated by a stakeholder specializing in brand value:

“Once a brand gets adopted by a group - a mass group that is historically associated with that brand, and you say, why are these guys using it?, maybe it is no longer for me.”

In addition to the prior, interviewees considered that brand esteem can be created through worth of mouth. An interviewee from a French jewelry brand indicated:

“Worth of mouth and sharing the good experiences when people have one... sharing them with their friends, then people know.... Go to [brand name] because they will treat you well. Or go to [brand name] because the product will last a lifetime.”

Given this input, when luxury customers have an excellent customer experience and buy an excellent product, they will be satisfied with the brand and speak highly about it. This, in turn, will make the brand to be more appreciated in the mind of customers; leading to higher demand, brand desirability and, hence, brand value. With this in mind, an interviewee from an emerging accessory brand stated:
“If you treat the customer excellent and the product is good, that is the most powerful thing. If you have friends telling you have to check out this bag company, you are ten times more likely to go online and try it versus if you see a random add.”

To recap, the comments made by interviewees suggest that brand esteem is valuable in luxury, as it can lead to increased brand value. As stated by Uggla (2014), brands that build esteem can become part of the select group of leader brands. Therefore, if a brand is offering excellent products and an excellent experience, people are going to appreciate the brand, and, as consequence of its higher brand value, that brand could become a leader within the luxury universe.

**Knowledge.** During the interviews, interviewees considered that luxury customers are interested in what a brand has to say. According to Mizik and Jacobson (2008, p. 30), “knowledge affects firm value through its influence on sales growth”. This suggests that if new customers get to know a brand, or if existing customers know a brand better, company revenue can increase, and as a consequence, brand value. Luxury brands convey multiple messages to customers, ranging from their excellence in craftsmanship to company values. Still, despite these efforts, customers are not always aware of these brand messages. Based on the interviews, brands have two types of customers in terms of knowledge.

With regard to the first type of customers, luxury brands have customers who understand their brands, their history and tradition. To characterize this type of customers, an interviewee from a French jewelry brand included in Interbrand’s Best Global Brands list stated:

“We stand for something, whether it is that their father or their mother has a piece of [brand name], and it was passed down to them... There is a sense of history and tradition, and quality that they just know. That is probably the largest part of our clients.”
This comment illustrates how brand knowledge within luxury is a long-term undertaking. For example, let’s suppose that someone’s grandfather was a long-term customer of Patek Philippe, and he passed down his Patek Philippe watch into his grandson. Before getting the watch, it was likely that the grandson heard his grandfather talk about the Patek Philippe brand. Thus, the grandson was familiar with the brand and knew about the history and tradition that a Patek Philippe watch represents. Due to his brand knowledge, once the grandson gets the watch from his grandfather, he will probably become a lifetime customer of the brand. Consequently, if Patek Philippe has more and more customers like this, the brand will be able to create higher brand value.

Likewise, brands also have customers that make brand purchases sporadically, such as in special occasions, and have a lower level of brand knowledge. An interviewee from a gourmet luxury brand mentioned the following:

“Our most loyal consumer who uses us more regularly, would have a higher knowledge of the brand; of what it means and what it stands for... versus people who purchase them a couple of times per year. One of the challenges we have is that because we are high price, people tend to buy us just for holiday consumption or for special occasions... Those consumers most probably do not have a huge base of knowledge on the brand.”

To summarize, while Keller (2003b) considers that brand knowledge is an important source of brand value; in practice, brand knowledge in luxury appears to have limited influence on brand value. Brand knowledge seems to drive desirability and then demand of ‘regular’ customers of a brand, which contributes to higher brand value. In contrast, the influence of brand knowledge on non-regular customers appears to be limited. Luxury brands are conveying a message to all customers (regular and non-regular), but this message is not resonating with non-regular customers. This suggests that brands may need to tailor the information they provide about their brand to their different types of customers, so that they can increase brand knowledge in both groups.
Results, Analysis and Discussion from Qualitative Phase

Relevance. The importance of brand relevance within luxury was also highlighted during the interviews. According to Stahl et al (2012, p. 24) relevance and perception are related, and “perceptions will only affect behavior for those brands that are relevant”. With this in mind, a stakeholder specialized in brand value indicated that:

“Perception is extremely important in terms of pressing power and for value.”

This suggests that if multiple consumers have positive perceptions about a brand, the brand will increase its pressing power and will be considered relevant. This, in turn, is likely to result in increased brand purchases, which will then contribute to an increase in the value of a brand. Given these points, being relevant is essential for brand value in luxury. As was the case with energized differentiation, during the interviews, interviewees stated that there were differences in how relevance is created within luxury. However, unlike in non-luxury, in this industry, relevance is not always defined by financial performance or brand size. An example of this is haute couture, as stated by an interviewee from a fashion house:

“There are very few houses left in the world that continue to present haute couture collections... pieces that are incredibly detailed and incredibly artistic that are customized for every single client. This is not by any means the largest part of the business from a financial perspective...”

This comment suggests that luxury brands should not evaluate their undertakings just from a financial perspective. An additional example on this is the case of Apple. From the beginning, the ‘bread and butter’ of the Apple brand were Mac computers. Later on, the company diversified and started selling iPods, music services, iPhones, TV programs and movies, and other products and services. Due to diversification, Mac computers are no longer the most important product the brand has, at least in terms of size and revenue. However, its computer line is of strategic importance to the company, as it provides a pillar for everything else done by the brand. Consequently, it would not make sense for Apple to
slash its Mac computer line and focus on more profitable business lines, as doing so could undermine its brand relevance.

This point of view was reinforced by an interviewee from a lifestyle French brand who stated:

“Financials may have an impact on companies across the board but less on luxury brands as luxury brands are little bit more specific and what you do financially does not necessarily make a difference.”

Thus, while financial viability should not be seen as the most important factor within luxury, it is still important, as in the long run companies need revenues to operate. For this reason, it is essential that luxury brands balance their financial goals with their brand goals, so that brand decisions are made taking these two factors into consideration.

An additional view emerging from the interviews is that brand relevance can be the result of ‘organic growth’. An interviewee from an emerging fashion brand stated:

“We focused on making the fit right; making it fun and exciting, and true to what we thought it [the brand] was. So because it started small, grew organically and was product-based, that became our branding.”

For this company, relevance became a byproduct of the success of their actual product offering, as the company did not have a formal plan to drive brand relevance. To put it differently, this brand was only focused on producing excellent products, and in the end, because of worth of mouth, and third-party publicity about their products, the brand became relevant. This illustrates that luxury brands can create brand relevance by pursuing product excellence. Still, in reality, due to limited differentiation among luxury products, luxury brands cannot expect to become relevant by just focusing on products themselves. To become relevant, they also need to focus on the customer experience, and they should implement strategies aimed at fulfilling the needs of their customers. To point this out, a stakeholder specializing in luxury stated:
“In luxury there is a myth that companies do not conduct market research to shape their products or strategy.”

This suggests that brands need to consider what customers want and try bespoke their offerings towards those wishes, but always within the identity of the brand. As stated by Kapferer (2009), a brand should listen to the customer but everything it does needs to be consistent and within its brand identity. For instance, Hermès sells leather cases for cellphones, tablets and laptops, and sometimes, these cases cost more than the electronics themselves. Given the relevance of the Hermès brand to some of these customers, it is likely that a number of Hermès customers could be interested in buying a tablet with the Hermès brand. However, that move would be inconsistent with Hermès' brand identity, as the brand is not an electronics brand, and becoming one could negatively impact the relevance of the brand.

In summary, brand relevance can be an important contributor to brand value; but to create brand relevance, luxury brands need to be strategic about it. While brands can create relevance ‘organically’, it is essential that luxury brands identify the needs of their customers, so that they can address them through the products and the customer experience they offer. Moreover, brands need to be aware that to create brand relevance, it is not possible to make decisions that are solely based on the financial viability of a business line or brand initiative. Instead, such decisions need to be made from a strategic point of view, and taking into account how a business line, product or service feeds the relevance factor into the whole brand.

**Summary**

This chapter discussed and analyzed how customers and luxury brands can create brand value. Accordingly, based on the literature review and the analysis of the input provided by interviewees; a theoretical framework is proposed. The framework presents the factors that contribute to brand value in luxury (see Figure 10 below).
As shown in Figure 10, brand value can be created by consumers, depending on whether they consider a brand to be different, relevant, feel esteem towards it and know about it. Additionally, brand value can also be created by the following factors, which are generally controlled by the brand: CSR, company size, controlled distribution, counterfeiting, marketing, and R&D/Design. Consequently, in order to create, increase and preserve brand value, these factors need to be managed altogether.

It is important to highlight that there are still questions surrounding these determinants of brand value and, therefore, these factors need to be analyzed further. These questions are: Are the four pillars of consumer brand value equally important for brand value in luxury?; Can any of these pillars influence whether a brand is considered luxury or not?; Can these pillars have an impact on the financials of a luxury brand?; Are CSR and all the other factors presented in Figure 10 relevant for brand value in luxury, from an empirical point of view?
The discussion and analysis from the previous sections contributes, in part, to respond to the RQs outlined in the Introduction to this thesis. However, in order to be able to respond to those questions in a more comprehensive fashion, it is necessary to explore the questions raised above and throughout the different sections of this chapter. Therefore, Chapters 5 and 6 look into those issues more into detail.

Chapter 5 below provides the results, analysis and discussion of the quantitative phase of this research. The ultimate goal of the chapter is to identify if CSR and the other determinants of brand value are statistically significant.
Chapter 5: Results, Analysis and Discussion from Quantitative Phase

This chapter presents the results from the quantitative analysis conducted as part of this thesis. This analysis follows the methodology previously discussed in Chapter 3. The results are derived from three main equations, which explore Corporate Social Responsibility (CSR) and the other determinants of brand value; namely how a company can be financially impacted by brand value; and which of those brand value determinants are related to luxury, as measured in terms of the luxury construct. Section 5.6 in this chapter discusses how the results from these three equations were consolidated into a list of the relevant/irrelevant determinants for brand value in luxury.

In addition to these three equations and to gain an understanding of how country of origin (COO) and the four pillars of consumer brand value are correlated with the other variables in the data set, two correlation matrices were prepared. The correlation matrices can be found in sections 5.4 and 5.5.

As discussed in Section 3.3 ‘Quantitative Approach’ of Chapter 3, it is important to highlight that because of data unavailability and the various assumptions made in putting the data set together, the purpose of the quantitative analysis is to exclusively show which variables were statistically significant at either, the 90, 95, 99 or 99.99 percent level, in each equation. However, the full results from both the initial (equations with all variables) and final equations (equations with statistically insignificant variables deleted) can be consulted in Appendix D.

Moreover, given the exploratory nature of the quantitative analysis, it is not within the scope of this thesis to discuss direction of the coefficients (i.e. if the influence of a variable is positive or negative) nor their numerical value (i.e. if a relevant variable increases/decreases in x points, then a change in the dependent variable (y) would be y ± x). While interesting, in order to understand which coefficients can have an impact on brand value, it is not
necessary to know the direction of a coefficient. Similarly, it is not necessary to
know how changes to independent variables can affect a dependent variable.

The following sections discuss the results from the three equations, including
how COO, and the four marketing pillars are correlated with the variables
included in the equation.

5.1 Brand Value and Consumers

P1: Consumers have a key role in determining brand value in luxury

To test this proposition, Tobin’s Q were used as a proxy for brand value
(dependent variable). The independent variables included the four marketing
pillars (energized differentiation, esteem, knowledge and relevance) which are
used as proxy of consumer brand value. Since brand value is also affected by
other determinants (see Chapter 2: Literature Review, and Chapter 4: Analysis
and Discussion from Qualitative Phase); the following variables were included in
the equation: Counterfeiting index, CSR index, fully controlled distribution,
marketing and R&D/Design, luxury construct, number of employees and
Interbrand.

In brief, this equation intends to test whether brand value in luxury is affected
by consumer brand value and by the following factors (which, with the exception
of Interbrand), are related to company-based brand value: Having fully
controlled distribution; the level of counterfeiting experienced by the brand;
how sustainable or corporate socially responsible is the brand; being listed in
Interbrand’s Global 100 List; how much marketing and R&D/Design the brand
conducts; and how large the company is.

The equation, as modeled in R, is presented below:

\[
\text{Tobin's Q } \sim \text{ Fully controlled distribution } + \text{ Counterfeiting index } + \text{ CSR Index } + \text{ Interbrand } + \text{ Marketing and R&D ratio } + \text{ Energized Differentiation } + \text{ Esteem } + \text{ Knowledge } + \text{ Relevance } + \text{ Luxury Construct } + \text{ Number of Employees }
\]
After running the regression from the above equation, the following variables were identified as statistically significant: Number of Employees, Relevance, Energized Differentiation, Esteem. To refine the model, another equation was run using only the statistically significant determinants, resulting in the following equation, as shown in Figure 11 below. To clarify, Figure 11 maps directly onto the Figure 10 in Chapter 4. Tobin’s Q corresponds to brand value; while the other factors emanate directly from company-based actions (company size) and consumer-based actions (energized differentiation, esteem and relevance):

\[ \text{Tobin’s Q} = \text{Energized Differentiation} + \text{Esteem} + \text{Relevance} + \text{Number of Employees} \]

Table 25 below presents the results from the refined equation to test P1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employees</td>
<td>0.027063**</td>
</tr>
<tr>
<td>Relevance</td>
<td>0.007137***</td>
</tr>
<tr>
<td>Energized Differentiation</td>
<td>1.42e-05**</td>
</tr>
<tr>
<td>Esteem</td>
<td>0.001147***</td>
</tr>
</tbody>
</table>

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 1

Table 25: Significant Determinants for Consumer Brand Value
In the refined equation, relevance and esteem were significant at the 99.99 percent level; while energized differentiation and number of employees were significant at the 99 percent level.

In terms of CSR, Melo and Galan (2011) found that CSR was a contributor to brand value but its impact was lower than other significant variables they modeled in their study (namely, business size and market performance). Torres et al (2012) found a similar result, concluding that CSR was relevant for brand value. From this perspective, it was expected that CSR would be relevant for brand value in the above equation. However, based on the input provided by interviewees in the qualitative interviews (see section 4.1 in Chapter 4), CSR is still something that is not driving revenue in the luxury industry and it is not being actively sought by luxury customers. This is in line with McEachern (2015) who considers that CSR features are becoming more relevant for some consumers in their purchasing decisions, but CSR is not the most relevant factor.

It is important to note that McEachern’s study was not focused on luxury, but a part of it looked at Fairtrade within the confectionery industry. Since luxury food includes confectionery/Fairtrade products, the results of this qualitative study have some relevance. In contrast, Torres et al and Melo and Galan’s studies focused on some of the world’s largest brands in terms of brand value, but not within a luxury context. Given that this research is within luxury, and that CSR does not have the same level of embracement as in non-luxury, it may be possible to understand why CSR in P1 was statistically insignificant.

An unexpected result was that fully controlled distribution, counterfeiting, marketing and R&D/Design were not statistically significant in the original equation. This was unexpected given the potential detrimental effect of counterfeiting on brand value (Bush et al., 1989; Green and Smith, 2002; Wilcox et al., 2009; Wilke and Zaichkowsky, 1999), the contribution to brand value of marketing and R&D expenses (Ailawadi et al., 2003; Stahl et al., 2012; Yoo et

---

6 Controlled distribution, and marketing and R&D/Design were statistically significant in P3. Therefore they are shown as significant in Table 30 and Figure 14. See section 5.6 for discussion on how the results from the three equations were consolidated.
al., 2000) and having controlled distribution (Jones, 2005); are all documented in the literature.

In the original equation, a potential reason why having fully controlled distribution was not relevant is because only a limited number of brands are able to fully control their distribution and, thus, it is not essential for brand value. On counterfeiting, there is a possibility that the counterfeiting index used underplays the importance of this perceived threat. Similarly, it is also possible that the threat of counterfeiting is exaggerated by luxury brands (Wang and Song, 2013) and, hence, it has a more minor impact on brand value than what the industry states.

On marketing and R&D/Design, the variable used was contingent upon dollars spent on both categories. With regard to marketing, it is not clear that marketing expenses incurred by luxury firms necessarily result in brand value (see explanation of knowledge below in this section). Also, expenditure levels on R&D/Design may be lower in luxury than in other industries, except in categories such as timepieces and automobiles which are more reliant on state-of-the-art technology. Hence, the modeled expenses may not be significant enough to influence brand value.

Company size is usually correlated with brand value (Yeung and Ramasamy, 2008). Consequently, as number of employees is a proxy for company size, the results suggest that the more resources a brand has, the more actions they are able to do to increase brand value.

In terms of the marketing pillars, it was expected that the four pillars would be relevant for brand value in luxury. With regard to esteem and energized differentiation, those two pillars were expected to be significant in the equation, as was the case; considering that customers are likely to buy from a brand they view favorably, and that they perceive as being different. Knowledge was statistically insignificant in the first equation. Stahl et al (2012) state that customers may be willing to switch to a brand they are familiar with. But in their work, they also consider that advertisements do not have an impact.
in terms of knowledge (ibid, 2012). Luxury firms are advertising intensive and, therefore, it is possible that they are not conveying that knowledge to customers through marketing. Moreover, it could also be that there is a ‘disconnect’ between the information luxury brands convey and what customers are interested in knowing.

Finally, an unexpected result in the original equation was that the Interbrand variable was not significant. Being on Interbrand’s list could be considered as a measure of high brand value, as only 100 brands with the highest brand value in the world make it into this list. Hence, it is logical that being on that list should have been correlated with brand value. It is important to note that Interbrand uses three components to valuate brands: Financial, role of brand and brand strength (Torres and Tribó, 2011).

While the use of Tobin’s Qs is well documented in the literature as a proxy for brand value (Simon and Sullivan, 1993; Sridhar et al., 2014; Yoon Koh et al., 2009), it is possible that there is a disconnect between them and Interbrand. The reason behind this result could be that Interbrand looks at the role of brands (how important the brand is to drive a purchase), which may not be directly related to the accumulated value of a brand measured by the Tobin’s Qs. Another unexpected result in that equation was that the luxury construct was not significant. The result for this variable suggests that being considered a luxury brand does not influence consumer-based brand value. This result suggests that consumers may not consider the upper class and prestige provided by luxury a strong enough factor to demand a brand; but instead, differentiation, relevance and esteem are important elements in luxury and influence consumer demand.

In summary, these results for P1 suggest that brand value in luxury is influenced by company size, how relevant a brand is, how people feel about it (i.e. it is leader in its field, it is reliable and high-quality), and how differentiated a brand is (i.e. different, dynamic, innovative, distinct and unique).
5.2 Brand Value and Market Capitalization

P2: Market capitalization in luxury is impacted by brand value

To test this proposition, market capitalization was used as the dependent variable and as a proxy for brand value. The independent variables are the same included to test P1. The purpose of the equation is to test that market capitalization is affected by consumer brand value, by luxury perception, and by the following factors (which with the exception of Interbrand, are related to company-based brand value): Having fully controlled distribution; the level of counterfeiting experienced by the brand; how sustainable or corporate socially responsible the brand is; being listed in Interbrand’s Global 100 List; how much marketing and R&D/Design the brand conducts; and how large the company is.

The equation, as modeled in R, is presented below:

\[
\text{Market capitalization} \sim \text{Fully controlled distribution} + \text{Counterfeiting index} + \text{CSR Index} + \text{Interbrand} + \text{Marketing and R&D ratio} + \text{Energized Differentiation} + \text{Esteem} + \text{Knowledge} + \text{Relevance} + \text{Luxury Construct} + \text{Number of Employees}
\]

After running the regression from the above equation, the following variables were identified as statistically significant: CSR Index; Energized Differentiation; Interbrand Global; Luxury Construct; and Number of Employees.

Then, the model was refined running another equation using only the statistically significant determinants, resulting in the following equation, which is presented in Figure 12. To clarify, Figure 12 stems from Figure 10 in Chapter 4. Market capitalization corresponds to brand value. Company size and CSR; and energized differentiation correspond to company and consumer-based actions respectively:

\[
\text{Market capitalization} \sim \text{CSR Index} + \text{Energized Differentiation} + \text{Interbrand} + \text{Luxury Construct} + \text{Number of Employees}
\]
Table 26 below presents the results from the refined equation to test P2.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR Index</td>
<td>0.000146***</td>
</tr>
<tr>
<td>Energized Differentiation</td>
<td>0.066085</td>
</tr>
<tr>
<td>Interbrand Global</td>
<td>0.002163*</td>
</tr>
<tr>
<td>Luxury Construct</td>
<td>0.077675</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>1.26e-05***</td>
</tr>
</tbody>
</table>

Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Table 26: Significant Determinants for Market Capitalization

As noted above, market capitalization was used as the dependent variable in P2. Steenkamp (2014) and Wang et al (2012) consider that market capitalization can reflect brand value, and M’zungu et al (2010) maintain that market capitalization includes a percentage of brand value. As was the case with the equation from P1 above, and given that the dependent variable also accounts for brand value, it was expected that all the variables modeled in the first iteration of the P2 equation would be statistically significant.
CSR and number of employees were significant at the 99.99 percent level. Interbrand was significant at the 95 percent level; and both the luxury construct and energized differentiation at the 90 percent level.

In terms of the marketing pillars (these pillars are defined in section 3.3.2.3 of this thesis), only energized differentiation was statistically significant. This suggests that investors may not consider esteem and relevance important for investment decisions and they may not be particularly interested in knowing about a brand. A potential reason for this result is that stock purchases can be related to “risk attitude, the risk-free rate of return, the stock return, and stock volatility” (Zhu, 2007, p. 613). This may be another reason why Interbrand was statistically significant in P2, as it may be an indicator of lower risk. Interbrand’s listing is considered to provide “a structured means to determine specific risks to the strength of the brands” (Torres et al., 2012, p. 17). Counterfeiting was probably statistically insignificant because of the same reasons stated in equation P1 above. As mentioned earlier, there is a possibility that the counterfeiting index used underplays this issue, but it is also possible that the luxury industry considers this threat to be larger than what it is.

In addition, unlike the equation for P1, CSR may be statistically significant in P2 as investors can reward CSR activities undertaken by firms (Harjoto and Jo, 2011). Another reason is that investors have an interest in CSR issues (Baron, 2007; Weber, 2008) and investors also favor firms with better CSR credentials. This is in line with Janssen et al (2013) who consider that luxury brands have been pursuing CSR initiatives to minimize or eliminate potential negative impacts on their stakeholders.

Moreover, regarding the luxury construct, it is likely that it was found relevant in P2 due to the fact that most of the brands modeled are strong brands. In an empirical study, Madden et al (2006) concluded that stronger brands deliver greater returns to stockholders. Additionally, another reason may be that luxury companies are advertising intensive, something that is favored by investors (Oak and Dalbor, 2010).
Still, it is important to highlight that marketing and R&D/Design were not statistically significant, which could raise questions as to whether marketing and R&D/Design expenses are the most suitable approach to measure marketing and R&D/Design efforts. For instance, in a study of brand value conducted by Melo and Galan (2011), R&D was not found statistically significant. The same applies to advertising/marketing expenditures, as shown in a study on brand value conducted by Smith et al (2007).

These results for P2 suggest that being a large brand, being corporate socially responsible, having a degree of differentiation (i.e. different, dynamic, innovative, distinct and unique), being perceived as luxurious (i.e. upper class and prestigious), and being considered one of the Top Global Brands in the World (i.e. Interbrand’s listing) are likely to have an effect on market capitalization. In other words, if a brand has those characteristics, it is more likely to generate the interest of investors and, therefore, have higher market capitalization.

5.3 Luxury Perception and Relationship with Brand Value

P3: Luxury perception is related to brand value

To test this proposition, the luxury construct was used as the dependent variable. To model luxury perception, a proxy was created using consumer scores of how upper class and prestigious they perceive each brand. This construct was modeled as an independent variable in P1 and P2. To test P3, the independent variables are the same used to test P1 but excluding the luxury construct.

The purpose of the equation is to test whether luxury perception is affected by consumer brand value and the following factors (which, with the exception of Interbrand, are related to company-based brand value): Having fully controlled distribution; level of counterfeiting experienced by the brand; how sustainable or corporate socially responsible the brand is; being listed in Interbrand’s Global
100 List; how much marketing and R&D/Design the brand conducts; and how large the company is.

The equation, as modeled in R, is presented below:

\[
\text{Luxury Construct} - \text{Fully controlled distribution} + \text{Counterfeiting index} + \text{CSR Index} + \text{Interbrand} + \text{Marketing and R&D ratio} + \text{Energized Differentiation} + \text{Esteem} + \text{Knowledge} + \text{Relevance} + \text{Number of Employees}
\]

Based on the results from the regression, the following variables were found to be statistically significant: Fully controlled Distribution; Energized Differentiation; Interbrand Global; Marketing and R&D/Design; Number of Employees; and Relevance.

As with the equations in P1 and P2, a refined equation was run using only statistically significant determinants from the above regression. The refined equation, presented in Figure 13, is shown below.

\[
\text{Luxury Construct} - \text{Fully controlled distribution} + \text{Interbrand} + \text{Marketing and R&D ratio} + \text{Energized Differentiation} + \text{Relevance} + \text{Number of Employees}
\]

![INDEPENDENT VARIABLE](image1)

![DEPENDENT VARIABLES](image2)

**Figure 13: Statistically Significant Determinants in P3**

Table 27 presents the results from the refined equation to test P3.
In P3, number of employees, energized differentiation, and marketing and R&D/Design were significant at the 99 percent level. Relevance and Interbrand were relevant at the 95 percent level, and fully controlled distribution was relevant at the 90 percent level.

With regard to CSR, the non-significant result was in line with what was expected, as being sustainable is not an attribute of luxury. Furthermore, it needs to be highlighted that on one side, consumer interest in sustainable luxury products is not high (Achabou and Dekhili, 2013; Kapferer and Michaut-Denizeau, 2014). On the other side, luxury companies prefer to keep a low CSR profile, even when they have CSR programs in place (Kapferer and Michaut-Denizeau, 2014). A further consideration is that this finding does not suggest an incompatibility between CSR and luxury. It only suggests that CSR is not a component of luxury; and as a result, having CSR practices in place will not have an effect on whether a brand is perceived as luxury or not. However, as discussed in Section 6.1 ‘CSR’ in Chapter 6, luxury brands have the ability to change perceptions and, consequently, they may have the ability to drive consumer’s interest in CSR.

The statistical significance of company size is interesting, as while this variable is not a determinant of luxury, it can affect brand value. To put it differently, the fact that a brand is large will not necessarily make it a luxury brand. Instead, this result suggests that large brands have more resources at their disposal to invest in creating a luxury perception. Larger brands can pursue key
luxury strategies, such as having controlled distribution or investing in creating a superior customer experience. These strategies require significant investments that only brands with significant resources can undertake.

In addition, Interbrand’s inclusion has a similar effect. Being on Interbrand’s list is not synonymous with luxury, as only a handful number of luxury brands are included in this listing. Instead, these results suggest that the Interbrand variable was relevant for luxury perception in the sense that only the luxury brands with the highest brand value are included in Interbrand’s list. In addition to financial metrics, Interbrand measures “how the brand influences customer demand” and “the brand’s ability to secure ongoing customer demand and sustain future earnings” (Torres and Tribó, 2011, p. 1093). Since luxury sells dreams, this suggests that companies in this list are effective at influencing consumers with that dream factor. Accordingly, it is evident that a brand that creates a dream around its offerings is perceived as luxury.

In terms of marketing and R&D/Design, the presence of these two elements do not create a perception of luxury per se. However, their presence is associated with luxury, as a brand needs to be able to design beautiful products and then market them, to create mystique and a dream around these products. Thus, the results from this equation seem to suggest that through marketing and R&D/Design is possible to influence the luxury perception of products and services.

Nevertheless, a note of caution is needed when interpreting these results; as in P1 and P2, marketing and R&D/Design were found to be statistically insignificant. First, it is important to highlight that previous empirical studies suggest that more research is needed to fully understand how marketing and R&D are related to brand value (Chu and Keh, 2006). Second, it is possible that marketing and R&D/Design expenses do not capture the level of effectiveness of these efforts. As suggested by Smith et al (2007) it may be needed to differentiate between ‘effective’ marketing and R&D/Design expenses versus ‘non-effective’ while measuring this variable. In practice, this is something that would be difficult to do, given that it would be necessary to know the
percentage of effective versus ineffective marketing and R&D/Design efforts undertaken by luxury brands.

Furthermore, from the four marketing pillars, only relevance and energized differentiation were statistically significant. The significance of relevance suggests that given the high competition in the luxury market place, brands need to remain relevant in the consumer’s mind so that they are considered luxury. For example, Gucci in the 1980’s was ubiquitous as it was widely licensed. So it went from being a luxury brand to a mass brand, and it went from being highly relevant to almost irrelevant within a luxury context. Similarly, energized differentiation makes it possible for consumers to select one brand from another. Consequently, in order to perceive a brand as upper class and prestigious, the products and experience provided by luxury brands need to be different than what non-luxury brands offer.

Lastly, esteem was expected to be significant, as luxury is becoming a relationship-type of business. In a brand relationship customers look for reliability, but more importantly, for quality, which is a fundamental component of luxury. A potential explanation as to why esteem was not statistically significant is that consumers could perceive that factors such as quality and reliability are entry-level requirements within luxury. Since these attributes could be seen as essential by consumers, they no longer contribute to increasing a brand’s luxury perception; given that all luxury brands need to have them. Moreover, the result of knowledge is also interesting, as one of the ways to create a dream within luxury is to have a story to tell. All luxury brands have a story, and that story is conveyed to consumers. Thus, consumers have a level of knowledge about luxury brands. While this level of knowledge may fluctuate depending on the customer, it is possible that consumers do not consider these stories or messages essential in deciding whether or not a brand is considered luxury. In other words, it is possible that the stories conveyed by brands are not as relevant as luxury brands believe they are.

From these results for P3 it is possible to conclude that luxury perception (i.e. that a brand is considered upper class and prestigious) is related to these
Results, Analysis and Discussion from Quantitative Phase

factors: Brand size; brand relevance; energized differentiation (i.e. how different, dynamic, innovative, distinct and unique the brand is); whether or not it controls its distribution; marketing and R&D/Design expenses; and if it has high brand value (i.e. listed in Interbrand’s Global 100 List).

5.4 Factors Correlated with Consumer-Based Brand Value

The purpose of this test was to get a sense of how the four marketing pillars were related with CSR and the other factors contributing to brand value in this research. Understanding these relationships could help luxury brands manage the corresponding brand value determinants more effectively, in order to increase consumer-based brand value. For example, if a brand is perceived as prestigious and upper class, then that could lead to higher market capitalization, something that could give a brand more resources to drive growth. Table 28 below shows the results from the correlation matrix.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Energized Dif.</th>
<th>Esteem</th>
<th>Knowledge</th>
<th>Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controlled Distribution</td>
<td>-0.07</td>
<td>0.04</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>Counterfeiting Index</td>
<td>0.07</td>
<td>0.10</td>
<td>-0.04</td>
<td>0.13</td>
</tr>
<tr>
<td>CSR Index</td>
<td>-0.04</td>
<td>-0.23</td>
<td>-0.01</td>
<td>-0.23</td>
</tr>
<tr>
<td>Current Market Capitalization</td>
<td>0.32</td>
<td>0.22</td>
<td>0.08</td>
<td>0.15</td>
</tr>
<tr>
<td>Marketing and R&amp;D</td>
<td>0.03</td>
<td>-0.10</td>
<td>-0.16</td>
<td>0.06</td>
</tr>
<tr>
<td>Interbrand Global</td>
<td>0.42</td>
<td>0.23</td>
<td>0.19</td>
<td>-0.05</td>
</tr>
<tr>
<td>Luxury Construct</td>
<td>0.38</td>
<td>0.17</td>
<td>0.19</td>
<td>-0.29</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>0.00</td>
<td>-0.01</td>
<td>0.09</td>
<td>-0.20</td>
</tr>
<tr>
<td>Tobin’s Q Ratio</td>
<td>0.22</td>
<td>0.00</td>
<td>-0.15</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Table 28: Correlation Matrix of Consumer-Based Brand Value Pillars with Other Determinants of Brand Value

According to de Vaus (2002), a correlation factor between 0.30 to 0.49 represents a moderate to substantial relationship; while a factor between 0.10 to 0.29 represents a low to moderate correlation. Table 28 shows that energized differentiation is more correlated with market capitalization (0.32), Interbrand’s listing (0.42) and luxury construct (0.38). These three correlations
could be considered moderate to substantial, and they suggest that a luxury brand can have a competitive advantage if it is perceived to be prestigious and upper class, and if it is one of Interbrand’s Global 100 brands. The results also suggest that if a luxury brand is differentiated, then this can have an influence on its market capitalization (0.32). In other words, investors would be more interested in investing in a brand that offers a competitive advantage than in brands that do not.

In terms of the other pillars, the correlations between them and the other determinants of brand value were considered low to moderate (≤ 0.23) and, therefore, the results need to be interpreted with caution. Esteem was slightly correlated with Interbrand (0.23); while knowledge showed a low correlation with Interbrand (0.19) and the luxury construct (0.19). These correlations seem to suggest that if a brand is listed in Interbrand’s Global 100 List, then the brand could be perceived as more reliable, a leader in its field, and high-quality. With regard to knowledge, the interpretation is that consumers may want to know more about a brand if it is perceived as upper class and prestigious and if it is one of the best brands in the world (based on Interbrand’s listing). Finally, on relevance, this variable showed a moderate to low correlation with Tobin’s Q (0.23), market capitalization (0.15) and counterfeiting index (0.13). This suggests that brand relevance may be considered important for brand value and market capitalization, and that the level of counterfeiting experienced by a firm may affect its relevance.

5.5 Factors Correlated with Country of Origin

The purpose of this test was to gain an understanding as to the potential correlation between COO with the other determinants of brand value. As discussed in Chapters 2 and 3, COO can affect brand value (Hamzaoui-Essoussi et al., 2011), given that being associated with a certain country could have an effect on how a brand is perceived (Aiello et al., 2009; Besharat and Langan, 2014; Kapferer, 2009) and, as such, impact consumer decisions (Carrigan and Pelsmacker, 2009). Therefore, knowing if a determinant of brand value is correlated with a given country could be interesting for luxury brands in order to
leverage their country associations. In other words, if relevance is highly correlated with the US, and relevance is considered an important factor for a certain luxury brand, then that brand can decide to create an association with the US in order to drive brand relevance.

Table 29 below presents the results of the correlation matrix:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Italy</th>
<th>France</th>
<th>Other Country</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controlled Distribution</td>
<td>-0.08</td>
<td>0.07</td>
<td>-0.19</td>
<td>0.19</td>
</tr>
<tr>
<td>Counterfeiting Index</td>
<td>-0.12</td>
<td>-0.11</td>
<td>-0.13</td>
<td>0.26</td>
</tr>
<tr>
<td>CSR Index</td>
<td>0.04</td>
<td>0.25</td>
<td>0.22</td>
<td>-0.37</td>
</tr>
<tr>
<td>Current Market Capitalization</td>
<td>0.01</td>
<td>0.10</td>
<td>-0.01</td>
<td>-0.05</td>
</tr>
<tr>
<td>Marketing and R&amp;D</td>
<td>0.09</td>
<td>0.29</td>
<td>0.08</td>
<td>-0.29</td>
</tr>
<tr>
<td>Energized Differentiation</td>
<td>0.14</td>
<td>-0.09</td>
<td>-0.05</td>
<td>0.02</td>
</tr>
<tr>
<td>Esteem</td>
<td>-0.16</td>
<td>-0.15</td>
<td>-0.14</td>
<td>0.32</td>
</tr>
<tr>
<td>Interbrand Global</td>
<td>0.09</td>
<td>0.17</td>
<td>-0.10</td>
<td>-0.05</td>
</tr>
<tr>
<td>Knowledge</td>
<td>-0.22</td>
<td>-0.13</td>
<td>-0.08</td>
<td>0.28</td>
</tr>
<tr>
<td>Luxury Construct</td>
<td>0.20</td>
<td>0.09</td>
<td>-0.03</td>
<td>-0.14</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>0.08</td>
<td>0.06</td>
<td>0.10</td>
<td>-0.17</td>
</tr>
<tr>
<td>Relevance</td>
<td>-0.20</td>
<td>-0.15</td>
<td>-0.34</td>
<td>0.53</td>
</tr>
<tr>
<td>Tobin’s Q Ratio</td>
<td>-0.08</td>
<td>0.03</td>
<td>-0.13</td>
<td>0.15</td>
</tr>
</tbody>
</table>

Table 29: Correlation Matrix of COO with Other Determinants of Brand Value

In summary, the correlations between COO with the other determinants of brand value are low and, therefore, it is not possible to draw a strong conclusion. For example, based on these results, it can be assumed that if an item is made in Italy it will be perceived as more luxurious (upper class and prestigious). However the association is weak (0.20). Considering that France and Italy are widely associated with luxury, an item made in France should be perceived as prestigious and upper class as an item made in Italy. Still, the score for France is significantly lower (0.09). Instead, French brands are correlated with expenses in marketing and R&D/Design (0.29). This makes sense due to the fact that many luxury brands are French and they spend significant amounts of money on marketing. Similarly, there are also many Italian luxury brands in the marketplace. Thus, it would be expected that the French score for marketing and R&D/Design would be similar to the one for Italy, but the Italian score is lower (0.09).
In the correlation matrix, the most significant association occurs between the US and relevance (0.53), which can be interpreted as if an item is made in the US then that brand would be perceived as more relevant by consumers than brands from other countries. Something to note is that relevance rankings in this research are from US consumers. As a result, US consumers may be inclined to prefer US goods (Ha-Brookshire and Yoon, 2012). Knowledge is also moderately relevant for US goods (0.28), which suggests that consumers know more about US brands than brands from other countries. Still, this finding is questionable as France and Italy are countries highly associated with luxury, and it would be natural that luxury consumers know about French and Italian brands at least as they know US brands.

In brief, these results support the view that COO may have an impact on brand value, but given the low correlation scores, further research is needed. As discussed in Chapter 7, analyses by brand category with a larger data set are needed in order to be able to get a more reliable conclusion. For instance, empirical research suggests that the relevance of COO may depend on industry sector (Hamzaoui-Essoussi et al., 2011).

5.6 Conclusion

The previous sections analyzed the most relevant factors for brand value in luxury, as identified in the statistical analysis. These variables are summarized in Table 30 below.
<table>
<thead>
<tr>
<th>Equations</th>
<th>Relevant Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin Q ~ variables [Knowledge + Esteem +</td>
<td>Relevance</td>
</tr>
<tr>
<td>Energized Differentiation + Relevance + R&amp;D</td>
<td>Energized differentiation</td>
</tr>
<tr>
<td>and marketing + Counterfeiting + Business</td>
<td>Esteem</td>
</tr>
<tr>
<td>Size + CSR Index + Interbrand + Luxury</td>
<td>Number of employees</td>
</tr>
<tr>
<td>Construct]</td>
<td></td>
</tr>
<tr>
<td>Current market capitalization ~ variables</td>
<td>CSR Index</td>
</tr>
<tr>
<td></td>
<td>Energized differentiation</td>
</tr>
<tr>
<td></td>
<td>Interbrand</td>
</tr>
<tr>
<td></td>
<td>Luxury Construct</td>
</tr>
<tr>
<td></td>
<td>Number of employees</td>
</tr>
<tr>
<td>Luxury construct ~ variables</td>
<td>Number of employees</td>
</tr>
<tr>
<td></td>
<td>Relevance</td>
</tr>
<tr>
<td></td>
<td>Energized Differentiation</td>
</tr>
<tr>
<td></td>
<td>Controlled Distribution</td>
</tr>
<tr>
<td></td>
<td>Interbrand</td>
</tr>
<tr>
<td></td>
<td>Marketing and R&amp;D</td>
</tr>
</tbody>
</table>

**Table 30: Findings from Statistical Analysis**

It is important to note that because of the exploratory nature of these results, all the relevant determinants of brand value are further analyzed and discussed in Chapter 6, using the results from the ‘credibility checks’. If a determinant was considered to be statistically significant in any of the three equations, then it was assumed that it was relevant for brand value. Additionally, based on the input received during the ‘credibility checks’, all relevant determinants were
Results, Analysis and Discussion from Quantitative Phase

classified further into relevant (‘it is important’), ‘overlooked’ and ‘overemphasized’. A further explanation of this characterization is provided in both Chapter 3 (section 3.4) and at the beginning of Chapter 6.

A key point to highlight is that the results from the statistical analysis are derived from three different propositions (see section 3.3.8 in Chapter 3), which use Tobin Q's, market capitalization and the luxury construct as dependent variables (as shown in Table 30). Consequently, these three equations are reflective of consumer perception, financial and product characteristics related to the brands modeled. However, considering that brand value is a single construct with various facets, including CSR, it is more appropriate to present all the relevant variables (i.e. statistically significant) from the equations all together, as determinants of brand value.

The rationale behind this approach is based on Keller and Lehmann (2006) who consider that brand value is accrued by customers, products and financial markets. From the customer’s point of view, brand value captures how customers perceive branded offerings. The product perspective refers to how branded goods improve sales and revenue performance for the brands that make them. The financial perspective refers to the value of brand assets and the value of future brand sales (Lehmann and Srinivasan, 2013).

A consideration regarding these three types of brand value, is that other authors such as Davcik et al (2015), propose different brand value domains; namely stakeholder value, marketing assets and financial performance. Nevertheless, none of these categories fully captures the product attributes provided by a brand which are essential within luxury. Therefore, Keller and Lehmann (2006) approach is more appropriate to capture this characteristic of the luxury industry.

For this research, consumer brand value is reflected on the four pillars and in the luxury construct. CSR, company size, marketing and R&D/Design, and COO capture the product component of brand value. Lastly, the financial perspective
of brand value is captured by choosing Tobin Q’s and market capitalization as dependent variables in the regression analysis.

As presented in Table 30, relevance, energized differentiation and esteem are relevant for brand value in luxury. Also, being innovative, distinct, dynamic, different and unique (i.e. energized differentiation) is likely to be attractive from an investor perspective and, therefore, this could lead to having higher market capitalization. On the contrary, knowledge appears to be irrelevant, as customers do not seem to be reacting to all the information provided by luxury brands.

In terms of the other determinants of brand value, brand size seems to be highly relevant in luxury. Larger brands are expected to have a greater brand value, as they are likely to have the resources to leverage brand value and increase it. Also, larger brands are expected to have larger market capitalization as investors may perceive them to be more profitable and reliable.

Finally, larger brands are more likely to be considered upper class and prestigious; and relevant. This may have to do with the fact that larger brands are able to promote and sell their products to a wider number of customers. A caveat of this conclusion is that most of the brands included in this research are significantly large. However, it is likely that a niche ultra-luxury brand could be perceived as highly luxurious even if it is a small company. For example, F.P. Journe, a small watchmaker brand, manufactures less than 1,000 watches per year. With a cost of at least $35,000 dollars per watch, F.P. Journe’s timepieces are more luxurious than Rolex, which is a large luxury brand.

Additionally, from an investor’s perspective, having higher CSR scores and being included in Interbrand’s Global 100 list seems important. Firms with stronger CSR practices can be considered more transparent and also less prone to being involved in high-level scandals (e.g. environmental or employee-related) and, thus, can be more reliable to invest in. Also, firms with more socially responsible practices are likely to be ahead in environmental, social or economic standards. Consequently, these firms have a lower likelihood of being affected
by future regulatory pressures which could undermine shareholder value. With respect to Interbrand’s Global 100 List, brands included in that list are expected to have high-level management expertise and be more profitable, as they can capitalize on the high value associated with their names. Therefore, investors are more likely to favor luxury brands included in this list.

Lastly, regarding luxury perception, a brand is more likely to be considered upper class and prestigious if it is different and it is relevant to consumers. Moreover, two interesting factors contributing to having a luxury perception are controlled distribution and marketing and R&D/Design. Having control of distribution is a key element within luxury and can be a differentiator between luxury and non-luxury. Also, since luxury is all about selling a dream and product excellence, it is extremely important to be able to spend on R&D/Design to produce outstanding luxury goods. Lastly, by spending on marketing, brands will be able to convey their message (e.g. product and brand attributes) in order to create a dream, which, in turn, can create luxury.

To summarize how the results from the quantitative analysis map onto Figure 10 in Chapter 4, Figure 14 provides a graphical representation of the determinants of brand value that were important/not important. As discussed above, all factors (non-shaded boxes), with the exception of counterfeiting and knowledge (shaded boxes), were statistically significant for brand value in luxury.
The following chapter discusses and analyzes the input provided by interviewees during the ‘credibility checks’ on the findings from the quantitative and qualitative phases of this research, which were analyzed and discussed in this chapter, as well as in Chapter 4.

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7 Determinants in shaded boxes were statistically insignificant. Determinants in non-shaded boxes were statistically significant
Chapter 6: Results, Analysis and Discussion from ‘Credibility Checks’

The purpose of this chapter is to illuminate the previous two phases presented in Chapters 4 and 5 with input from the ‘credibility checks’. More specifically, using data obtained via the ‘credibility checks’, this chapter will discuss and analyze where there is agreement or disagreement regarding the importance of CSR and the other determinants of brand value. The ultimate goal of this chapter is to conclude with a list of factors that are important for brand value in luxury. Additional information on the rationale for the ‘credibility checks’, together with the added value this process provides to this research is discussed in section 3.2.6 in Chapter 3. To avoid duplication, this chapter will focus on new insights provided by interviewees during this research phase.

An additional consideration is that, as discussed in Chapter 3 (see section 3.4) and throughout this chapter, CSR and the other significant determinants of brand value will be classified into these categories: ‘It is important’, ‘overemphasized’ and ‘overlooked’. ‘It is important’ refers to determinants where the results from the statistical analysis showed a variable as significant, and this result was contingent with the opinion expressed by interviewees on that variable during the ‘credibility checks’. ‘Overemphasized’ refers to determinants that were considered relevant by interviewees during the ‘credibility checks’, but that they were not statistically significant in the regression analysis. ‘Overlooked’ refers to determinants that were not considered that relevant for brand value by interviewees, but the results from the statistical analysis show them as statistically significant.

As a side note, Table 20 in Chapter 3 proposed the category ‘it is not important’ to classify the determinants of brand value that were not significant. However, none of the key determinants within the scope of this thesis were classified in this category. Lastly, because of the confidentiality agreements, and following the same approach as in Chapter 4, information from the ‘credibility checks’ is presented without making reference to interviewees or the organizations they
are affiliated with. Likewise, the quotes and information herein presented are not reliant on a small number of interviewees, but they were taken across the whole sample.

The following sections analyze and discuss CSR and the contextualized factors influencing brand value, based on the quantitative approach and the ‘credibility checks’, namely: Company size, counterfeiting, COO, marketing and R&D/Design, consumer-based brand value (energized differentiation, esteem, knowledge and relevance). The findings presented below develop the discussions in Chapters 4 and 5.

6.1 CSR

As outlined in Chapter 5, CSR was statistically significant for brand value. Still, as discussed in Chapter 4, CSR is perceived differently across the luxury industry. There are different levels of CSR implementation within the industry, and luxury brands have different reasons to engage with CSR. Despite these differences, during the ‘credibility checks’, most interviewees believed that CSR does contribute to brand value. Moreover, during the ‘credibility checks’ interviewees highlighted how there is limited genuine interest in CSR within luxury. Interviewees also indicated how CSR relevance can change based on consumer demographics and product category; and how CSR is perceived in the future within luxury. This section concludes with a discussion of how CSR can be pursued in luxury, and lastly, how CSR efforts can be positioned. All these aspects are discussed and analyzed below.

6.1.1 Limited Genuine Interest in CSR within Luxury

During the ‘credibility checks’, some interviewees acknowledged the attractiveness of CSR for their brands, as CSR is something that can result in an economic advantage within luxury and, as stated by Gordon et al (2011), can create differentiation. From a non-luxury perspective, firms need to obtain financial gain (Meyer, 2015), as without revenue they cannot exist. For this
reason, luxury brands can capitalize on CSR pursuits and then use these efforts to increase financial gain.

Given the evidence provided by interviewees, and as discussed in section 4.1.1 in Chapter 4, it appears that CSR implementation within luxury as a whole is still far from ‘more comprehensive CSR implementation’. From the three dimensions of CSR (environmental, social and economic), as discussed in Chapter 4, the luxury industry has a strong connection with the social component and within that, with philanthropy and the arts. This suggests that from the entire spectrum of activities that could constitute CSR, the luxury industry is focusing on the ‘getting started with CSR implementation’ level. Consequently, the industry cannot legitimately claim to be pursuing ‘more comprehensive CSR implementation’ when it is just pursuing the ‘getting started with CSR implementation’ level.

In fact, many luxury brands within the less stringent level of CSR, consider that CSR is just an additional way to traditional marketing to promote their brands. Thus, CSR is seen as a branding activity that drives brand awareness and the dream factor of luxury brands. During the ‘credibility checks’ a stakeholder made this comment:

“You can only get so much share of voice on advertising... people get tired of hearing the same music on the same commercial. On the other hand, going out and evangelizing on relevant brand attributes such as the arts is a way of giving back to the community in a charitable fashion and tax exempt.”

An interesting point made by this interviewee is the argument of ‘giving back’. This comment is in line with Littler (2008) in the sense that brands normally do not talk about what they took away. The comment from this interviewee resembles another comment made by a different interviewee during the initial interviews highlighting the importance of ‘giving back’ (see section 4.1.1). Furthermore, this somewhat cynical comment highlights how luxury brands use the philanthropic component of CSR as an additional way to convey the attributes of their brands, and similarly convey that they are making a
contribution to society by supporting those causes. For this reason, for many luxury brands, CSR is an extension to their marketing strategies. Moreover, this comment implies that brand engagement in philanthropic activities is seen positively by consumers. This is in line with Chernev and Blair (2015), who consider that consumer perceptions can be changed positively if companies engage in CSR actions.

In the particular case of the association of luxury with the arts, there is evidence in the literature showing positive responses from customers to art collaborations undertaken by luxury firms, as collaborations can increase the exclusivity of products (Kim et al., 2014). Nevertheless, as discussed earlier in this chapter, a key consideration is that these actions will only be seen as positive if it is not evident to consumers that they are pursued as a result of self-interest. If consumers perceive that CSR efforts are not genuine, then the positive effects of CSR could decrease (Chernev and Blair, 2015).

To sum up, based on input from the ‘credibility checks’, the adoption of CSR can result in economic benefits for luxury brands. Thus, the main reason why the luxury industry pursues CSR is because of these benefits (as discussed in Section 4.1.1 Drivers), as they seek to maximize the business potential of a brand. With this in mind, it is important that brands move away from this egoistic approach to CSR, so that CSR engagement is not solely driven by how it can benefit a brand, but how it can help the community and the environment where a brand operates.

Irrespective of the motivation behind a brand interest in CSR, luxury managers need to include CSR as part of their corporate strategy. Greenwashing, or self-serving CSR strategies could backfire on luxury as they can open a brand to scrutiny from customers and stakeholders and lead to a less favorable perception of the brand. In contrast, a comprehensive CSR strategy can provide important benefits for luxury brands. The largest luxury conglomerates are aware of the potential that CSR can create for the luxury industry, and as such, these groups already have CSR practices in place which are embedded at the corporate level (Carcano, 2013). It is important to mention that there are many different ways
to approach CSR within luxury. Thus, brands should select an approach that is embedded within their core business (Carrigan et al., 2013). That is to say, brands should align CSR with the DNA of their brands, and with the particular characteristics of their companies (supply chain, distribution chain, environmental impact of their operations, type of customers).

In summary, CSR should be seen as an additional opportunity by luxury managers to create brand value and, therefore, it should not be overlooked. While in previous studies (See: Melo and Galan, 2011; Torres et al., 2012) authors stated that there was an association between brand value and CSR in non-luxury, this research suggests that CSR can also impact brand value in luxury. However, as discussed below, only large luxury brands and a limited number of smaller brands have realized the potential that CSR can offer to luxury brands.

6.1.2 Variation in CSR Interest by Consumer Type

During the ‘credibility checks’ interviewees highlighted that there are differences among consumers in the level of CSR interest they have. These two key differences were higher socioeconomic status, consumer age and product category. The following sections discuss these differences more in detail.

6.1.2.1 Differences by Socioeconomic Level

To illustrate how consumer interest can change, depending on socioeconomic level, an interviewee from a brand engaged in precious gemstone supply stated:

“CSR has an increasingly important role to play. I think it is something that comes with increased levels of sophistication and affluence... it is something very wealthy people really think about... You do not see it so much in China, India or newer markets ... The most sophisticated the consumer, the more likely it is that they are going to care about that... It is going to trickle down and it tricking down as people become more concerned about the origins of everything they consume.”
This comment suggests that, within luxury, consumer interest in CSR is not homogenous, as luxury brands have consumers with different levels of CSR interest. This differentiation within consumers creates challenges for luxury brands, as they need to be able to meet the expectations of all; from those with a high interest in CSR to those with no interest in this area.

Based on the input received from interviewees, it appears that interest in CSR is higher in more affluent consumers from traditional luxury markets, than from those in newer markets. However, an important consideration not included in that comment is that luxury is becoming more accessible. As such, the level of ‘sophistication’ of a significant proportion of luxury consumers is low, something that may influence the relevance of CSR within luxury.

Something to note is that despite the interest of wealthier consumers in CSR, it is still important to recognize that even within that ‘wealthy and sophisticated’ group, not everyone considers CSR important. For instance, another interviewee stated:

“The higher end consumer, not the majority, care a lot about the environment and social responsibility, and if they are paying $400 for a pair of gloves or $2,000 for a bag, they expect that the workers who are creating the item for them and the goods associated with them are done in an environmental and sustainable way.”

The previous comment stresses the relationship between higher socioeconomic status and increased interest in CSR. However, the comment also suggests that given the high premiums paid in luxury, wealthier consumers expect that luxury brands have a basic level of CSR standards. As a result of this, it is essential that all luxury brands have a minimum acceptable level of CSR practices in order to meet the expectations from this type of consumers, which constitutes their most profitable segment group (Husic and Cicic, 2009).

A further consideration is that research shows that consumers are likely to perceive a brand more favorably if they are able to formulate objective performance-related evaluations on the products they buy (Chernev and Blair,
2015). To clarify, such evaluations refer to how well products perform. As an illustration, when luxury brands engage in ‘more comprehensive CSR implementation’ such as sourcing long-lasting environmentally friendly materials, or ecodesign; consumers could evaluate brands more favorably as these features would increase the performance of these products.

Moreover, it is important to take into account that there are luxury consumers who are not necessarily interested in CSR, or try to avoid CSR (Gardetti and Torres, 2014; Singh et al., 2008). Nevertheless, most consumers, even those who do not care about CSR or try to avoid it, are likely to change their brand perceptions and consumption patterns if they find out that a brand they use engages in irresponsible practices (Kapferer and Michaut, 2015). A stakeholder made a comment in this direction during the ‘credibility checks’:

“You do not use child labor in Bangladesh because you are not supposed to make goods in Bangladesh...they [luxury brands] do not want to indicate that they are involved in those countries. People are not considering them as part of their dream. You dream about I wish I lived in Paris... I want to buy a bag that reminds me of France and I do not want to turn it into any of those questions.”

This comment recognizes that while luxury needs to have CSR policies in place; the action of proactively discussing CSR issues with luxury consumers may negatively influence the dream factor that luxury brands want to build around their offerings. An additional point made in this comment is that this stakeholder is suggesting that luxury brands engage in poor CSR practices but they just withhold this from the public. This is something that raises questions about the level of transparency and veracity of disclosed CSR practices by the luxury industry. Furthermore, it is important that brands have a minimum acceptable level of responsible practices within luxury, especially when a brand is engaged in the production of goods that can be associated with unethical or irresponsible practices, such as sourcing goods from poor countries.

In summary, despite the growing relevance of CSR within luxury; based on the tone of the comments made by some interviewees during the ‘credibility checks’
there is a level of cynicism or incredibility towards the current status of CSR within the industry. However, from a consumer perspective, although many consumers are not interested in CSR and see CSR as a minor consideration, they are not likely to ignore CSR-related issues, as they have latent expectations about CSR (Kapferer and Michaut, 2015). Similarly, CSR is expected by consumers placing stronger emphasis on sustainability when evaluating products (Chattalas and Shukla, 2015), and by consumers who are becoming more sensitive to CSR issues (Janssen et al., 2013). This suggests that even if it is for preemptive reasons, all luxury brands need to implement CSR practices. This is especially important if the brands are within a category subject to a higher level of scrutiny from consumers and stakeholders. Likewise, in order to meet the expectations of consumers interested in CSR, luxury brands also need to engage in more stringent CSR practices. By doing so, luxury brands will not only be making a commercial-based decision but a social and environmental contribution.

6.1.2.2 Differences by Consumer Age and Product Category

As discussed in the previous section, brands need to manage different consumer expectations with varying interest in CSR. A further consideration not explicitly raised by interviewees is that consumer perceptions of CSR are likely to change by product category. According to Janssen et al (2013), this perception is affected by how ephemeral or scarce a luxury product is. For instance, a pair of sunglasses which is likely to be used for just one season will not be perceived as sustainable as a diamond ring that may be used for a whole life. For the sake of clarity, sustainable, in this case, means that a diamond has a longer life span than a pair of sunglasses; and due to that scarcity, that ring is not likely to be disposed of or replaced as a ‘more ephemeral’ pair of sunglasses. Thus, as suggested by Janssen et al (2013), luxury brands need to manage CSR based on product category. This suggests that while CSR has characteristics in common across all luxury categories, its elements need to be emphasized differently. Consequently, CSR would need to be managed differently by a brand producing diamonds than by a brand producing sunglasses, leather bags, or wine. Carcano (2013) states that the jewelry segment is pressed by ethical standards while the
wine segment can be more affected by environmental issues such as climate change.

During the interviews, interviewees referred to various category-specific CSR issues within luxury. Interviewees from jewelry brands highlighted the importance of using certified diamonds, to ensure that they were not sourced from areas in conflict. An interviewee from a brand producing wool, cashmere and vicuña products stated how they worked with local producers in South America to ensure the sustainability of their raw materials. A similar comment was made by an interviewee from a gourmet company, which years ago started collaborating with farmers to increase the quality of their coffee, while paying farmers more competitive prices.

Given the input from the interviews, brands associated with products susceptible to CSR-related scandals or boycotts (such as blood diamonds) appear to be more forthcoming about CSR. Other brand categories, such as those involved in fashion or accessories are less forthcoming about CSR, as their products are not in the public eye. As discussed by Janssen et al (2013), there have been high-profile scandals within luxury, spanning from blood diamonds within jewelry, or bad employee treatment at luxury stores; to exploitation of illegal immigrants in Italian factories manufacturing clothes. Thus, while these scandals are different in nature, and they do vary by luxury category, all of them can have an impact in brand reputation and consumer demand.

Furthermore, another factor affecting consumer interest in CSR can be the age group consumers are in, for example, baby boomers, generation x, or millennials. For instance, younger consumers are more likely to be interested in CSR than the older generation of luxury consumers. To elaborate on this topic, an interviewee from an emerging luxury brand, stated:

“[Millennials] demand that the companies they love have good manufacturing processes and that their purchases have a real purpose. So there is a shift from conspicuous consumer to conscious consumerism.”
This comment is in line with Carrigan and Attalla (2001) who stated that younger consumers seems to have stronger ethical views than other consumer groups. Still, this comment also denotes that there is a contradiction between short-term and long-term consumer demand in terms of CSR; as at the present time, the younger generation is not the main focus of luxury brands given that this generation is not the most important segment in luxury from a revenue perspective. Thus, based on consumer demographics, luxury brands do not have an incentive to incorporate CSR features into their products and services in terms of consumer demand.

An additional consideration regarding age is that research suggests that not only the younger generation is more open to CSR. Carrigan et al (2004) consider that over 50 year old consumers are also sensitive to incorporating CSR into purchasing behavior. As stated by Sudbury Riley et al (2012), there is a potential market opportunity in targeting senior consumers, as they may react positively to CSR initiatives.

Likewise, another stakeholder agreed with this view by stating that CSR:

“Is becoming one of the pillars that you will not compromise on consumers in the future, especially for millennials who are even more socially conscious than baby boomers.”

It is interesting to note that this point disagrees with a study conducted by Kapferer and Michaut (2015) who state that the older a consumer, the less contradiction they will see between luxury and CSR. It is important to realize that this study was conducted in France, and it does not necessarily reflect the attitudes of the American market, on which the majority of this thesis is based. Still, the important question is not about whether consumers see a contradiction between luxury and CSR. As it has been discussed throughout this thesis, there are many commonalities that make CSR and luxury compatible. Thus, the key point to remember is that, based on the input received during the ‘credibility checks’, CSR is something that younger consumers may be sensitive about within luxury.
Moreover, with respect to consumer age, the literature discusses that younger consumers seem to be more interested in rational concepts than in emotional ones; and as a result, brands are having challenges in creating an emotional connection with younger consumers (Godey et al., 2013). Hence, it appears that the efforts of luxury brands to build this emotional relation have not been successful.

To recap, young consumers may not be a short-term priority for many luxury brands, as they do not drive revenue. However, with the long-term vision of luxury in mind, the industry needs to be aware of the fact that CSR creates an opportunity for luxury brands to shape perceptions into more rational concepts. For example, instead of emphasizing the self-gratification side of luxury, brands could also add a CSR angle and highlight the CSR attributes of a brand or product (Chernev and Blair, 2015). Accordingly, CSR can create value through reputation enhancement (Mishra, 2015), as long as it is not perceived as self-serving and it seen as genuine by consumers (Chernev and Blair, 2015).

### 6.1.3 CSR Perception in the Future

Considering that luxury is about long-term planning, it is important to explore how CSR is likely to be perceived in the future.

An interviewee from a well-known luxury brand stated that:

“CSR contributes to brand value at the moment but its importance can increase, as we have a lot of room to go.”

Along the same lines, another interviewee from a smaller luxury firm indicated that CSR:

“Will become more and more impactful. It may have a higher consideration for the purchase, but also for the loyalty of the brand as well.”

These comments acknowledge four key ideas. First, CSR is recognized as a creator of brand value, which is in line with the literature (Liu et al., 2014).
Second, CSR is still not as relevant as it could be; and it is not demanded enough by luxury consumers and it is not a priority for luxury brands. Third, CSR may become a discriminator to make purchasing decisions, and may influence consumers to become loyal to socially responsible brands. Moreover, because of CSR demand and external pressure from stakeholders and regulators, luxury companies may be forced to adopt CSR. However, even if luxury brands adopt CSR because of being forced to do, this could create brand value for them, as long as they: Do it early enough to mark differentiation within the industry; use a holistic approach to implement it across their organizations; and communicate it appropriately. Thus, their efforts would not be perceived by consumers and stakeholders as self-serving or greenwashing.

It is important to note that full-scale implementation of CSR is a long-term endeavor, as it is a complex process that may need to be reviewed/calibrated periodically. Luxury brands need to ensure that CSR is meeting the desired goals of the program. Additionally, CSR needs to be aligned with the DNA and long-term vision of the brand, together with the prevailing economic, social and political conditions. With this in mind, in order to increase the benefits of their CSR efforts, luxury brands could even collaborate with trade groups, the government and consumers to develop CSR practices aimed at the entire luxury industry (Godart and Seong, 2014). As a result, by collaborating together with these groups, the industry will be making a more meaningful contribution to the communities where they operate.

Another key point on the role of CSR in the future is that despite its expected importance, it is likely that the influence of CSR as a determinant of brand value will decrease. On this scenario, a stakeholder elaborated the following:

“In the future, the effect of CSR may be more muted as it would be the expectation...there will be much more transparency that people will start thinking that everyone is doing a very good job and will be harder to make a difference and stand-up.”

This long-term scenario, which is likely to happen only when the adoption of CSR becomes more widespread within luxury, implies that CSR will no longer be a
differentiator, as CSR would be a minimum requirement that every single luxury brand will need to have to be able to trade. Still, even in this scenario of widespread CSR adoption, luxury brands will have the possibility to excel by setting more ambitious goals and more rigorous benchmarks than other luxury brands. For “best in class companies, sustainability is an important part of their strategic management approach” (Carcano, 2013, p. 49). As such, best in class brands can keep their edge by keep raising the bar with more stringent CSR practices.

Another consideration emerging from the ‘credibility checks’ is that the adoption of CSR is not straightforward, as there is not a one-size-fits-all approach for CSR implementation. An interviewee from a luxury brand with over 100 years of existence considered that the relevance of CSR is company-specific. The interviewee stated:

“CSR is a relatively new concept for most corporations and individuals to really understand it... CSR per se is not a definitive additive or a plus for all companies, but [at our company] it has the potential to grow in its importance.”

The implication of this is that companies need to master the concept of CSR and its different dimensions, together with the best practices in terms of implementation and reporting. It is only at the moment when luxury companies really understand CSR that they will be able to implement it across their organizations and educate their staff and consumers about it. Consequently, it is at that moment when luxury brands will be able to create brand value from CSR.

A further factor to take into account is that, despite its strategic importance, CSR cannot be considered a substitute of other key value determinants in luxury. A stakeholder from a global consulting firm specializing in brand value stated:

“CSR help people realize who you are and what your character is. If the company does not make wonderful and beautiful and compelling products, no one is going to buy any of their products. But there is
probably a marginal difference that CSR could have on business performance...marginal benefits, not a big business driver.”

This comment reinforces the notion that CSR in luxury is motivated by a need to do it rather than a wish to do it. However, as discussed above, as long as it is implemented holistically across an organization and it is communicated in the right way, CSR is likely to increase the brand value of luxury brands. Another point to consider from the previous comment is the negative and rather simplistic tone towards CSR. However, this comment is only based in a short-term vision of CSR and luxury, and it reflects the low demand that CSR still has in the luxury marketplace. Thus, the comment is not reflecting the long-term vision that both luxury and CSR require.

An additional consideration captured in the previous comment is that brand value is multi-faceted, and is not solely dependent on a single determinant. Therefore, even if a company has the best CSR practices in place, if they do not have an excellent product and provide an excellent customer experience, then their stringent CSR standards would be irrelevant. However, if a brand has the best product and the best experience, but it has terrible CSR standards, then it risks a reduction in its brand value.

**6.1.4 How CSR Can Be Pursued in Luxury**

As discussed in section 6.1.2.1, luxury brands need to have a minimum level of CSR implementation in order to avoid potential issues with stakeholders and consumers. Certain luxury brands may decide that ‘more comprehensive CSR implementation’ is the path to follow for them. Thus, they may decide to go the extra mile and implement more stringent CSR policies and practices across their organization. This can be further explained by Crane (2005), who proposes two ends for firms to position their CSR undertakings. At one end, is the lowest level of CSR implementation (D), where brands only need to have policies that are strong enough to address basic stakeholder or consumer concerns on CSR. At the other end, is the highest level of CSR implementation (A), where brands will
make a strong CSR proposition by pursuing a more comprehensive approach towards CSR. Figure 15 below illustrates these two ends.

For example, Cartier stakeholders could put pressure on the brand to only use Fairtrade gold in its jewelry and if Cartier does not do it, they could initiate a negative PR campaign or even try to organize a boycott of the brand. In this case, Cartier could decide to meet stakeholder concerns and find a compromise related to how they source the gold they use in their products. That would not be first time the brand participates in this type of initiatives. In fact, Cartier has been a participant of the Kimberley process right from its inception in 2003 (Cartier, 2016).

It is important to note that addressing such types of stakeholder concerns would result in positive brand contributions towards CSR, but by no means, if implemented, these actions would imply that a brand is making a strong CSR proposition. To make a strong proposition in terms of CSR, the brand would also need to have more comprehensive policies where CSR is fully implemented and becomes part of the brand proposition. In other words, if Cartier decides to make a strong CSR proposition, CSR would need to be made an integral part of the brand and CSR would be integrated into its DNA.
Nevertheless, these end points are the highest and lowest levels of implementation that luxury brands can have in terms of CSR. This is to say that luxury brands can position their CSR undertakings anywhere across these points. For instance, a brand that wants to avoid any potential scandals related to its supply chain, but that wants to implement some random environmental and social programs, could position itself in the center of the line; while a brand that wants to fully insulate itself from potential scandals may position itself somewhere in the first quartile of the line (between positions A and B).

It is important to note that irrespective of where in Figure 15 a brand positions its CSR efforts, CSR efforts should be consistent with the DNA of the brand. If a brand decides to approach CSR by addressing basic concerns (position A), then there is no need for that brand to showcase itself as CSR responsible. Similarly, the brand will not need to ensure that all its touchpoints with customers and stakeholders incorporate CSR considerations. In contrast, if a brand positions itself at the other end of the spectrum (position A), the brand will need to be bold about CSR and make sure it becomes an integral part of everything it does. In summary, it is essential that the DNA of a brand and its CSR strategy are consistent. In case these two factors are not consistent, then luxury brands need to ensure they align them, by either modifying their CSR strategy, or by redefining their brand DNA.

An additional consideration regarding CSR implementation is how luxury brands should select which of the CSR issues demanded by consumers and/or stakeholders they need to address (Crane, 2005). To explain, if Cartier has two consumer groups influenced by stakeholders (e.g. non-profit organizations) with different CSR interests, one demanding the use of Fairtrade gold, and another one the creation of jewelry workshops in Africa to support the communities where metals and gemstones are sourced, which group should Cartier listen to?

According to Crane (2005), brands should follow their own instincts and leadership drive to make such decisions, instead of taking a consumer-led approach. In his view, doing so creates a more stable approach to CSR, as brands would not be subject to fluctuating market conditions. This approach is
contingent with Kapferer’s anti law of marketing of not pandering to customer’s wishes (Kapferer, 2009). Luxury is all about the long-term and, therefore, CSR implementation should be conducted based on this long-term approach. At the same time, even when brands should make their own decisions regarding CSR, it is important that they do listen to regulators and stakeholders as they can have a more legitimate mandate to influence CSR priorities (Crane, 2005).

Additionally, in terms of collaboration to drive CSR implementation and consumer awareness within luxury, brands can work together with policy makers and stakeholders to achieve this. Thus, through regulation, the voluntary adoption of stringent CSR policies and practices, tax incentives, or public programs aimed at increasing CSR awareness among consumers, luxury brands can make a stronger contribution to CSR.

According to D’Souza et al (2011), there has been an increase in the use of voluntary policy schemes trying to implement more sustainable consumption. Examples of these efforts include the Dutch Funds Scheme, a tax incentive to promote environmentally friendly products; or the UK’s Department of Environment, Food and Rural Affairs calculator to assess the sustainability of selected products (Ibid, 2011), and global certification schemes such as the ones set by the Responsible Jewelry Council where top jewelry and mining brands work together to bring standards to their supply chain (Carrigan et al., 2016).

In addition to voluntary schemes, there have also been developments in CSR-related regulatory efforts. Examples of these efforts include the European Union (EU)’s Waste Electronic and the EU Electrical Equipment Directive, the Packaging and Packaging Waste Directive (D’Souza et al., 2011), the Modern Slavery Act 2015 for firms operating in the UK (UK Government, 2015), and Directive 2014/95/EU on Disclosure of Non-Financial and Diversity Information by certain large companies. As part of this directive, by 2018, thousands of companies with over 500 employees will need to report on environmental and social issues, including employee-related human rights, anti-corruption, and social and environmental policies (Global Reporting Initiative, 2015).
The previous examples illustrate how there have been increasing pressures on companies to become more transparent and socially responsible, and how luxury brands cannot longer ignore CSR issues. As a consequence, luxury brands have two options, to be proactive and implement CSR policies and practices in anticipation of future regulation or future industry standards; or to risk a decrease in their brand value by waiting until comprehensive CSR standards become mandatory and/or they are widely adopted to start implementing them.

Earlier implementation of stringent CSR policies and practices is something that all luxury brands should consider, as it can give luxury brands an economic advantage and an edge over their competitors, as they would be able to better anticipate to future regulatory and industry changes. As an illustration, Emporio Armani, which currently manufactures some of its clothing lines and product components in non-EU countries is indirectly subject to REACH, an EU regulation aimed at reducing the risk posed by chemicals on humans and the environment (European Chemicals Agency, 2016). In this case, if Emporio Armani had implemented a proactive approach and had stringent CSR policies limiting the amount of chemicals used in its beauty products or in the fabrics it uses; then, once the REACH Directive came into force, the brand would probably not have had to make significant changes to its processes regarding chemicals. A proactive CSR approach would have given Armani a competitive advantage over other luxury brands that would need to make considerable investments and changes to their processes to comply with the new regulations.

The previous example can be expanded to any other area within CSR; including worker’s rights, energy use, solid waste, use of recycled materials, decreased greenhouse gas emissions, and CSR reporting. If luxury companies are ahead of the curve in CSR implementation, it is likely that they will also be ahead in the event that any of the voluntary CSR policies and practices they undertake become mandatory or widely adopted in the future. Accordingly, from this perspective, CSR implementation is not only something good for the environment and society but for luxury brands themselves, as it can allow them to anticipate future changes and give them a competitive advantage within the crowded luxury marketplace.
An implication of this for the industry is that it is critical that all luxury brands have some type of CSR standards. CSR standards can help avoid potential reputational damage if something goes wrong at the brand level. In addition, they can help to anticipate future regulation, industry standards, and expectations from consumers and stakeholders. Similarly, luxury brands need to balance their CSR efforts and the information they provide about CSR in order to meet the expectations of their consumers interested in CSR, but also their consumers not interested in CSR.

### 6.1.5 Positioning of CSR Efforts within Luxury

In section 4.1.2 in Chapter 4 was discussed and analyzed how CSR is approached by luxury brands, and in the previous section how CSR can be addressed by these brands. According to Crane (2014), CSR efforts can be positioned in four main groups: Ethical/CSR niche, CSR orientation, cost focus and cost leadership. However, based on the input from the ‘credibility checks’, none of the four categories proposed by Crane are fully aligned with how luxury brands position their CSR efforts. Thus, a fifth category, ‘CSR as a branding activity’ is proposed in Figure 16.

Following Crane (2014), **CSR niche** applies when a brand decides to fully implement CSR across the entire organization. Given that the main goal of these brands is to satisfy a niche group of consumers, they are generally smaller in size. Brands focusing on **CSR orientation** have CSR considerations within the brand, such as CSR policies for suppliers, or the use of environmentally friendly materials. These brands see their CSR efforts as either; an important part of their business, or as an add-on that can help them differentiate themselves.

For the most part, brands that adopt this positioning will not position their products based on CSR or would make CSR a key part within their selling proposition. A key difference between brands with CSR orientation and those with a CSR niche is that the former have a broader market and are larger in size. Therefore, brands with CSR orientation use CSR as one of many factors to create...
differentiation. With respect to cost focus, this positioning relates to brands that do not seek any positioning within CSR, but instead, pursue CSR efforts because of cost considerations. For example, brands that reduce their energy consumption due to cost cutting approaches, instead of the environmental benefits this can provide. Luxury brands can also place themselves in a cost leadership positioning, which is characterized by the pursuit of pre-empting efforts to anticipate regulatory change. For example, if brands become aware of upcoming standards for company-related GHG emissions, or if legislative proposals to increase the minimum wage are under way; then brands can anticipate these changes by implementing them first. Hence, they could be more competitive. Lastly, luxury brands can position their CSR efforts as a branding strategy, a category proposed by the researcher, but that shares common elements with Crane’s categories. Under this approach, luxury brands can implement CSR activities ranging from a ‘getting started with CSR implementation’ level to a ‘more comprehensive CSR implementation’ level. Consequently, their CSR pursuits may be aimed at creating differentiation for the brand (in the case of more comprehensive approach) or reducing costs (in the case of a less comprehensive approach to CSR). The key characteristic of this strategic positioning is that luxury brands will use their CSR efforts as an additional way to promote/market their brands in order to drive awareness and help fuel the dream factor of a brand.

It is important to highlight that irrespective of the CSR positioning a brand chooses to have, there are advantages associated with CSR adoption. These advantages range from reducing current and future costs; to gaining and keeping consumers interested in CSR consumption, to providing an additional competitive advantage to luxury firms.

Based on the interviews and the ‘credibility checks’ conducted for this thesis, most luxury brands appear to be pursuing actions related to the branding strategy positioning. For most luxury brands, their CSR efforts are not substantial and, for instance, are generally limited to a handful of initiatives, mainly within philanthropy, but not within the rest of the social and environmental dimensions of CSR. By pursuing philanthropy brands can
reallocate funds from marketing expenses to philanthropy, so that they can promote their brands, drive awareness and help fuel the dream factor of their brands. At the same time, brands can claim that they are being socially responsible by getting reductions in their tax bills.

Moreover, luxury brand efforts within CSR can be considered self-serving as they are generally conducted as an economically effective way to create awareness and promote their brands, and not because a legitimate interest in CSR. With respect to the largest luxury conglomerates (LVHM, Kering and Richemont), McEachern (2015) considers that CSR activities are generally limited to leading brands. Thus, these large conglomerates appear to be moving towards a CSR orientation positioning, as they pursue a more comprehensive approach to CSR. However, large conglomerates still they do not position CSR as a fundamental part of their brands and embed CSR in their brand DNA.

**Figure 16: Strategic Positioning of CSR Efforts**

To recap, luxury brands can address and position their CSR efforts differently. Therefore, what is important is that they align their perception of CSR with the perception of their customers, and/or use upstream, downstream, approaches to drive CSR awareness and align those perceptions, depending on how they want to position their CSR efforts and the benefits of CSR implementation they seek.
However, with a view to the future, it is important to add that as CSR becomes more and more relevant within luxury, it is likely that luxury brands will move from a branding positioning approach into CSR niche or CSR orientation. This implies that the luxury industry, as a whole, is likely to have a higher level of CSR implementation than what it has today.

In conclusion, as stated in the Introduction to this thesis, one of the objectives of this research is to understand what is the role of CSR in luxury and how it creates brand value. The results from the ‘credibility checks’ discussed above suggest that CSR is a contributor to brand value in the industry. In addition, the role of CSR within luxury is currently seen as a branding strategy to drive awareness and the dream factor of brands. Also, the results from the statistical analysis indicate that CSR is associated with how investors perceive a firm. Depending on the level of CSR implementation, luxury brands can be seen more or less favorably by investors, but also by stakeholders and consumers.

Regardless the strategic importance of CSR, at the present time, CSR is just another ‘tool’ within a ‘toolbox’ called brand value. Thus, CSR forms part of a larger group of determinants that, managed together, influence brand value for luxury brands. The following sections analyze and discuss these other ‘tools’ namely: Company size, COO, marketing and R&D/Design, energized differentiation, esteem, knowledge, and relevance; and discuss the challenge of managing them given the existing differences in luxury.

### 6.2 Brand Size

During the ‘credibility checks’ phase of this thesis, the overall opinion of interviewees was that brand size matters in terms in brand value. Interviewees’ opinions were in line with the results of the statistical analysis, which also showed that brand size, measured as number of employees, was relevant for brand value. While it is possible to conclude that brand size is important for brand value (Besharat and Langan, 2014; Moura-Leite et al., 2014), it is appropriate to explore this topic further, so that the implications of brand size for brand value can be better understood.
The first theme emerging from the ‘credibility checks’ is that company size creates advantages including increased awareness, change perceptions, and the possibility of being more conservative in their approach. The second theme is that large does not always mean best, as there are advantages associated with small brand size. These themes are analyzed and discussed below. These two themes provide additional insights to the discussion in section 4.3.2.1 which highlighted how brand size can influence marketing, can allow brands to have larger markets, and a better ability to provide better products and customer experience.

### 6.2.1 Increase Brand Awareness, Change Perceptions and Ability to Be More Conservative

An advantage of being a larger brand, as highlighted by interviewees, is that it allows brands to change perceptions. An interviewee from an emerging firm mentioned the cases of Alexander Wang and Dior. In the interviewee’s opinion, Alexander Wang [a niche fashion brand] was able to build a reputation with a loyal customer base over a 10-year period. In contrast, two years after engaging Raf Simons at Dior [its former creative director, who replaced John Galliano] Raf was able to ‘change everything’ at the company.

The previous comment stresses how brand size makes it easier for large brands to change perceptions, which is something supported in the literature. Consumer perceptions of a brand are correlated with brand size, which suggests that larger brands are evaluated more positively than smaller brands (Dall’Olmo Riley et al., 2014). Still, something this argument does not capture is the long-term perspective of luxury brands. For instance, in the case of Dior, the brand was able to change perceptions with its new creative director, but, conversely, this new director had to keep loyal to the DNA of Dior.

An additional benefit of being a large brand is that larger brands are able to be more conservative in their approach, as stated by an interviewee from a French couture brand:
“If we try something and do not succeed, we do not necessarily resort to activities that could denigrate or reduce the brand value.”

There are many practices in luxury associated with brand value dilution, namely discounting items, selling licenses to third parties to manufacture brand products, or expanding brand distribution networks to less selective channels (Kapferer, 2015). While most of these actions could help a brand in the shorter-term with increased cash flows; in the longer term their brand value could dilute, leading to a potential failure of the brand.

As discussed above, brand size can create a competitive advantage in luxury, given that it can help to create awareness, change perceptions, create access to more business opportunities and, similarly, give brands the ability to pursue strategies that are not detrimental to brand value. Still, while larger brands have more employer capacity, larger facilities and operations (Teti et al., 2014) than smaller brands, brand size per se is not a recipe for success. As stated by Macchion et al (2015b), company size is not the most important element that brands need to consider in terms of competitiveness.

The previous point can be illustrated by Gucci’s case. After Tom Ford’s departure, Gucci saw a decline in sales and faced an identity crisis. Because of the negative results, Gucci had to replace their CEO and creative director at least twice. Now, with a new creative director and CEO since early 2015, the brand is trying to reposition itself with a new store concept, faster turnaround collections and a new design approach (Binkley, 2015). Thus, this is a clear example that even for Gucci, which is one of the largest luxury brands in the world, success cannot solely be based on brand size. The implication of this finding for brand managers is that while brand size matters for brand value, brands should not assume that because their brands are large, they will always stay the same without leveraging them.

As discussed later in this chapter, brands need to make sure they provide an excellent product and an excellent customer experience in order to continue to thrive. Being a large brand in itself is not a guarantee of higher brand value in
the long-term. Similarly, an additional outcome is that smaller brands should not be concerned about investing in their brands, just because they are smaller and do not have the same audience as larger brands. Ultimately, one of the most important differentiators in luxury is not company size, but the ability to offer excellence.

6.2.2 Large Does not Always Mean Best

As discussed in the previous section, brand size can provide multiple advantages to luxury brands. Still, as addressed in section 4.3.2.1 brands do not need to be large to be able to grow and succeed. In addition to growth, during the ‘credibility checks’, interviewees identified additional reasons where smaller brands can have advantages over large brands.

One of the advantages that smaller luxury brands have over larger luxury brands is that it is easier for them to have a closer relationship with the customer. In the ‘credibility checks’, a stakeholder mentioned that sometimes it was easier for smaller brands to create intangible value as they could have more personal relationships with customers or their brands could be more customized. The interviewee added “if we calculate the ratio of intangible value by total value of a company, smaller companies could get higher results and, therefore, a greater brand value than their larger competitors”. The same could occur if brand value is calculated taking into account invested capital. Accordingly, being able to offer customized relationship experiences is a contributor to brand value, and it is increasingly becoming more important due to social networks (Schmitt et al., 2014).

An interviewee from a prestigious niche brand considered that “being big or small is not an important factor, but whether there is value”. This opinion is certainly related to their own brand experience, as this brand is highly recognized within luxury despite that they do not belong to a luxury conglomerate, as it is a family-owned brand.
Another advantage of being a small brand emerging from the ‘credibility checks’ is, as stated by Carrigan et al (2011), that smaller brands are more nimble and they can respond more quickly and efficiently to the needs of their customers. Also, if an opportunity arises within their means (or budget), smaller brands can move faster as they do not have the red tape usually found in larger luxury brands. This comment is in line with Stabilini and Belvedere (2014) who recognize that smaller brands have more flexibility to make decisions. An additional aspect not mentioned in the literature is that, irrespective of the potential flexibility that smaller brands have to adapt and take advantage of opportunities, they still need to convey a consistent message which must be in line with a brand’s DNA. Hence, it is not just about being nimble and moving faster, but pursuing opportunities that are aligned with the brand’s values and heritage.

An additional consideration raised by interviewees is related to the super luxury segment. An interviewee working for a brand catering to the super rich, complemented the views expressed by other interviewees by stating that small companies involved in the super luxury market had an advantage over large luxury groups as they can be more successful in that market segment. These types of small firms have the ability to produce a limited supply of handcraft goods that due to their high-quality and ‘scarcity’, are highly appealing within the super luxury segment. For this interviewee, what is important is to “build a targeted image for the right customer”. Likewise, small luxury companies can also build brand value within their categories if they focus on a niche where there is little or no competition. This finding is in line with Kapferer (2015) who consider that the super-rich favor brands that are less visible.

As shown above, it appears that expanding a brand beyond a certain point can dilute brand value. Regardless, in absolute terms, brands are able to keep their brand value and even increase it, due to economies of scale. Economies of scale are relevant within luxury, as long as this does not create ubiquity and have a detrimental effect on the quality of the product. For example, it certainly makes business sense for a brand like Louis Vuitton to be able to decrease the production cost of a bag from $600 to $500 due to economies of scale. Assuming
that Louis Vuitton sells just one bag per day, at each of their 460 stores, Louis Vuitton would be saving $46,000 per day, which represents over $1.3 million in a month.

In terms of ubiquity, Som and Pape (2015) exemplify this situation by indicating that when a brand like Hermès detects that a product has become too successful, they decide to stop selling it, in order to control growth. The entire point is to try to avoid becoming ubiquitous. As stated by Sun et al (2015, p. 90): “The more ubiquitous a brand becomes, the less it marks an individual as distinct” In their view, if everybody owns their products they become meaningless from a ‘distinct’ perspective (ibid, 2015).

Still, there are instances where the effect of a brand being ubiquitous may not be perceived in the short-term. Kapferer (2012) argues that even when most office workers in Tokyo own a Louis Vuitton product, the brand is still regarded as the most luxurious in the country.

In short, there seems to be consensus among interviewees that brand size can help create and maintain brand value in luxury. At the end of the day, the luxury market has been consolidated, and now it is a “brand driven economic sector led by the vision of luxury conglomerates” (Seo and Buchanan-Oliver, 2015, p. 92). Nevertheless, an important outcome derived from the ‘credibility checks’ is that smaller brands also have advantages, as it is easier for them to have a close relation with their customers, to be more nimble, and to access niche markets, such as the superrich segment.

Another interesting point is that brand value estimates could be subjective, and they should not be interpreted in absolute terms. Brand value for larger luxury firms will be larger if measured as total brand value; but not necessarily if measured as a ratio in terms of assets or invested capital. The implication of this finding for luxury brands is that it is important to balance growth prospects with the ability of maintaining uniqueness, an edge on customer relations and controlling brand exposure.
6.3 Controlled Distribution

In the statistical analysis, fully controlled distribution was correlated with the luxury construct, which is a contributor to brand value. During the ‘credibility checks’, interviewees considered that fully controlled distribution was relevant for brand value in luxury, but it was not essential. This divergence between the findings from the statistical analysis and the ‘credibility checks’ suggests that controlled distribution may be overlooked by the industry. Thus, the industry recognizes the importance of controlled distribution, but in reality, it is not considered as important as it should be.

The emerging themes from the ‘credibility checks’ were that while fully controlled distribution can help a brand control the experience and create a competitive advantage; that it is not essential, given that brands can find reliable partners; and adopting fully controlled distribution could reduce access to opportunities within the industry. These themes complement the findings from section 4.3.2.2, in the sense during the qualitative interviews, interviewees focused on the disadvantages of not having a full control model, and highlighted how being consistent and having capital control was more relevant within luxury than fully controlled distribution. Since section 4.3.2.2 addresses how controlled distribution helps create a competitive advantage, this theme will not be analyzed again in this section. Following, there is an analysis and discussion of the remaining themes.

In the ‘credibility checks’, and as mentioned above, interviewees did not provide support for a fully controlled distribution model. Instead, they suggested that a controlled distribution model was more appropriate. To clarify, fully controlled distribution refers to selling exclusively through the stores owned by a brand, which are managed and manned by the brand itself. Conversely, controlled distribution refers to offering brand products through own stores (like in the case of fully controlled distribution), but also through selected third parties, which need to meet brand-specific criteria such as pricing, display, or store design to be able to enter into third-party agreements with the brands they sell from. It is important to acknowledge that a fully controlled
distribution model is expensive to run and implement, as only a few companies can afford it (Kapferer, 2009). That could be the main reason why interviewees advocated for a less controlled distribution approach during the ‘credibility checks’.

A stakeholder stressed the non-essential nature of controlled-distribution in luxury, given the difficulty in trying to ‘control everything’:

“If they do a good job in managing their image, it is helpful, but not essential. You cannot always control every aspect of your brand...it is just not possible. Sometimes it may be helpful to have partnerships with for example a retailer that can actually help your brand.”

The implication of this comment is that having fully controlled distribution could limit growth and access to opportunities to develop a brand. In contrast, the literature supports the notion that full control can help provide a brand experience (Ijaouane and Kapferer, 2012). However, interviewees stressed that it was possible to keep control as long as the distribution channel chosen by a brand respects the brand’s essence. An interviewee from a luxury brand with over 100 years in the market added:

“Those [brands] who are vertically integrated have greater control and consistency globally... They can have greater brand value because of that consistency or globality... it is about ensuring consistency.”

Additionally, interviewees who disagreed with fully controlled distribution emphasized how it was possible to find reliable partners within luxury. An interviewee from a French luxury brand stated:

“I think there are some distribution channels who are more trustworthy and have a history of operations that are in support of protecting the brand value that can be good partners.”

Thus, what is important is not a fully controlled distribution, but to be able to offer brand ‘consistency’ by working with partners who ‘respect the brand’. An example of how luxury brands can cede some control to reliable partners is Yoox Net-a-Porter Group. Yoox has infrastructure in place to sell online and distribute products in 100 countries. Yoox has agreements with prestigious
names in luxury including Valentino, Dolce & Gabbana, Armani, or Saint Laurent (YOOX Group, 2015) to sell and distribute their products online, through mono-brand stores. This illustrates how teaming-up with partners can help them develop their brands and increase market share, given that it would be difficult for these brands to create the infrastructure to achieve the same results on their own.

It is important to note that some of the brands with agreements with Yoox are owned by large luxury conglomerates such as Kering, the owner of Gucci. However, Gucci, which is Kering’s most valuable brand, is still operating its own online store. This highlights that at least for their most valuable brands, there is still hesitancy within luxury to cede control even if this can impact the outreach of the brand. Ultimately this could have an impact on consistency; and consistency was identified as a key success factor within luxury in a study conducted by Som and Pape (2015).

Moreover, there is always a risk involved in working with partners. An interviewee from a brand owned by one of the largest luxury conglomerates in the world highlighted some of these risks:

“With any third party you increase your risk of damaging your brand value, especially when there are unknown circumstances such as when the recession hit. In 2008 many trusted partners in the luxury world became very desperate and dramatically marked down luxury goods that never had been marked down before and created a huge brand value issue for many brands. So you have to be very careful.”

The previous comment illustrates that there are always inherent risks in not fully controlling a brand distribution. Luxury is all about long-term management and, thus, every step taken by a brand will create or decrease brand value over time. For instance, a brand could be put at risk of reputational damage if a partner violates the conditions established in a cooperation agreement with the brand. Therefore, it is essential that when a luxury brand cannot exert full control, they work with partners that have the right mechanisms in place to ensure that
there is consistency in the whole distribution process and the experience they offer to customers.

As was the case in the statistical analysis (see section 5.3), the literature also highlights the importance of fully controlled distribution within luxury. Kapferer and Bastien (2009) consider that distribution is key within luxury as it is the main medium used by brands to communicate and promote themselves. Furthermore, having fully controlled distribution can even result in a competitive advantage for brands. Godey et al. (2009, p. 527) consider that “distribution has become a strategic variable once again due to the concentration of companies in very large multi-brand groups”. The authors argue that having controlled distribution is a competitive advantage for luxury brands, as this can allow companies to increase the power of their brands.

Additionally, recent developments in the distribution model of luxury brands mimic the faster turnarounds seen in fast fashion (i.e. the time elapsed since an item is designed/produced until it reaches stores). Thus, brands such as Louis Vuitton are now making available to customers some of their products in just three weeks after they are first shown online or in the press (Paton, 2016). Consequently, brands exerting control of their distribution chains are likely to have an advantage in this new environment, as they will be able to offer new products to customers much faster than if they do it through third-party distributors.

In sum, while fully controlled distribution was considered appropriate by only a handful number of interviewees, in general, it is the most appropriate model for the entire industry. While a controlled distribution gives brands greater flexibility to capitalize on potential opportunities available to them; the more control a brand has on its distribution, the easier it would be for it to create consistency on what is offered to customers. For the most part, the more control a brand has, the easier it will be for it to increase its brand value. Thus, it can be concluded that controlled distribution can help create and maintain brand value in luxury.


6.4 Counterfeiting

During the statistical analysis, it was not possible to find a correlation between brand value and counterfeiting, nor between market capitalization and brand value. The results from the statistical model suggest that counterfeiting is not a significant contributor to brand value. In contrast, during the ‘credibility checks’, counterfeiting was generally perceived as important for brand value, as it can decrease it. As a result, the effect of counterfeiting in brand value could be overemphasized by the industry. Thus, while counterfeiting could affect brand value within luxury, its effect on brand value is not likely to be as significant as the other determinants of brand value discussed in this chapter.

It is important to note that during the qualitative interviews, counterfeiting was discussed as a factor that could affect brand esteem, due to the fact that it can result in a brand becoming ubiquitous (see ‘Esteem’ subsection in section 4.3.2.5). However, in the ‘credibility checks’ it was discussed more extensively by interviewees and, thus, it is possible to gain a better understanding on how this factor can affect brand value in luxury. During the ‘credibility checks’, the emerging themes were that counterfeiting could be perceived as an indicator of brand success; that it can overexpose and dilute brand investments; and that it does not affect all brands equally. This section analyzes and discusses these themes.

As mentioned above, some interviewees, especially those from small brands, did not perceive counterfeiting as problematic. An interviewee from an emerging luxury brand stated the following when asked if they had any issues with counterfeiting at their brand:

“Not really, as we are so small. Once our products start appearing at Canal Street [Street in Chinatown, NYC, where counterfeits are commonly found], I will know I really made it.”

Thus, for smaller brands, counterfeiting is actually perceived as a sign of success, given that it can drive brand awareness (Gentry et al., 2006). This statement is interesting from the perspective that not all luxury brands are
widely known to attract the attention of counterfeiters. Thus, if we consider the overall impact of counterfeiting within luxury as a whole, it may be lower than what it is perceived by the industry.

Conversely, this ‘positive’ perception of counterfeiting is different in the view of larger, successful and recognized luxury brands. An interviewee from a prestigious French brand stated:

“It is a terrible threat to brand value as it overexposes the brand to more and more points of visibility than we would normally see in a luxury brand. It is capitalized on the cache that the brand has created over a long time investment and taking short-term profit-driven incentive... there are a lot of negatives associated with it, and none of the profit goes back to the brand. It is basically draining brand equity to a third party. It is stealing brand equity.”

For this brand, counterfeiting is seen as a ‘terrible threat’, as it drains brand value and ‘overexposes’ the brand. This finding is in line with Gentry et al (2006) who consider that one of the main issues with counterfeiting is that companies spend millions on gathering consumer data, design, distribution and demand creation and, accordingly, brand value can be diluted by counterfeit products.

An interviewee from a French brand made a comment supporting this point of view by stating:

“It is a challenge as we have a very recognizable logo. It is an objection we hear from clients everyday and it is a major risk... We may be getting away from it [a traditional line produced by this brand] even though it is something like our bread and butter, the margin, where we make the bulk of the business and get our cash flow. However, by getting away from this line we could invest in things that are less counterfeit.”

The comments made during the ‘credibility checks’ illustrate the severity of counterfeiting in the view of interviewees. An interesting consideration is that the interviewee is linking counterfeiting to logo recognition. In his/her opinion,
it is so serious that it could even lead to the removal of the product lines being copied by counterfeiters, even if these product lines are highly profitable.

While accurate data on counterfeiting is scarce, there is indication in the literature of how widespread it is. Han et al (2010) found that 45 percent out of 465 products manufactured by Louis Vuitton and Gucci, were copied by counterfeiters. A recent report published by the Organisation for Economic Co-operation and Development (OECD) stated that between 2.5 and 5 percent of all imports are counterfeits; and that US, Italian and French brands are the most affected by counterfeiting (Organisation for Economic Co-operation and Development, 2016b). This supports the industry’s perspective on how extensive counterfeiting can be. However, these levels of counterfeiting are not likely to affect all luxury industry equally. For example, Gucci and Louis Vuitton produce bold designs which are easily recognizable and, thus, they are more likely to be counterfeit.

An interviewee (from a brand that does not use logos in their products) elaborated on the relationship between logo recognition and counterfeiting level by stating:

“Counterfeiting is not an issue for the brand as most of our products are logo free. Not having logo probably makes our articles less likely to be counterfeit.”

Still, it is important to realize that the lack of a logo does not imply than an item will not be counterfeit. An interviewee from another jewelry brand owned by one of the three largest luxury conglomerates provided a contradictory opinion on counterfeiting. The interviewee stated:

“Counterfeiting is the best compliment, when someone is creating counterfeit pieces. We actually opened up a division two or three years ago and the first thing they handled are all those jewelries with counterfeiting. So it is a big problem.”

In this statement, the interviewee is characterizing counterfeiting as twofold: First, there is a positive element, a compliment for a brand, which is related to
having achieved a level of recognition to become counterfeit. According to Randhawa et al (2015), to consume counterfeit products consumers need to have certain bond with the brand in question. This implies that there is a level of attachment to a brand in consumers who buy counterfeit products; an attachment that could be perceived as positive from a brand value perspective.

Second, there is a negative element to it when stores sell counterfeits and drive revenue from authentic to counterfeit products; a situation that could lead to developing a relationship with a counterfeit and not the actual brand (Castaño and Perez, 2014). Hence, while counterfeiting is negative, it is possible that some of its negative effects could be offset, at least partially, with its positive effects. As a result, the final impact of counterfeiting to luxury brands could be less severe than what is portrayed by the industry.

In terms of the impact of counterfeiting, another key point is that the effect of counterfeiting is difficult to quantify. While large luxury brands recognize this threat as significant during the ‘credibility checks’, their annual reports or financial statements do not provide quantifiable information on the actual effects of counterfeiting. In particular, these documents do not disclose data on how much counterfeiting is expected to dilute brand revenue; or the amount of economic loses it generates for a brand. Accordingly, if counterfeiting would be such a significant threat as luxury brands argue, it is likely that the issue would be addressed in detail in financial documents together with other challenges faced by a brand.

Kent (2011) estimates that between 2 and 7.5 percent of all world trade is associated with counterfeit products. Using this upper bound estimate as a proxy, from the $242 billion dollars in revenue generated by the luxury industry in 2014 (Bain & Company, 2015), only $18 billion were lost to counterfeit products. Regardless, margins in the luxury industry are high. According to Kapferer and Mitchault (2014), luxury retail margins (the price of a good divided by its cost) are usually greater than 10; which suggests that luxury goods sell for at least 10 times their cost. Thus, due to high margins, the real cost of a $1,000 dollar bag can be just $100 dollars. To measure the impact of counterfeiting, a
measure that could be used is revenue margin (total revenue minus cost of sales divided by total revenue), which within luxury is around 70 percent (Kapferer and Tabatoni, 2010). Consequently, those $18 billion of counterfeiting-related losses could easily be absorbed by the $169 billion in gross revenue generated by the industry.

As has been noted, the issue of counterfeiting appears to be overemphasized by the luxury industry. In terms of managerial implications of this finding, brands should depart from bold and easily recognizable products with large logos, and favor more discrete designs that are likely to be less favored by counterfeiters. These recommendations could also be adopted by smaller brands, so that once they are larger, they would not need to consider making significant changes to their designs to avoid being counterfeit. While at first glance this recommendation could sound as unviable, in fact, many luxury brands have departed from a logo strategy. For example, brands like Bottega Veneta or Loro Piana do not use visible logos in their products; and other brands like Dior or Saint Laurent are keeping logos at a minimum (mainly in accessories). It is also important to note that brands do not always need logos to distinguish their products. Every Dior Homme customer knows that a logoless shirt with one tiny line sewn behind each shoulder is Dior.

Moreover, in addition to avoiding logos, there is a need for luxury brands to better understand counterfeiting and assess it at the brand-level. For instance, Hermès is not likely to have the same level of counterfeiting as Louis Vuitton. Similarly, what applies for apparel and accessories may not apply to other luxury categories, such as wines and spirits or automobiles. On the whole, brands should focus their resources on the determinants of brand value that matter the most, and do not put too much emphasis on others that have a lower impact on brand value.

In summary, while counterfeiting is an issue and it needs to be addressed by luxury brands, the findings from the quantitative analysis differ from the statements made by interviewees during the ‘credibility checks’. To recap, the statistical analysis suggested that counterfeiting was not statistically significant
for brand value, but the ‘credibility checks’ indicated that it was significant. Overall, this suggests that counterfeiting is overemphasized by the luxury industry. In terms of the literature, the overemphasis of counterfeiting by the luxury industry does not contradict the literature regarding that it can have a detrimental effect on brand value (Bush et al., 1989; Green and Smith, 2002; Wilcox et al., 2009; Wilke and Zaichkowsky, 1999). However, the findings from this research indicate that the impact of counterfeiting on brand value within luxury is less severe than what it is perceived by the industry.

Lastly, it is important to highlight that it is difficult to assess the level of counterfeiting a brand has. The approach selected in this thesis to estimate counterfeiting was chosen based on the best information available. Still, it would be possible to improve these estimates if more specific data on the topic would exist. Despite this caveat, it is possible to conclude that counterfeiting is an issue for brand value (based on the ‘credibility checks’), but it may not be as negative as it is perceived. Thus, counterfeiting is not a factor that influences the creation and maintenance of brand value in luxury.

6.5 Country of Origin

As presented in Chapter 5, the results from the statistical analysis showed a slight correlation between COO and brand value. The results suggest that COO may be relevant for brand value, but given the limitations within the data it is not possible to reach a final conclusion. Nevertheless, during the ‘credibility checks’, COO was perceived as relevant, which suggests that COO is important to create and maintain brand value in luxury.

It should be noted that in the qualitative interviews, COO was discussed as a differentiator, and as an element that can help shape brand perceptions (see section 4.3.2.4). However, a key aspect that was not clear in Chapter 4 is if COO is more relevant for certain categories, which is one of the areas addressed during the ‘credibility checks’. The two themes emerging from the ‘credibility checks’ were: COO is more relevant for heritage brands; and COO is becoming
Results, Analysis and Discussion from ‘Credibility Checks’

less important than what it currently is. These themes are analyzed and discussed more into detail below.

With regard to the relevance of COO for heritage brands, an interviewee from an emerging fashion brand made a clear difference between what it means to manufacture high-quality luxury products in a place like New York, France or Italy versus China:

“If you want to buy a beautiful alligator item, you are not going to buy it from a Chinese brand. You will want to buy it from a luxury brand that is either made in New York, France or Italy. They have been doing it for so long, so there is quality and heritage that makes it feel more artisanal and handmade.”

Likewise, a different interviewee linked COO with superior quality and craftsmanship:

“It may be that there is a country known for superior craft, like France or Italy - that superior quality really creates brand value. Then, there are brands like Maje or other smaller luxury brands that are starting to be created that they are employing people in places like Sri Lanka, Africa or India, and create better life for them...it helps to create that sense of something being different and special... it is coming from a place that has an important story to tell you.”

The statements presented above link the heritage of certain countries (COO) to superior craftsmanship and quality perception. These perceptions make customers feel that goods produced in countries such as France or Italy are special and, therefore, are worth more than something made in a country like China.

With regard to the relationship between high-quality perception and COO, an interviewee from a French fashion house stated:

“There have been many instances of quality control problems where products are produced or sourced in low-cost countries or developing countries, and the perception is that the quality and the savoir-faire of a
"luxury-good country like France is certainly a guarantee that the customer is starting to place more value on."

As shown above, COO can be perceived as an indicator of quality (Besharat and Langan, 2014), especially for heritage brands that put a lot of emphasis on their know-how and traditional craftsmanship. Accordingly, COO is relevant in luxury for heritage brands where craftsmanship and high-quality are key and similarly, for luxury brands in other categories associated with a country with a degree of specialization in that category. To explain this, Kim et al (2016) stated that COO is embedded into the DNA of French and Italian brands such as Hermès, Louis Vuitton, Chanel and Gucci; in Swiss timepieces; an in German car brands.

While the comments presented above highlight the relevance of COO for luxury and especially for heritage brands; interviewees also recognized that luxury landscape is changing in terms of the importance of this factor. On this, an interviewee stated:

“Historically it [COO] has been important. Now it has become slightly diminished as the world has become more and more one. A French conglomerate, a British luxury conglomerate historically would have the upper hand. But now we have seen luxury brands being launched. For example, there is an Hermès affiliate there that is of the same quality-Chinese made-and it will probably do quite well.”

Likewise, a stakeholder complemented the previous comment by adding:

“It is really just an impression because the products are produced anywhere. As long as you put a button on a garment in Italy you can say it is made in Italy. Many of the products made in Italy are not made in Italy. They are made somewhere else and the assembling is done in Italy. So it is really an impression.”

These comments stress how, for the most part, COO is just a perception within luxury. As long as luxury brands produce high-quality goods, over the long-term, it could be possible for them to create the right perception in other countries not traditionally associated with luxury. For example, since China has a long tradition in silk production, it should eventually be possible for the Chinese arm
of Hermès, Shang Xia, to sell Chinese-made silk scarves on the same conditions as its French-made scarves. In essence, luxury goods can be made ‘everywhere’. Thus, it is all about educating consumers and creating the right perception; and ensuring that a brand does not associate itself with a country with the wrong perceptions. In other words, it would not be the same trying to create a positive perception for a Chinese-made silk scarf than trying to create a positive perception for a Chinese-made luxury watch. While it is possible to make a case for Chinese-made silk, the country has no tradition in luxury watchmaking and, therefore, this would be hard to sell to luxury consumers. This finding supports the view that COO is contingent with brand category (Usunier, 2011).

In brief, the implication of COO for brand managers, is that COO creates and maintains brand value in luxury. As a result, brand managers should consider COO as part of a differentiation strategy. Nevertheless, managers should not limit themselves to COO from a manufacturing point of view. For instance, for non-heritage brands, it is possible to create value by highlighting country associations with a brand, even if the products are manufactured elsewhere.

From a literature perspective, this thesis complements the literature on COO. Johansson and Ronkainen (2005) consider that there is limited evidence to be able to conclude that nationality of a brand matters. In the study they conducted, COO was associated with higher esteem in categories a country has advantages on. However, they also found that this advantage was limited in global brands, which are the base of this thesis. Conversely, in this thesis, COO was found to be relevant for the brand value of global luxury brands. Lastly, this thesis also highlights the importance of reinforcing COO within luxury. As mentioned by Usunier (2011), sometimes consumers fail to identify COO in certain brands, which emphasizes the need for luxury brands to capitalize on this variable.

### 6.6 Marketing and R&D/Design

The results from the statistical analysis suggest that marketing and R&D/Design indirectly create brand value in luxury. More specifically, marketing and
R&D/Design can influence luxury perception. In turn, luxury perception can influence market capitalization. Given that market capitalization captures brand value (M’zungu et al., 2010; Steenkamp, 2014; Wang et al., 2012), it can be said that marketing and R&D influence brand value. Likewise, the relevance of marketing and R&D/Design for brand value in luxury was also highlighted during the ‘credibility checks’. Hence, it is possible to conclude that marketing and R&D/Design can help create and maintain brand value in luxury. The following sections provide insights from the ‘credibility checks’ on how marketing and R&D/Design help shape brand value.

6.6.1 Marketing

In terms of marketing, in section 4.3.2.3, interviewees stated how marketing in luxury is becoming more experiential; how marketing contributes to brand value; how the relevance of marketing is not a function of a marketing budget size; and how marketing strategies need to change, depending on the category a brand is in. During the ‘credibility checks’ interviewees illuminated on three further aspects of marketing that are relevant for luxury, and that were not fully addressed in the qualitative interviews.

The three themes that emerged during the ‘credibility checks’ were: A significant portion of the brand message is attributed to the consumer and the brand cannot control it; brands need to engage socially, as luxury products have social value; the message conveyed by luxury brands needs to be accurate and true, and it cannot replace the existence of an excellent product. These themes are analyzed and discussed below. It should be noted that the first two themes were covered partially in the qualitative interviews, as interviewees addressed how marketing can use social tools to ensure customers are experiencing the brand. However, their views were not detailed enough and, therefore, they will be expanded in this section.

With regard to how consumers are part of the brand message, interviewees highlighted that new tools such as social media or third party endorsements are changing the marketing landscape. These ‘tools’ are normally outside the
control of a brand, and are not generally included in the marketing budget of a brand. Regardless, these ‘tools’ can have an impact on how brands are perceived by consumers. An interviewee from a French haute couture house indicated that “editorial channels or third party endorsements are elements not controlled by a company that enhance brand value”. This comment was complemented by an interviewee from a consulting firm specializing in brand value who stated:

“Customers are also adding a lot of value to the message. If you deliver on your promises and create a very good community around your brand, that will help tremendously. If you have the customer to be your primary marketer where you do not necessarily control them, that creates a lot of value.”

Moreover, during the ‘credibility checks’, interviewees highlighted how luxury goods are social goods (i.e. consumption of luxury creates social perceptions, such as upper class and prestige). Therefore, it is important to pursue marketing strategies that take into account their social value (i.e. how luxury consumption influences social perceptions, such as upper class and prestige). Similarly, a stakeholder specializing in brand value stated the following:

“Luxury brands are important because of their social value. You do not buy an extravagantly leather bag if you live in a deserted island. So they are social goods and there a lot of ways brands can communicate with people in social ways. So engaging that communication is important.”

These comments are in line with Luo et al (2015) who consider that consumers can create brand value through actions outside a company control, such as word of mouth. The implication of this finding for luxury managers is that brands need to put more emphasis in non-traditional marketing, although some of the interviewees did not consider that these actions lead to revenue. There is evidence in the literature (Kim and Ko, 2012) that not only social media and word of mouth can have an impact on brand value in luxury. For this reason, it is important that luxury managers incorporate these tools into their marketing mix. In addition, these comments suggest that a way to communicate with customers can also involve social causes (see subsection ‘Communicating CSR
Through Green and Social Marketing’ in section 2.2.2.3). More specifically, “marketing is central to global society, and when harnessed responsibly can encourage us to recycle, reuse, buy Fairtrade, eat healthy, drink sensibly, save energy and support good causes” (Gordon et al., 2011, p. 144).

It should be noted that there is evidence in the literature that consumer’s brand preferences have been decreasing over time (Schultz et al., 2014), which suggests that consumers are becoming less attached to brands. Schultz et al attribute this to the fact that brand building efforts have failed to influence consumers. As a result, it can be said that brand-building efforts have not paid off and, as such, the brand message has failed. For instance, to highlight the importance of the brand message, an interviewee from a company managing one of the most iconic brands in the French Riviera stated:

“That is what we are currently doing [trying to communicate better]. It creates brand value because it brings more coherence to the client, despite the variety of offerings.”

An important consideration in terms of the brand message is that the message conveyed should be genuine and truthful. During the ‘credibility checks’ a stakeholder highlighted the importance of this authenticity:

“Creating a message that is honest and authentic, not false and not contrite [to what a company is actually offering] is important. It is not about making something up, but being honest and genuine and delivering on the promises that you make.”

In the previous comment, this interviewee is not only talking about a honest and genuine message, but also, about delivering on the brand promise. Consequently, luxury brands need to offer a product and an experience that are in line with what is being promised by the brand. Moreover, for luxury brands already engaging in comprehensive CSR efforts, or for brands looking to move into more socially responsible practices, the previous comment implies that marketing can be used to drive CSR awareness among consumers. For instance, McEachern (2015) states that through marketing, organizations such as the Fairtrade Foundation and the Fairtrade Labeling Organization are creating
consumer awareness. More specifically, she states that due to these educational efforts, consumers understand how the Fairtrade certification works and how Fairtrade premiums actually reach farmers. Given these points, the implication of these efforts for the overall luxury industry is that these initiatives could be expanded to non-food luxury categories such as jewelry (Fairtrade/sustainable gold), clothing (Fairtrade/ecological cotton) or accessories (Fairtrade/ecological leather).

Along a different line, it is important to highlight that while marketing is key within luxury, it cannot substitute top brand performance. Since luxury is all about excellence, brands need to be able to offer excellence. To illustrate this point, the same stakeholder quoted in the previous comment added that even if a company has a consistent message and that message is delivered effectively; in the end, what matters the most are the product and services on offer:

“If it [the product] is failing, all the communications and messages will not change it. They need to fix the business model.”

The implication of this finding for luxury brand managers is that they need to craft a message that is consistent with the DNA of the brand, and that highlights the excellence features of the products on offer together with the brand, but without overplaying them. For example, it would be inappropriate for Louis Vuitton to promote an ‘entry-level’ monogram bag as highly exclusive, when, in fact, it is an ‘accessible’ product that can be owned by many, and for which counterfeit versions can be found widely. Likewise, consistency also applies to emerging brands that are still crafting their DNA and their core product offering. Specifically, a brand may highlight how being made in NYC or how using sustainable materials creates differentiation. Given that those features make a better product, it would be risky for that brand to suddenly start manufacturing in China. Similarly, it would be risky to switch to less sustainable materials in order to reduce their cost base.

A further consideration which did not emerge from the ‘credibility checks’ is that marketing expenses per se do not reflect the level of effectiveness of marketing efforts. For example, Cartier and Dior may spend $10 million dollars
each in promoting a new timepiece; but the results of their campaign will not be necessarily equal. The effectiveness of marketing actions could be related to the brand value of a firm (Lehmann and Srinivasan, 2013). Cartier has higher brand value than Dior (Interbrand, 2014); and Cartier is more recognized than Dior in terms of watchmaking. Thus, it is likely that Cartier’s campaign will be more effective than Dior’s.

In summary, marketing is an important factor to create and maintain brand value in luxury. However, there is more to it than just conducting marketing campaigns to showcase luxury brands and to promote brand offerings. For example, since CSR can provide an edge to brands, marketing can be used in luxury to drive CSR awareness among consumers and to promote the consumption of more socially responsible products and services. Regardless of how marketing is used by luxury brands, it is essential that the brand message conveyed by luxury brands is honest, genuine and reflective of a brand’s product and experience. Lastly, marketing efforts are more than marketing expenses. Given that luxury products are social goods; luxury brands need to engage with consumers, as a significant part of marketing relies on consumer’s minds, and that aspects such as worth of mouth and social media are becoming increasingly relevant in today’s luxury marketplace.

**6.6.2 R&D/Design**

Based on the statistical analysis and the ‘credibility checks’ conducted for this research, R&D/Design was found to be important for brand value in luxury. However, there are considerations that need to be taken into account. During the ‘credibility checks’, two themes emerged: R&D/Design can bring innovation to luxury brands; and R&D/Design should be aligned with the DNA of a brand. Innovation was discussed in Section 4.3.2.4 under R&D and Design, but in this section innovation is approached from an ecodesign perspective. The second theme (R&D/Design should be aligned with the DNA of a brand) was not discussed by interviewees in the qualitative interviews and, hence, it illuminates on the need for luxury brands not to depart from the brand vision in their
R&D/Design undertakings. Lastly, this section restates the importance of R&D/Design within luxury, even within categories that are not R&D intensive.

With regard to the first theme, according to interviewees, the importance of R&D/Design for brand value relies on the fact that it can help brands innovate (i.e. incorporate new materials, technologies and techniques into a product). An interviewee from a haute jewelry brand belonging to one of the three largest luxury conglomerates in the world indicated the following:

“[Design] is a big issue in luxury, as it is a big differentiator...there are no luxury brands that do not have great designers and real design leadership.”

Therefore, R&D/Design will not only result in innovation for luxury brands, but actually, it can be a brand differentiator. One of the ways luxury brands can create differentiation is ecodesign, which is defined by Bovea and Pérez-Belis (2012, p. 61) as “the integration of environmental considerations into product development”. According to D’Souza et al (2011), the majority of the environmental factors of a product are defined during the design stage. Hence, while R&D/Design can be used to create excellent products within luxury, it can also be used to support the CSR goals of a brand. In the end, brands can help make luxury more sustainable from a social and environmental point of view.

For example, brands can choose the appropriate type of materials in the right amount; enhance the durability of the item; and ensure that the production process of luxury products has the lowest possible impact. Nevertheless, it is important to note that determining the environmental impact of luxury goods can be a challenging task. D’Souza et al (2011) discuss that to produce a kilogram of cotton 8,000 liters of water are needed. To produce a kilogram of polyester almost no water is needed, but the energy used in the process corresponds to what is needed to manufacture almost two kilograms of cotton. This example illustrates the difficult choices that need to be made during the design process of a product. In practice, from an environmental point of view, should Dior use cotton to produce a blouse, or should use polyester instead? The choice is difficult, as choosing cotton would consume more water, and using
polyester would have a higher energy footprint. In brief, to create differentiation through R&D/Design, luxury brands can look at ecodesign as an additional tool at their disposal. Accordingly, brands can create excellent products to project the dream of their brands to consumers, but at the same time, have a less negative environmental and social impact.

Regardless of whether ecodesign is implemented or not, it is still essential that luxury brands recognize the strategic importance of R&D/Design. However, in order to protect their brand identity, luxury brands need to ensure that their R&D/Design process is aligned with the DNA of the brand. An interviewee from a brand listed in Interbrand’s Best Global Brands mentioned that:

“Products should reflect the understanding of the commercial viability of a brand.”

Consequently, the implication of this for the industry is that R&D/Design is not just about creating, but ensuring that there is a market for a product, and similarly, that the product is consistent with the values of a brand. As an illustration, for a brand like Dom Perignon, which is specialized in vintage champagne, it would be odd to start investing in a clothing line. However, the brand could invest resources to develop an organic vintage wine brand. The brand could also create a lighter glass bottle suitable for second fermentation in the bottle. This would cut transportation costs given the reduction in bottle weight.

It must be noted that the relevance of R&D/Design for innovation is also discussed in the literature. Macchion et al (2015a) refer to how brands are adapting their offerings to consumer needs and to new market dynamics. They state that many brands have reduced their traditional spring-summer and fall-winter collections. They no longer ship all the collection at once, but release them during the season, based on demand and supply. Similarly, they also release flash collections based on market trends. This new approach, according to Macchion et al, allows companies to be more innovative, not only from a design point of view, but due to the materials or products they create.
Given these points, R&D/Design and creativity within the luxury industry are essential, even within categories that are not traditionally considered R&D/Design-intensive such as fashion. For example, brands producing luxury cars or luxurious private jets may need to allocate more resources to R&D/Design than a brand producing bags. The implication of this for the industry is that all luxury brands need to allocate resources (financial and human capital) to R&D/Design, irrespective of the category a brand is in.

In particular, it is important that brand managers within the luxury industry reinterpret R&D/Design with a more liberal approach, such as the one suggested by Keller. Keller (2012) considers that innovation is linked with being considered modern, having state-of-the-art production processes and being able to introduce modern features in products. It should be noted that the incorporation of these elements in luxury products, is not opposed to the heritage or craftsmanship values existing in luxury, as both are compatible. For example, Louis Vuitton can use the latest technology to produce a lighter canvas fabric that is weatherproof and resistant, and then use its traditional know-how to create bags using that material. The same applies to Dior. The brand is already creating fabrics with printed photographs to use them in its haute couture line.

A final consideration, which is in line with the discussion and analysis on marketing presented in the section above, is that in the literature (Ailawadi et al., 2003; Chu and Keh, 2006; Melo and Galan, 2011; Torres et al., 2012), as well as in the quantitative portion of this thesis, R&D/Design are evaluated as actual expenses. Regardless, not all expenses in R&D/Design are likely to be successful and lead to higher brand value for luxury brands. Thus, while investing in R&D/Design, luxury brands need to consider the commercial viability of their efforts, so that they can increase the probability that they are successful.

To sum up, R&D/Design can help create and maintain brand value in luxury. Therefore, R&D/Design should be pursued by all luxury brands; although always within the DNA of the brand, and taking into account the commercial viability of what is undertaken. Lastly, R&D/Design within luxury should not just be solely
evaluated in terms of money spent but also, by taking into account the level of success of those efforts; together with the social and environmental benefits that can be created by incorporating CSR features into luxury products and services.

6.7 Consumer-Based Brand Value

A fundamental principle of luxury is that every luxury brand needs to offer both a product and an experience. Brand value is co-created with input from both consumers and brands (da Silveira et al., 2013; Tyan et al., 2010). Thus, there are elements within brand value that are preserved and constructed by firms, but then there are dimensions co-created with consumers (Seo and Buchanan-Oliver, 2015).

During the ‘credibility checks’, it emerged that due to the high intangible value of luxury goods, offering excellent products adds value within the industry. Nevertheless, it is through the experience where luxury brands really create brand value. The second theme is that brand value is not only created by the brand, but it is co-created with the consumer (See: Anker et al., 2015; Carrigan et al., 2016). Customer experience and how consumers create brand value have been discussed in sections 4.3.2.4 and 4.3.2.5 in Chapter 4. Thus, this section seeks to enrich the understanding of these areas by discussing and analyzing aspects from the ‘credibility checks’ that were not fully covered during the qualitative interviews.

It should be noted that there is an existing gap in the literature in terms of research looking at the importance of the customer experience (Seo and Buchanan-Oliver, 2015). Accordingly, this thesis provides insights on this topic, as it shows that the customer experience is a key component for the luxury industry, and in fact, it can be a differentiator. Similarly, by analyzing the marketing pillars, which already capture the customer experience; this thesis gives an additional perspective to study this key factor within a luxury context.
Furthermore, while we already know how consumers create brand value in luxury (see section 4.3.2.5), it is important to understand the specific factors that help create this value. To put it simply, the experience, the products, the actual use of the product by consumers, the recommendations consumers get about a brand from others, how consumers talk about a brand - all these elements - result in consumer perceptions. Examples of these perceptions include quality, leadership, esteem, relevance, reliability and uniqueness. As a result, the level of consumer-based brand value had by a brand will depend on the ranking that consumers have of all those perceptions.

To simplify the study of consumer-based brand value in this thesis, as discussed in Chapter 3, consumer brand perceptions are grouped into four constructs: Energized differentiation, esteem, knowledge, and relevance. While these constructs were discussed at a general level in the qualitative interviews, during the ‘credibility checks’ interviewees provided insights on their individual components, which was not addressed during the qualitative interviews. Thus, the insights from the ‘credibility checks’ on these components, contribute to a better understanding of how each construct contributes to brand value in luxury. The following sections analyze and discuss these constructs and their components.

### 6.7.1 Energized Differentiation

In the statistical analysis, from the four pillars of consumer-based brand value, only energized differentiation was statistically significant in all equations. Similarly, during the ‘credibility checks’, interviewees also agreed with the importance of energized differentiation for brand value in luxury. This suggests that energized differentiation is a relevant factor to create and maintain brand value within this industry.

The qualitative interviews addressed the importance of differentiation within luxury, how differentiation can change over time, and how the relevance of differentiation can change by category. However, they did not address the themes emerging from the ‘credibility checks’: First, uniqueness is a key
differentiator, as only market leaders are able to achieve uniqueness. Second, the importance of the individual factors creating energized differentiation varies depending on the type of consumers a brand has or the category a brand is in. These insights are discussed and analyzed in this section.

First, to exemplify the importance of differentiation within luxury, a stakeholder specializing in brand value stated: “Differentiation is the reason why consumers will choose one brand over another”. Still, during the ‘credibility checks’, interviewees highlighted that not all components of energized differentiation (dynamic, innovative, distinct and different) were equally important.

With regard to which factors within the energized differentiation construct are more relevant for luxury, an interviewee stated the following:

“What will set a brand apart from another luxury brand is being dynamic, innovative and different. Distinction is a table stake [a minimum entry requirement] in the luxury category. You cannot speak as a luxury brand without being distinct; but if you are able to be dynamic, innovative and different; that is going to commend a higher premium and get people to probably pay more.”

An interviewee (not affiliated to Chanel or Hermès) from a French luxury brand included in Interbrand’s Best Global Brands, made a comment in the same direction:

“You have your brand leaders, your Chanels and your Hermès. Everyone else tries to replicate formulas that work in the market because what works works. So this is less about very creative individuals and more about business and what customers want.”

For these interviewees, uniqueness has a key role in luxury. Still, as highlighted in the previous comment, there are two types of brands; brand leaders and everyone else. Brand leaders are the ones who are unique. However, this uniqueness is not static, as non-leaders normally try to mimic what brand leaders do. As stated by Schultz et al (2014), more and more brands look more similar and consumers are having difficulty differentiating them. Consequently,
this results in less uniqueness within the luxury industry as a whole, which, in turn, makes more unique brands highly valuable.

Thus, despite the overall lack of uniqueness seen in luxury, there are still ways for luxury brands to create a perception of uniqueness. An interviewee from a luxury brand indicated:

“If a brand creates a concept that responds to a consumer insight or need then that brand can be perceived as unique, even if it offers the same product.”

This suggests that luxury managers need to be ‘reinventing’ their brands on regular basis, so that they can keep their edge on uniqueness. Brands need to find unique elements that identify them (Romaniuk et al., 2007). If a leader luxury brand with a high component of uniqueness maintains exactly the same strategies and the same product lines over time, without adapting, eventually it will lose the edge on uniqueness it has. For example, Van Cleef & Arpels was a pioneer in offering its products through distance selling, in an industry where conducting physical sales and creating an in-store customer experience was seen as essential. Van Cleef managed to reinterpret the in-store customer experience and was able to offer it over the phone/online. Thus, when this approach was introduced, it created uniqueness. However, now that many luxury brands have online stores, what was then a unique differentiator is not a differentiator anymore.

The significance of uniqueness arising from the ‘credibility checks’ is in line with Kim et al (2014) who consider that brands can offer uniqueness by offering quality at higher price points. Likewise, Kapferer (2014) considers that uniqueness is something that allows luxury brands to charge high price premiums.

With regard to the importance that brands differentiate themselves, Davcik et al (2015) consider that differentiation can create consumer loyalty so that a brand can compete against other brands in the market. Moreover, in the view of these authors, differentiation can help address consumers when they have insufficient
information about the quality and performance of a brand. For instance, if a customer is interested in buying the very best quality vicuña jersey in the market and that person has not had one before; that person may ask a connoisseur for advice. The connoisseur may refer that person to Loro Piana, which is a market leader in that segment. Consequently, if that person becomes a Loro Piana customer and experiences that product, it is very likely that he/she will prefer Loro Piana instead of other brands selling vicuña jerseys.

An additional consideration mentioned during the ‘credibility checks’ is that the relevance of energized differentiation is contingent with the category a brand is in. To illustrate this point, an interviewee (not affiliated to Hermès) mentioned the following:

“For example, a brand strongly based on tradition, like Hermès. They have spent a lot of time showing how dynamic they are. How they do not want to be old fashion. But they are not innovative. They are very focused on doing a core set of products with small design innovation along the way. That works great for them, but if you have a luxury car, then innovation is really important. So all these elements may matter, but it is really situation-based.”

Therefore, based on this comment, for a company like Hermès, which specializes in leather accessories, being dynamic (capability to drive continuous change) is less important than for a brand like BMW, which usually is a trendsetter (many of the innovations adopted by BMW in its products get subsequently implemented by other brands) in the automobile sector, a category in which innovation is more relevant. Then, for a brand like Vertu, uniqueness is probably going to be more important, as it needs to offer something unique to be able to differentiate itself from other cellphone brands.

In summary, there is no agreement on which specific factors within energized differentiation matter the most in luxury. For example, interviewees from niche luxury firms considered that all elements of energized differentiation were equally important. In contrast, other interviewees considered that innovation
and distinctiveness were the core elements within differentiation that a brand needs to focus on.

Another interesting outcome from the ‘credibility checks’ was that in addition to differences by category; which are recognized in the literature (See: Fionda and Moore, 2009; Fischer et al., 2010) there can also be differences by brand tier and by consumer type. In terms of differences by brand tier, a stakeholder stated:

“It is not differentiation from brand to brand; but differentiation between brands. I mean tier 1, tier 2, tier 3... Some people will talk to you that Zara is a luxury branch; some people will tell you that the latest sportsmen in the US who launched a cosmetic or a fashion line is a luxury brand. But that is not in tier 1 like Vuitton or Dior who have more legacy or are more mythical... Some of them are unattainable or aspirational, depending on your economic situation, and some of them are common consumer goods but they feel they are luxury. So that differentiation is important. Chanel and Dior are the same thing as they are in the same band; it is about where do you seat in the spectrum - are you in the top end, or are you in the foot chain?”

With respect to the literature on this topic, Romaniuk et al (2007) state that there are very little differences within brand segments. This makes benchmarking difficult for brands within the same segment, and indirectly makes a case for differentiation by tier, as suggested during the ‘credibility checks’.

The implication of these differences for luxury brand managers is that brands are able to differentiate without having to benchmark themselves to the best brands in luxury. For example, within jewelry, Swarovski is not going to be in the same league as Tiffany & Co.; or within swimwear, Orlebar Brown will not be competing against Hermès. As a result, neither, Orlebar Brown or Swarovski, would need to tailor their strategies to try to have an edge over Hermès or Tiffany respectively.
On differentiation by consumer type, an interviewee stated that there are two types of consumers:

“The ones that are at the low stage of the pyramid - where they want to belong into a group. They need to have what others have in that group and be part of it because they wear the same things. At this stage, innovation, distinction, and being different, are not necessarily more important. For the other stage, when people care more about how they develop themselves, the appreciational aspect is more important, and they care about how innovative, distinct and different is a brand.”

The previous statement is echoed by a remark made from a stakeholder who indicated that there are three types of customers: The ones that want exactly the same product; the ones that want something new; and the ones that want an evolution of a brand (i.e. a more contemporary version of a classic).

Accordingly, based on the previous characterization of customers provided by the former interviewee, customers who want to belong to a group are more likely to be interested in the same type of luxury product. In contrast, customers interested in appreciational aspects are the ones that either, could prefer something new or innovative.

The implication of this finding for the luxury industry is that brands need to be able to ensure that their offerings are not only consistent with the DNA of the brand, but also, as discussed earlier, with their customer ‘audience’. In practice, customers can overlap, so a brand needs to be able to satisfy all. For example, Louis Vuitton has ‘follower’ customers interested in their traditional monogram keepall collection; but they also have ‘appreciational’ customers who will not want the traditional monogram keepall but they will prefer the waterproof version.

With regard to consumer types, it is important to note that a similar distinction is made in the literature in terms of bandwagon and snob consumers. Bandwagon consumers are interested in belonging to a group and the exclusive status provided by luxury goods; while snob consumers seek to differentiate themselves from the majority of luxury consumers and, for that reason, are
more appreciative of the scarcity or uniqueness of a brand (Kastanakis and Balabanis, 2014). However, there are many classifications of luxury consumers. One of the most common is to classify consumers into gourmards, regulars and nibblers, depending on their net worth together with the frequency or amount of luxury goods they consume. Nevertheless, even within these groups consumers look for different attributes in the luxury products they purchase (Seo and Buchanan-Oliver, 2015).

In conclusion, differentiation is very important in luxury. As put by Kim et al (2014), brands do not only need to provide products, but also intangibles such as differentiation and uniqueness so that consumers can select them. However, the relevance of differentiation for a luxury brand is going to be contingent with the category a brand is in, but also with the rankings a brand has in comparison to other brands in the same tier. Then, differentiation also depends on the type of customers a brand has. Since luxury brands have different types of customers, it is essential that they tailor their offerings so that they can satisfy their clientele. Still, it is essential that any adjustments made are consistent with the brand DNA and are built on the pillars of that brand.

### 6.7.2 Esteem

Brand esteem; which is measured as reliability, high-quality and leadership, was statistically significant in the quantitative phase of this research. During the ‘credibility checks’, esteem was also deemed relevant for brand value in luxury. This suggests that there is agreement on the importance of esteem to create and maintain brand value in luxury. Despite the consensus on the relevance of esteem for brand value in luxury, in the interviewees’ point of view, not all components of esteem had the same hierarchy and, as a result, it is necessary to analyze this pillar of consumer-based brand value further.

During the qualitative interviews, interviewees discussed that brand esteem can be shaped by these factors: Brand logo, brand name, and outstanding customer service. However, once the individual components of esteem were discussed during the ‘credibility checks’ (high-quality, reliability and leadership),
interviewees departed from these factors and considered that brand esteem was dictated by the following: High-quality and reliability are the most important factors of esteem; quality is not always commonplace in luxury; and there are different perceptions of leadership within the luxury industry. These themes are discussed and analyzed below.

To begin with, to put the importance of esteem into perspective, an interviewee from a French haute couture house said:

“These elements [reliability, high-quality and leadership] are elements of the brand promise and are important to consumers. The brand itself represents promise of the quality and reliability that the client is expecting.”

With regard to quality and reliability, most interviewees agreed that these two elements were the most important for brand esteem, as they are embedded into the offering of luxury brands. A stakeholder from a firm specializing in brand value stated that:

“Quality comes first... Then you want to make sure that the next version you buy is also high-quality; and that is where leadership comes from. But that is an input and customers want outputs.”

An interviewee from an emerging luxury firm complemented the previous comment with the following statement:

“Brand reliability and high-quality are more important than leadership. Often because it is not very transparent who the leadership is or what leadership is... you cannot have leadership without reliability and the quality. I think it is almost like those factors need to be in place before you are a leader.”

From these comments it can be derived that luxury brands need to offer superior quality products, which over time will increase the perception of reliability among customers, leading to repeated purchases. Then, since repeated purchases can increase growth, luxury brands with high-quality and reliability scores will become leaders in their category. An example of this is Tesla. When Tesla introduced its first models, the brand was not widely known. At that time,
the brand also experienced some quality-related issues, including fires in some of its units. Over time they revamped their quality and their offerings, which resulted in increased reliability. This reliability has made Tesla, in just a few years, one of the world’s market leaders within the luxury electric car segment. It is important to highlight that leadership is the result of quality and reliability and, therefore, the appropriateness of leadership as part of esteem can be questioned (see further discussion on leadership at the end of this section).

The recognition of quality as a key element of esteem and, as a result, of brand value, is embedded in the concept of luxury itself (see Chevalier, 2012; Hoffmann and Coste-Manière, 2012; Kapferer and Laurent, 2016; Nueno and Quelch, 1998). Nevertheless, it is important to realize that since quality is a characteristic of luxury, many luxury consumers now assume that if they are buying luxury, they will necessarily be buying high-quality, despite the fact that in reality, quality is not always present in all luxury products. An interviewee from one of the most valuable luxury brands in the world (according to Interbrand) indicated the following:

“You can have a very desirable brand. The product is very desirable but the quality is quite low. [This is] because of the dream a brand has developed around their marketing and communication and the store environment… In luxury, customers take quality for granted, but they are not always educated, so they do not know what is high or low quality. They believe that if it is expensive is high-quality but in reality is not.”

A stakeholder complemented the previous view by stating:

“What the consumer cares about is the logo; and to be able to support that logo… It increases the acceptance of low quality around these products… consumers do not care about quality but about the logo.”

Based on these insights, the luxury industry recognizes that there are educated and non-educated customers in terms of how much they know about quality within the luxury marketplace. ‘Uneducated’ customers (those customers not able to differentiate quality features across different brands within luxury) are more likely to be interested in a brand because of the brand dream factor or
logo appeal. However, even if ‘uneducated’ customers are not particularly interested in quality, it is likely that once they become more knowledgeable about the luxury marketplace, they will eventually find out that other luxury brands offer better quality products at the same price.

An interesting point not explicitly highlighted during the ‘credibility checks’ but mentioned in the literature is the association between brand logo prominence and quality, and between logo prominence and status perception (Han et al., 2010). According to Han et al, brands with larger logos are associated with lower quality and lower status perception. The implication of these associations for luxury managers is that it may not pay off for luxury brands to put too much emphasis on prominent and bold logos in their product lines. Instead, in order to keep high status and quality perception, brands should focus on more discrete products.

In terms of luxury brands offering lower quality products, there is recognition in the literature that lower quality does not only result in customer dissatisfaction (Chen et al., 2011) but it can disillusion customers. Once a brand disillusioned a consumer, then that consumer may end up feeling like they would in a relationship break-up (Schmitt et al., 2014). The managerial implication of this is that brand managers should not compromise on quality. Brands need to think with a long-term vision, and as such, it is important that they forge long-term relationships with their clients. The only way for luxury brands to forge these relationships is to offer excellence in everything they do.

With regard to leadership, which is another component of brand esteem, some interviewees were hesitant regarding its inclusion as part of this construct. An interviewee from a brand included in Interbrand’s Best Global Brand list said that leadership was an ambiguous and confusing term. A stakeholder commented further on this by adding:

“Leadership is not assumed but earned. To the degree that you deliver in value in all those components we talked about, at least on quality, craftsmanship, service, design and history as a way of proving that leadership. The fact that a brand has spent decades or hundreds of years
means that it has longevity. Therefore, they are leaders and they are reliable. That does not mean that they are leaders in dollars, but leaders in what they do - masters of their craft.”

Another stakeholder said:

“Some particular brands are not necessarily leaders. They are leaders in reliability and quality because they are luxury, but they are not leaders in sustainability, art or design. So they do not always have to be leaders.”

Based on these comments, and as mentioned earlier in this section, leadership can contribute to brand value (Aaker and Joachimsthaler, 2012; Kapferer, 2012). However, leadership seems to be a consequence of high-quality and reliability. Consequently, its inclusion as part of the esteem construct can be questioned. While differentiation appears to be a more important contributor to brand value than esteem (Johansson and Ronkainen, 2005), the potential unsuitability of leadership as part of the esteem construct is suggested not only by the results from the ‘credibility checks’ but also from the quantitative analysis of this thesis.

In the equations, it was unexpected that esteem was not statistically significant for market capitalization; or for the luxury construct. This result was unanticipated, considering that brand esteem and factors such as credibility, quality, and prestige (a component of the luxury construct), have been associated with global brands (Swoboda et al., 2012), and for instance, the brands in BAV’s database are global (Johansson and Ronkainen, 2005). A potential explanation for this result is that, according to Mizik and Jacobson (2008), esteem may be irrelevant when measured against market capitalization as investors are mainly interested in short-term gains in brand esteem that could lead to increased profits. Thus, the non-significance of esteem for market capitalization could be explained by the long-term management approach, which is commonplace in luxury. Regardless, leadership and reliability scores may be driving overall brand esteem scores lower, considering that high-quality scores are higher in the dataset.
Despite the previous discussion on whether or not leadership should be part of the brand esteem construct to increase the applicability of this construct within luxury; it is necessary to stress that esteem, as a whole, is an important determinant of brand value. Esteem can create and preserve brand value in luxury. Moreover, esteem is recognized as a factor of success of global brands (Johansson and Ronkainen, 2005). The implication of the importance of esteem for brand managers is that, as mentioned earlier in this section, luxury brands should not compromise on quality, and they should provide both an excellent product and an excellent customer experience. In conclusion, by nurturing their brands and trying to be the best within their corresponding level in their given category, luxury brands will be able to increase and preserve their brand value.

6.7.3 Knowledge

Brand knowledge was not statistically significant in any of the equations conducted for this thesis, however, it was considered relevant for brand value during the ‘credibility checks’. Therefore, it is possible to conclude that the importance of knowledge for brand value in luxury is overemphasized. During the qualitative interviews, interviewees discussed how knowledge was considered to be an important source of brand value, but in practice, it appeared to have limited influence, as regular and non-regular consumers have a different level of interest in brand knowledge. During the ‘credibility checks’, interviewees addressed how brand knowledge is important as part of a brand relationship; and how knowledge is related to consumer loyalty. However, interviewees also discussed how the meaning of brand loyalty is becoming less relevant and hence brand knowledge. These themes are discussed and analyzed below.

A fundamental goal of luxury brands is to develop a long-term relationship with their customers, so that their customers can participate in what the brand has to offer, take advantage of the brand universe, and incur in repeated purchases. In the view of the interviewees, the industry can build brand relationships by
conveying knowledge to consumers. During the ‘credibility checks’, a stakeholder stated the following:

“Customers want to have a relationship with the brand... By definition in a relationship you want to know more but they also want you to find more about them... They also want to see that they maintain a relationship; as it is good for them and resonates for them as a way to connect with.”

Another interviewee from a fashion brand owned by the largest luxury conglomerate in the world indicated:

“There is a relationship that forms. That creates loyalty, and like any relationship, it is based in a deepening knowledge and a two-way dialogue and an emotional connection.”

To complement these comments, a stakeholder gave a statement in the same direction:

“They [customers] love to hear the story behind the brand. They love to understand the elements that create a brand... the founder, why the founder selects what he/she does, they want to hear the story... because that helps them to enjoy the brand and also gives them reasons to believe why a brand is relevant.”

These comments highlight how, in the view of the interviewees, luxury customers are interested in knowing about a brand; and that brand knowledge plays an important role in forging brand relationships and brand loyalty. Brand stories can shape brand perceptions, raise awareness, make customers evaluate brands more positively and even increase their brand value (Lundqvist et al., 2013). Given these comments, there is a need for luxury brands to provide product information to customers; as this information leads to purchases and better attitudes towards a brand (Kim et al., 2015). However, how much brand knowledge is enough within luxury?

A further consideration is that in the comments presented above, interviewees said that brand knowledge could lead to loyalty, but they did not elaborate on the role that loyalty has for knowledge. Therefore, it is not likely that a non-
loyal consumer has the same level of interest in information about a brand than a loyal consumer.

To illustrate the differences among consumers, Tsai (2014) makes a distinction between spuriously loyal and attaching consumers. Loyal consumers are more devoted to brands but they can switch their loyalty once incentives are offered to them. In contrast, attaching consumers have deep bonds with the brand and may resist temptations to switch to another brand. Additionally, Romaniuk et al (2007) make a distinction in terms of brand knowledge, indicating that customers have a level of knowledge of the brands they use, but their knowledge of brands they do not use is minimal.

Based on these differences, it is possible to assume that different types of customers have different types of knowledge. In fact, in section 6.7.2, was discussed that in luxury there are two types of customers (educated and ‘uneducated’) in terms of how much they know about the quality of luxury products. However, there are also differences between loyal and non-loyal customers in terms of brand knowledge, as acknowledged by interviewees during the ‘credibility checks’. Moreover, some interviewees even recognized that customers do not particularly seek brand knowledge. These views contrast slightly with the industry views provided earlier in this section.

An interviewee from an emerging luxury brand stated:

“Loyal consumers always find their way towards the brand, regardless. For my brand, some people come looking for it. For the most part is the relationship they have with whomever they shop. So if it is sold in a boutique, the person at the boutique is the one who is going to be selling that item... However, if you are an Hermès customer, you go to an Hermès store because you are looking for a very specific item and you know it is there.”

The previous statement highlights how loyal customers have brand knowledge but, at least for emerging brands’ customers, brand knowledge is not that relevant. Likewise, a different stakeholder believed that customers are not
particularly interested in brand knowledge, but by conveying brand knowledge to others, it is possible that luxury brands create loyalty.

“Loyal consumers have an expectation that if you spend $2,000 with them, you [the brand] are telling the neighbor across the street that the logo I am wearing is the one I am actually wearing...By sharing it I become a loyal consumer.”

Additionally, an interviewee from a fashion luxury brand with over $30 billion in sales acknowledged that there was a difference between loyal and non-loyal consumers:

“Transactional clients probably have a much more superficial interest in the brand, and certainly that is why they are only conducting a one-time transaction. They do not have that interest to go deeper. Therefore, they do not become a multi transactional client that by definition becomes more loyal.”

To summarize, based on the input received during the ‘credibility checks’, brand knowledge is seen as a very important factor for brand value in luxury. However, there are differences between how much loyal and non-loyal consumers want to know about a brand. Thus, it is not clear the level of brand knowledge demand across consumers. These differences are also evident in the literature, as there is indication that some customers care about brand knowledge (Chen and Lamberti, 2015), while other authors consider that luxury consumers “are now well-informed, individualistic, demanding and above all no longer loyal to a single brand” (Okonkwo, 2007, p. 36). In contrast, there are even authors who believe that there is an excess of customer information which surpasses consumers capacity to process it (Usunier, 2011).

It is important to add that with respect to loyalty, a stakeholder made a similar comment to Okonkwo’s by highlighting how loyalty is a concept that is becoming outdated:

“I do not think about this notion of loyalty where I feel committed...the notion of loyalty is a little bit outdated. It is like Louis Vuitton. You are starting to see now in luxury a de-emphasis of the external brand or logo
on the bag or whatever it is... It is a recognition that people are slavishly loyal - I am a Chanel person, I am always going to be... That does not feel that it is like people are referring to those brands.”

This argument suggests that the term ‘loyal customer’ may need to be studied in further research, and perhaps a new term, such as ‘recurrent customers’ could be more appropriate to describe customers who are more engaged with a brand. Also, the previous comment implies that luxury companies are betting on brand knowledge to create loyalty. However, in reality, there is a ‘disconnect’ between how much people want to know about a brand and how committed customers are to brands. In other words, there is a difference between how brands position themselves and how customers perceive them (Batey, 2008).

Fischer et al (2010) consider that brand knowledge is important, as it can affect decision-making. However, the authors make an interesting distinction between the strength of brand knowledge and to what extent brand knowledge affects decision-making. An implication of this distinction is that for example, Louis Vuitton and Coach may provide the same level of knowledge but still customers perceive both brands differently. This suggests that measuring actual knowledge is not as important as measuring the level of knowledge that luxury customers are interested in.

In terms of implications of these findings for the industry, overall, luxury brands should put less emphasis on knowledge and instead refocus these efforts into other consumer pillars such as differentiation, which is likely to result in higher brand value. Also, while a level of brand knowledge is still essential in luxury, brand managers should consider a two-tier approach to this construct. This implies that brands need to disseminate a basic level of information aimed at both current and potential customers; and then, being able to convey more information to recurrent customers as they demand it. As it has been discussed throughout this chapter, luxury is moving towards a more relationship-type of business. As such, there will be instances when customers will want information and, thus, brands need to be prepared to provide it when customers request it. The same applies to the dissemination of CSR information. Existing research
suggests that “CSR information is not presented in a user-friendly form, nor it is communicated with enough skill or credibility to raise awareness” (Carrigan et al., 2004, p. 409).

Additionally, brands should not bank on the concept of loyalty, and instead, they should recognize that modern customers are more opportunistic and can be ‘loyal’ to multiple brands. Finally, brand managers should also be aware that the entire luxury industry is putting too much emphasis in conveying the story of a product. While conveying a story has been traditionally perceived as a key component of luxury and helps fuel the dream factor (Kapferer, 2009); ultimately, customers are more interested in the actual luxury items they purchase, than on the story of the brand itself. Accordingly, as suggested by interviewees and based on the results of the statistical analysis, it is possible to conclude that the importance of brand knowledge to create and preserve brand value in luxury is overemphasized.

6.7.4 Relevance

Brand relevance is considered an important success factor (Som and Pape, 2015). Therefore, brand relevance was statistically significant during the quantitative analysis. Similarly, during the ‘credibility checks’, this construct was found relevant by interviewees. This suggests that relevance is an important determinant to create and preserve brand value (together with the other pillars, energized differentiation and esteem). During the qualitative interviews, relevance was discussed in terms of how it increases perceptions, but it is difficult to evaluate it from a financial perspective. Another theme discussed was that brands can create relevance by taking into account customer views and align them with the DNA of the brand. During the ‘credibility checks’, the themes discussed by interviewees were: Relevance is about current and future customers; relevance is a differentiator; in luxury desirability may be more important than relevance. Thus, these themes illuminate the understanding of this pillar and how it may need to be modified to make it more applicable within a luxury context.
While discussing relevance, during the ‘credibility checks’, interviewees highlighted the importance for brands to be relevant not only to current customers, but to potential customers. An interviewee from a French haute couture house made the following statement:

“Brands need to be relevant to the target consumer. The brand has a certain target consumer and relevance is important to that target consumer. It may not need to be relevant to all consumers to create that brand value, in particular in the luxury market place. Brands need to identify the appropriate consumer and create relevance for that customer target… future customers could also be part of the target.”

Given these points, luxury brands need to target both revenue and non-revenue clients. As stated in the second statement, brands should only target current or future customers, rather than ‘customers’ that may never be able to afford their brands.

Based on the input from the ‘credibility checks’, it is evident that being relevant is essential for luxury brands. In fact, relevance is something that is associated with an intention to purchase (Lysonski, 2014). As stated by an interviewee from a niche gourmet brand: “Relevancy is needed to create desire and demand for the product you are selling”. An example of this is Lanvin, which was founded in the late 1800’s, and went into a period of decline. Even so, from the mid 2000’s, due to the work of a new creative director and the changes he made to the brand, Lanvin resurfaced and became relevant again. Because of its regained relevance, Lanvin has increased its brand value and now has stores and customers in the most prestigious luxury markets in world. This example illustrates that there is a delicate balance between relevance, consumer demand, and brand value. Accordingly, it is essential that brand managers focus on tracking and managing brand relevance so that it can increase over time. An interviewee from an emerging fashion brand stated:

“It is critical for luxury brands to be relevant... is important to create and aura around the brand and a desire in the consumer. Relevancy is a key aspect of creating that type of mystique.”
Despite the importance of relevance for brand value, some interviewees considered that a brand needs to go further than just being relevant. In their view, being relevant is not enough within luxury. For instance, during the ‘credibility checks’, a stakeholder questioned the suitability of the term relevance by stating:

“They [brands] have to be more though. They have to be rationally desirable. Relevance sounds like I am looking for a detergent to clean my clothes. For me that sounds like relevant. When you buy a luxury good it goes beyond relevance. It goes to your rational desire. So it is relevant but it is something stronger than that.”

To complement the previous view, another stakeholder stated:

“Luxury brand by definition is all about desire. It does not equate relevance... it is not relevant as it is not necessary. I do not need another handbag, another suit... Luxury brands need to be relevant because what they offer today more and more, and what generates their economic wellbeing are day to day utilities such as cosmetics and accessories...they are moving their models down to consumables which are relevant because they call people, they shade their eyes, they makeup their faces, and do things that are available to the common mortal.”

Based on these comments, it seems that relevance is at a lower hierarchy than desirability. As stated by Chandon et al (2015), consumer perceptions can result in brand desirability enhancement. Therefore, desirability is the result of consumer perceptions. An example of this is that all luxury consumers probably know that Louis Vuitton’s monogram bags are relevant, as it is the most demanded line within the brand’s offering. However, the fact that monogram bags are relevant does not mean that they are desirable. A number of customers are deterred by the ubiquity of the monogram pattern and, thus, they desire something more exclusive. This finding can question the suitability of relevance as an appropriate pillar for consumer-brand value within luxury. It is important to mention that BAV does not currently measure desirability, so this is a potential factor that could be researched in subsequent studies. The potential unfitness of relevance as a pillar of consumer-based brand value could be the
reason why relevance was not statistically significant as a determinant of market capitalization. In other words, luxury brands may not be relevant given that luxury products are not the result of an actual need. Hence, desirability could be a better discriminator for investors to decide whether or not they should invest in a given brand.

In conclusion, while further study is needed to determine the fitness of desirability as a potential substitute of relevance for consumer-based brand value, relevance is a significant determinant of brand value in luxury. Fischer et al (2010) consider that brands need to be relevant for consumers so that there can be economic benefits in a firm. This highlights the importance of relevance for brand value, as shown in this research. A final consideration is that if a firm has high relevance, it can be implied that consumers are already weighting other elements such as a quality and reputation, and trust (Lyonski, 2014). These elements are highly related to esteem, and energized differentiation. This suggests that these consumer pillars all work together, as one feeds into the other. Consequently, luxury brand managers need to manage esteem, relevance and energized differentiation strategically altogether, as they create and maintain brand value in luxury.

6.8 Differences within Luxury

Throughout this chapter have been analyzed and discussed the different determinants of brand value in luxury. While the results of the statistical analysis and the ‘credibility checks’ identified the key factors that influence brand value in luxury, it is necessary to highlight that luxury is very diverse and there is no such a thing as a ‘one-size-fits-all’. During the ‘credibility checks’, two themes emerged in terms of the existing differences within luxury: There are differences by category, but also by brand; and while the factors creating brand value are the same, each brand needs to manage them differently. This indicates that each luxury brand, according to its specific DNA, target market, and business conditions need to decide on the right success mix for the brand. These themes are discussed and analyzed below.
Since this thesis seeks to provide a general understanding of the role of CSR and brand value in luxury, it is necessary to discuss the main differences existing within the luxury industry.

An interviewee from an emerging luxury brand indicated the following:

“Luxury is very diverse and the value of each brand caters to different dynamics and niches.”

Based on this comment, a brand like Hermès cannot communicate with its customers in the same way that Moschino does. Moschino can be considered more irreverent and focused on a younger demographic. Conversely, Hermès can be considered more traditional and focused on an older and wealthier demographic. Accordingly, the value of a brand will reflect those characteristics and, hence, the fact that Moschino has a brand value of $1 million dollars and Hermès of $2 million dollars does not say much.

Furthermore, another interviewee from a luxury brand involved in gemstones stated that luxury is getting amorphous, as many people can afford it. Therefore, there is a lot of diversity in the way a luxury brand delivers and the way a brand communicates its message to different customers.

For instance, a company like Dior operates across different categories, including beauty, fragrances, accessories, fashion and haute couture. Within those categories, the products on offer are very diverse, and can range from lipsticks to sunglasses, jeans and dresses. Their pricing will also be very different, ranging from $35 dollars for a lipstick to over $7,000 dollars for a watch, and hundreds of thousands for a wedding dress. This implies that the brand will have a very diverse type of clients, and it needs to be able to deliver desirable products and communicate with all its customers.

In terms of these differences, an interviewee from a lifestyle French brand indicated:

“There are so many elements that create the luxury brands. So it is important to look at your brand individually to see where your strengths
and weaknesses are, and where your opportunities are...it is different for every company."

Another interviewee from an Italian luxury brand indicated that certain elements such as quality or controlled distribution are the same across luxury but the difference depends on how each company approaches them. The previous comment was echoed by other interviewees. For example, an interviewee from an Italian gourmet company indicated that one-size-does-not-fit-all, as it is different if a brand sells fashion or wines and spirits. However, many elements such as controlled distribution or price remain the same.

The meaning of these last two comments is that brand value in luxury does not only vary at the individual brand level but also by brand category. In other words, the determinants of brand value analyzed throughout this chapter are likely to remain the same, but their importance may fluctuate by brand category. As an illustration, while having fully controlled distribution makes sense for Louis Vuitton, this would not make sense for Gucci fragrances or for Moët & Chandon champagne. For instance, Louis Vuitton or Gucci articles are expensive, but due to their popularity, they also have a higher probability to be counterfeit. Hence, by selling Louis Vuitton exclusively through its own stores, the brand can control where Louis Vuitton is sold, and customers can be certain that the products they buy from Louis Vuitton are originals. In contrast, Moët & Chandon champagne or Gucci perfumes have a much lower price point and, as a result, these luxury brands need to sell higher volumes to generate revenue. That is why Moët & Chandon champagne and Gucci perfume are offered at duty free locations in airports around the world, and at third party stores. Accordingly, it would be unviable for Gucci or Moët & Chandon to intend to sell their products exclusively at their own stores, as this strategy would be highly expensive and would result in lower sales volumes.

On the ‘right formula’, an interviewee from a large French brand indicated that each luxury brand needs a formula that creates desirability, products that are relevant to customers, and communicates that. The interviewee also added:
“Ultimately how the brand is managed and protected and nurtured over the years is what differentiates them; as well as the product. So it is never going to be the same and the approach is always going to be different, but there is a formula to make it work.”

This suggests that there is a ‘formula’ to create, preserve and leverage brand value; as brands such as Louis Vuitton, Gucci, Cartier, Hermès, Tiffany & Co., Prada, or Burberry are considered to be some of the most valuable brands in the world (Interbrand, 2014). In the view of a stakeholder, the secret of success relies on offering the best product and the best service:

“You can have brand value and brand values that are completely different and still deliver value to different people, or to the same person from different brands... there are different mixes and a brand should strive to optimize them...technically there is a formula; you need the best product, the best service...now the definition of best is in the mind of consumers.”

Likewise, an interviewee from a jewelry brand owned by one of the world’s largest luxury conglomerates reinforced the view provided by other interviewees by indicating that models are different in every organization. The interviewee said that for example, handbags, shoes and jewelry are all different markets. As a result, in the view of that interviewee, the models are not the same, despite the fact that there is some overlap, given that some brands offer products across all these categories. The interviewee added that the main point to consider is that besides these differences, the key elements remain the same. The interviewee concluded:

“It is just that everybody has a different way to manage them or communicate them correctly, and everybody does that differently. That is where the model is different.”

The implication of the previous comments for the brand value model discussed in this research is that not all factors influencing brand value will be equally important to create and preserve brand value. In fact, CSR may be more important than marketing for a brand where its DNA expressly considers CSR as a core component of the brand. Similarly, COO may be more relevant than
marketing and R&D/Design for a brand that does not conduct any marketing, but that it sources its cashmere from countries producing the best available baby cashmere in the world. In other words, all key elements in the model are important, but they need to be prioritized differently. This finding is in line with Christodoulides et al (2015) who consider that the suitability of the brand value construct should be assessed based on the actual context. Simply put, the relevance of the determinants of brand value discussed throughout this thesis can vary depending on the specific characteristics of each luxury brand.

From a literature point of view, there is agreement on the fact that there are significant differences within luxury, but there is no consensus on these differences (Kim et al., 2016). Riley et al (2015) provide a similar view, by indicating that consumers react differently, depending on the category they are in. As a consequence, this suggests that the factors creating consumer-based brand value in luxury can change by brand category.

Other authors such as Seo and Buchanan-Oliver (2015), and Kapferer and Michaut (2015) go a step further by indicating that in luxury there are differences from country to country. Conversely, Som and Pape (2015, p. 24) state that “As luxury is a highly institutionalised context, it leaves little room for the brand to follow a unique strategy”, a view that is completely the opposite to the results obtained in this thesis and from what was conveyed by industry experts during the interviews. This lack of consensus was also observed during the ‘credibility checks’, although interviewees agreed on the importance of delivering excellence - excellent products and an excellent customer experience.

**6.9 Summary**

Throughout this chapter, a number of factors that influence and preserve brand value in luxury were discussed and analyzed. However, the discussion and analysis is built around the ‘credibility checks’. Considering that this research followed a mixed methods approach, it is now necessary to recap which determinants of brand value matter the most within luxury, from both a qualitative and quantitative perspective.
Table 31 presents the determinants of brand value discussed throughout this chapter. This table considers, both the results from the ‘credibility checks’ and the results from the quantitative analysis, so that it is possible to determine which determinants are key for brand value in luxury. As stated earlier in this chapter, if the results from both phases were positive, then it can be concluded that the factor is important. If, in change, the coefficient was significant in just one of the phases, it is likely that the coefficient is either overlooked (if it is statistically significant but it is not considered important in the interviews) or overemphasized (if it is not statistically significant but it was considered important in the interviews). As presented in the table, the determinants that were significant in both phases are CSR, company size, energized differentiation, esteem, marketing and R&D/Design, and relevance.
## Results, Analysis and Discussion from ‘Credibility Checks’

<table>
<thead>
<tr>
<th>Significant Coefficient?</th>
<th>Quantitative Analysis</th>
<th>‘Credibility Checks’</th>
<th>Why?</th>
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<tbody>
<tr>
<td><strong>CSR</strong></td>
<td>YES</td>
<td>Interviewees agree this is important</td>
<td>CSR can be used to reach out to more customers, enhance brand perceptions, and act as a differentiator. CSR in luxury will become a key brand discriminator in the future. Thus, all luxury brands should work on implementing it.</td>
</tr>
<tr>
<td><strong>Company size</strong></td>
<td>YES</td>
<td>Interviewees agree this is important</td>
<td>Larger brands have advantages over smaller brands as it makes it easier to increase brand perceptions, brand awareness and have access to more opportunities.</td>
</tr>
<tr>
<td>(number of employees)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Controlled distribution</strong></td>
<td>YES</td>
<td>May be overlooked</td>
<td>It can allow brands to better control the experience and to create consistency on what is offered to consumers and how</td>
</tr>
<tr>
<td><strong>Counterfeiting</strong></td>
<td>NO</td>
<td>May be over emphasized</td>
<td>Counterfeiting can damage brands, but it normally occurs when a brand reaches a high level of success. Higher margins and product changes can offset its negative effect.</td>
</tr>
<tr>
<td><strong>COO</strong></td>
<td>YES</td>
<td>Interviewees agree this is important</td>
<td>Especially important for heritage brands. It can help create brand perceptions and increase brand differentiation.</td>
</tr>
<tr>
<td>Significant Coefficient?</td>
<td>Quantitative Analysis</td>
<td>‘Credibility Checks’</td>
<td>Why?</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------------</td>
<td>----------------------</td>
<td>------</td>
</tr>
<tr>
<td>Marketing and R&amp;D/Design</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>Interviewees agree this is important</td>
<td>Marketing conveys what a brand is about and relies on both the brand and the consumer and both parties control it. R&amp;D/Design can help brands innovate and differentiate themselves</td>
<td></td>
</tr>
<tr>
<td>Energized differentiation</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>Interviewees agree this is important</td>
<td>Brands need to keep reinventing themselves to be able to create differentiation and stay on top</td>
<td></td>
</tr>
<tr>
<td>Esteem</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>Interviewees agree this is important</td>
<td>High-quality and reliability can influence whether or not a brand will be considered a leader. Brand esteem conveys a message that a brand fulfills on its brand promise</td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>May be over emphasized</td>
<td>While a certain level of knowledge is essential in luxury; the industry is providing more knowledge than what customers are interested in. While conveying brand knowledge, brands need to understand that consumers are becoming more opportunist and are not loyal to a single brand. Thus, other determinants of brand value are more important</td>
<td></td>
</tr>
<tr>
<td>Relevance</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>Interviewees agree this is important</td>
<td>Being relevant, but more importantly, desirable; is essential in luxury, as it has an impact on consumer demand, and brand value</td>
<td></td>
</tr>
</tbody>
</table>

Table 31: Final Findings from Qualitative and Quantitative Analysis
In terms of COO, as discussed in Chapter 4, it appears that it may be relevant for brand value given that it can impact consumer decisions (Carrigan and Pelsmacker, 2009); and country conditions for brands are likely to vary from country to country, due to the different environment in each country (Christodoulides et al., 2015). Still, more research is needed to reach a definite conclusion. However, given the association of COO with luxury and its perceived importance during the ‘credibility checks’, it is shown as a significant contributor to brand value.

To conclude, as shown in Figure 17, CSR, company size, COO, marketing and R&D/Design, energized differentiation, relevance and esteem are essential to create and maintain brand value in luxury. In addition, luxury brands need to put higher emphasis on fully controlled distribution, while reducing the emphasis they put on conveying brand knowledge and fighting counterfeiting. As a note of caution, in terms of counterfeiting, this research does not suggest that brands should not do everything they reasonably can to reduce it. However, other brand actions such as controlling distribution, are more likely to result in higher brand value than fighting counterfeiting. Ultimately, to create and preserve brand value in luxury it is essential to prioritize all the factors that matter together with the ones currently overlooked. Lastly, it is important to highlight that this prioritization will need to be based on the particular characteristics of each brand, including its brand DNA and the target customers they have.
Results, Analysis and Discussion from ‘Credibility Checks’

Figure 17: Determinants of Brand Value in Luxury

IT IS IMPORTANT

- Company Size
- Marketing and R&D / Design
- Esteem
- CSR

IT MAY BE OVEREMPHASIZED

- Country of Origin
- Energized Differentiation
- Relevance
- Counterfeiting
- Knowledge
- Controlled Distribution

IT MAY BE OVERLOOKED
Chapter 7: Conclusion

As stated in the introduction, the purpose of this thesis was to explore how the concept of Corporate Social Responsibility (CSR) contributes to brand value in luxury. In particular, how the role of CSR in luxury is contextualized by the other factors influencing brand value in this industry. This chapter discusses the conclusions reached as result of this research. It then discusses how the theoretical and practical contributions followed by how the research objectives were fulfilled. Finally, the chapter discusses the managerial implications of this thesis and finishes with a discussion of further research that could be pursued in this area.

7.1 Conclusions Reached As a Result of This Thesis

In what follows there is a summary of the key conclusions reached as part of this thesis, during the qualitative and quantitative analyses and the credibility checks:

Qualitative Interviews

- The luxury industry understands the complexity of CSR, but CSR implementation within luxury is not motivated by ethical drivers. The main motivation to incorporate CSR is to meet stakeholder expectations, to insulate the brand if something goes wrong and to promote CSR undertakings as a marketing tool.
- CSR and luxury require a long-term vision to be pursued. The luxury industry needs to balance its long-term vision with shorter-term action plans so that it can grow sustainably, be socially responsible and remain financially successful.
- There is a mixed level of CSR implementation as well as CSR knowledge across luxury brands. Implementation ranges from high-level interest with no action, to brands implementing full CSR programs from scratch.
- Upper Class and prestige are attached to the perception of luxury, and they are perceived within the industry as strategic components of luxury.
Therefore, it is important that brands try to enhance these perceptions while making sure that they do not lead to overexposure.

Quantitative Analysis

- In terms of company-based brand value, the statistical analysis suggested that COO, firm size, R&D/design, marketing, controlled distribution and CSR were contributors to brand value. Counterfeiting was not deemed relevant for brand value.
- With regard to consumer-based brand value, the statistical analysis suggested that energized differentiation, esteem and relevance were contributors to brand value. However, brand knowledge was deemed not relevant from a brand value perspective.

Credibility Checks

- Mainly large brands and a limited number of smaller brands have realized the potential that CSR can offer to luxury brands. CSR provides an additional opportunity for brands to create brand value and it should not be disregarded. However, CSR is currently perceived as a minor consideration within the industry and at some degree, with incredulity.
- CSR is pursued as a branding strategy, as the main goal behind implementing it is to promote a brand, to drive awareness and help fuel the dream factor of a brand. Thus, luxury brand efforts are not generally substantial and are limited to a handful of initiatives, mainly within philanthropy, and not within the rest of the social and environmental dimensions of CSR.
- In terms of CSR’s contribution to brand value, CSR forms part of a larger group of company-based determinants that, managed together, contribute to brand value for luxury brands. These other company-based determinants are: company size, controlled distribution, COO, marketing and R&D/design. In addition to these company-based factors, there are also consumer-based factors that create brand value in luxury, namely: energized differentiation, brand esteem and brand relevance.
- From the determinants of brand value listed in the bullet points above, controlled distribution is overlooked by the industry, which suggests that
it is a more important contributor to brand value than what the industry considers it to be. In contrast, brand knowledge and counterfeiting are overemphasized by the industry, as it is given a higher priority by luxury brands than what they have. The industry is currently allocating significant resources to fight counterfeiting and convey brand knowledge. However, only a handful of brands such as Louis Vuitton are fully controlling their distribution.

- With regard to the company- and consumer-based factors of brand value identified in this research, while all factors are relevant, they need to be prioritized differently by each brand, depending on its brand DNA and specific context.

### 7.2 Theoretical and Practical Contribution

Section 1.2 introduced the theoretical and practical contributions of this thesis. This section revisits that section by discussing further the specific contributions of this research.

#### 7.2.1 Theoretical Contribution

This thesis makes a theoretical contribution in two areas within luxury: CSR and brand value. In terms of CSR, this thesis makes a contribution by identifying how CSR is perceived within luxury and how it is pursued. With regard to brand value, this thesis makes a contribution by identifying the factors that create brand value in luxury. Furthermore, an additional contribution of this thesis is the proposal of a luxury construct based on consumer perceptions regarding how upper class and prestigious a brand is perceived to be.

#### 7.2.1.1 CSR within Luxury

**How CSR is Perceived in Luxury**

This research found that CSR is not fully understood by the luxury industry, and it is not perceived as a key contributor to brand value. The industry understands that CSR matters but its influence for brand value is not as high as
other factors. Also, based on this lack of understanding of CSR, this research found that the industry fails to realize that CSR is essential for luxury brands to have, as it can help create a competitive advantage (Carrigan et al., 2016), differentiation (Gordon et al., 2011), and help reduce risk (Kapferer and Michaut, 2015). Thus, it is critical that CSR is incorporated into business propositions (Crane, 2005) and embedded into a company's core business (Carrigan et al., 2013).

This research also found how CSR is perceived by executives and stakeholders within the luxury industry, including the CSR strategies undertaken by the industry and the main reasons behind their implementation. Additionally, this research provided insider views, as the results from this thesis emerged from high-quality data from a consumer panel and input from industry experts from a wide range of luxury firms, from emerging brands to some of the most valuable luxury brands in the world in terms of brand value. More specifically, CSR is perceived differently in terms of what it means for customers, what it means to luxury companies, what it means as a general concept and what advantages it can provide to the industry. This is important as brands may be able to align to these different perceptions, so that both, the company and its customers talk the same language when referring to and/or pursuing CSR.

How CSR is Pursued in Luxury

This thesis found that CSR is pursued as a branding strategy within luxury. Existing research had not characterized how CSR could be positioned within luxury. Thus, this thesis complements research on the strategic positioning of CSR (see Crane, 2014) by proposing a new category. Under this proposed category, CSR efforts are not substantial and are generally limited to a handful of initiatives, mainly within philanthropy, but they do not span to the rest of the social and environmental dimensions of CSR. By pursuing philanthropic efforts, brands can reallocate funds from marketing expenses to philanthropy to drive brand awareness, fuel the dream factor of their brands and be more tax effective. However, by doing so, brands are not necessarily addressing key
issues within the domain of CSR, such as human rights, environmental impacts, or unethical practices in their supply chain.

7.2.1.2 Brand Value in Luxury

Factors Contributing to Brand Value
This research made a theoretical contribution in brand value by identifying the factors that, in addition to CSR, influence brand value in luxury. These determinants were obtained using a holistic approach, which incorporates consumer- and company-based factors. Thus, this thesis proposed a model with the most relevant elements for brand value in luxury. The model combines insights from the luxury industry and results from a statistical analysis using linear modeling. Brand value is a multi-variable construct (Ailawadi et al., 2003; Christodoulides et al., 2015; Davcik et al., 2015). Since brand value is a key asset within luxury (Okonkwo, 2007), it is essential that luxury brands create and preserve it. The findings show which company-based (CSR, company size, COO, marketing and R&D/Design, energized differentiation, esteem, relevance) and which consumer-based determinants (energized differentiation, esteem and relevance) matter in luxury. Also, this thesis identifies which determinants appear to be overemphasized (counterfeiting, knowledge) and which ones are overlooked (controlled distribution). This contribution is unique in the sense that CSR in luxury had not been studied in the literature from a brand value perspective, and existing research has not taken into account, both consumer-based brand value and company-based brand value.

Luxury Construct and Suggested Changes to Brand Value Constructs

This thesis proposed a luxury construct to study luxury perception based on how upper class and prestigious a brand is considered to be by consumers. Additionally, this thesis proposed changes to existing constructs of consumer-based brand value (esteem and relevance) to make them more suitable within a luxury context. These three variables (luxury construct, esteem and relevance) have not been used in the literature in empirical analyses related to luxury.
Thus, this thesis sets a precedent for their inclusion in future studies related to luxury and brand value.

### 7.2.2 Practical Contribution

This thesis made two practical contributions. First, it identified that company size, COO, R&D/Design and marketing were important for the industry to create and preserve brand value. In addition, this research found that knowledge and counterfeiting were overemphasized by the industry, while controlled distribution was overlooked. By identifying which determinants of brand value matter the most, the luxury industry may be able to redirect its efforts into the determinants that have a greater impact.

Second, it analyzed the consistency between luxury and CSR. CSR is consistent with key attributes of luxury (high-quality, service, brand familiarity) and with luxury’s long-term vision. These similarities highlight the compatibility between CSR and luxury. Furthermore, this research looked into how CSR could be approached by the industry. By finding that CSR can contribute to increased brand value and to increased market capitalization, and suggesting how it could be pursued within luxury, this thesis makes a strong case for the industry to look into CSR implementation.

### 7.3 Fulfillment of Research Objectives

The following subsections address how the research objectives (RO) introduced in Section 1.1 were fulfilled in this thesis. The legends in the parenthesis correspond to the RO numbers in Section 1.1.

#### 7.3.1 Industry Perception of CSR and How it is Implemented (RO1a)

This research found that CSR is perceived differently among luxury companies but also within the same company. There was evidence in the non-luxury literature that CSR is perceived differently by different organizations, as CSR is
created based on company-specific contexts that reflect organizational values, beliefs and firm culture (Dahlsrud, 2008; Galbreath, 2010). The findings from this research concur with the non-luxury literature.

This research also found that not all dimensions of CSR are fully understood by luxury executives. CSR incorporates environmental, economic and social dimensions (Guercini and Ranfagni, 2013). However, as evidenced by the input provided by interviewees from the luxury industry, CSR is generally approached from its social dimension. Examples of common CSR activities pursued by the industry include philanthropy, the arts, local production, and the supply of raw materials from places where the integrity of their sourcing is unlikely to be questioned.

Despite these undertakings within the social dimension of CSR, other aspects related to the environmental dimension of CSR including reduced emissions, environmentally-friendly production processes, waste reduction or energy savings efforts, did not generally come to the mind of interviewees when talking about CSR. In other words, CSR is mainly understood as a social construct, and not as an environmental and economic one.

These findings complement Carrigan et al (2015), and Carcano (2013) who recognize that luxury brands need to do more from a CSR perspective, and that they need to implement CSR more comprehensively (Pessanha Gomes and Yarime, 2014). To be able to implement CSR more comprehensively, first, luxury brands need to understand, across their entire organizations, what CSR is about and the fact it is more than philanthropy or supporting the arts.

Another consideration is that, as the interviews with the luxury industry and existing literature show (Kapferer and Michaut, 2015), in many instances, luxury companies decide not to disclose their CSR undertakings. Moreover, CSR efforts are usually conducted at CEO level within an organization (Cavender and Kincade, 2014). This suggests that CSR will be known by the CEO or the CSR department, but not necessarily by the entire brand personnel across all levels, such as executives involved in marketing activities. As a result of this, only a
small portion of brand personnel will be familiar with the CSR actions undertaken by the brand. Therefore, they will not be able to support the brand’s goals in terms of CSR, as CSR needs to be embedded throughout the entire organization (Carrigan et al., 2013; Crane, 2005; Melo and Galan, 2011; Perry et al., 2014).

It is important to highlight that CSR cannot be isolated from the internal aspects of a company (Deakin and Whittaker, 2007; White, 2006; Woermann, 2013). CSR is created based on company-specific contexts and, therefore, it reflects the business strategies of organizations (Dahlsrud, 2008), as well as organizational values, beliefs and firm culture (Galbreath, 2010).

**7.3.2 Perception of CSR as a Contributor to Brand Value (RO1b)**

In this thesis, it was found that CSR is widely perceived by the industry as a factor with a relatively low influence on brand value. During the interviews, interviewees considered that CSR was relevant for brand value, but its importance was significantly lower than other determinants such as marketing, design, or consumer perceptions. These views are consistent with those discussed in the literature (See: Melo and Galan, 2011; Torres et al., 2012), with the exception that the views emerging from this research are related to a luxury context, while the previously referenced literature applies to non-luxury. Thus, this finding corroborates that, as is the case in non-luxury, CSR does not have a prominent role in terms of brand value in luxury.

An important consideration emerging from this research is that while CSR is currently not as important as other determinants in terms of brand value, this situation will change in the future, as the demand for CSR within luxury grows and external pressures increase its relevance. Existing literature discusses how increased consumer demand is expected to be driven by a younger generation of consumers who are more interested in CSR values (Achabou and Dekhili, 2013; Carrigan and Attalla, 2001). However, a call for more stringent CSR standards is also likely to come from stakeholders such as NGOs, media and trade organizations, regulation, and pressure from other brands as they adopt CSR.
standards that could be used as a benchmark within the industry (Carrigan et al., 2016). This finding is aligned with previous research (Chattalas and Shukla, 2015; Janssen et al., 2013; Kapferer and Michaut, 2015; Popoli, 2015), with the difference that in this case, based on input from the interviews, the industry is aware of the increasingly importance of CSR within luxury.

7.3.3 Perception of Brand Value within Luxury and How It is Managed (RO2)

This research found that brand value is not perceived in the same way by all luxury brands. In the literature there are studies analyzing the most significant determinants for brand value in non-luxury, but these studies fail to recognize the fact that brand value creation is not identical for all brands, which is one of the outcomes from this research (See: Chu and Keh, 2006; Madden et al., 2006; Torres et al., 2012). As a result, all key elements identified in the model presented in Figure 17 are important, but their importance can vary by brand. For example, it could not be an option for a small emerging luxury brand to have full control of its distribution, while this is something that a large luxury brand could afford. The same could apply to R&D, as a brand producing leather bags will not need to focus so much on R&D as a company producing luxury yachts.

Another important consideration is that luxury brands do not fully understand brand value, despite the fact that in the literature it is considered to be their most important asset (Okonkwo, 2007; Wood, 2000). Brand value is deemed to be the most important asset in luxury, but many luxury brands are not aware of its importance. In addition, brand value is not actively managed. This means that brand value is not actively quantified, tracked and leveraged by luxury brands. In terms of the literature, it should be noted that existing research indicates that some luxury companies actively manage their brands (Cohen, 2009). However, as part of their brand management, luxury brands are not considering all determinants of brand value emerging from this research.

Additionally, there is a lack of knowledge within the luxury industry about what brand value means; and in many instances, brand value was confused with the
luxury attributes pursued by each brand. Furthermore, when brand value was understood, it was perceived as an opinion produced by a third party, which was something not necessarily sought by a brand. This contradicts the recommendation made by Christodoulides et al (2015) who propose that instead of quantifying brand value, brands could track studies with their brand value information.

7.3.4 Consumer’s Role in Brand Value (RO3a)

To address this RO, the following research proposition was crafted (see section 3.3.8.1 for further details on this proposition):

Proposition 1 (P1): Consumers have a key role in determining brand value in luxury

The results from the statistical analysis showed that energized differentiation, esteem and relevance were relevant to create and preserve brand value. Additionally, the importance of consumers for brand value was reinforced during the interviews and the ‘credibility checks’, as there was consensus that consumers are essential for brand value creation.

7.3.5 Companies’ Role in Brand Value (RO3b)

This RO was addressed with the following two research propositions (see sections 3.3.8.2 and 3.3.8.3 for further details on these propositions):

Proposition 2 (P2): Market capitalization in luxury is impacted by brand value

Proposition 3 (P3): Luxury perception is related to brand value

The statistical analysis of P2 and P3 showed that company size, CSR, energized differentiation and luxury perception have an impact on market capitalization;
while company size, relevance, energized differentiation, controlled
distribution, and marketing and R&D/Design can shape luxury perception.

Based on the statistical analysis and the ‘credibility checks’, it is possible to
suggest that there are a number of factors that, in addition to CSR, contribute
to create and maintain brand value in luxury namely: **Company size, controlled
distribution, COO** (Hamzaoui-Essoussi et al., 2011), **marketing and R&D/Design,**
ergyzed differentiation, **esteem and relevance**. While existing research has
identified CSR and company size (Melo and Galan, 2011; Torres et al., 2012),
marketing and R&D/Design (Ailawadi et al., 2003; Fionda and Moore, 2009; Stahl
et al., 2012), and the pillars of consumer brand value (Mizik and Jacobson, 2009;
Stahl et al., 2012); there is no existing research analyzing both consumer and
company-based brand value determinants together. Also, there are no studies
attempting to model from an empirical perspective if controlled distribution can
have an impact on brand value, as this research does. Similarly, there is also no
existing research analyzing consumer and company-based brand value together,
within a luxury context.

Lastly, with regard to the last bullet point within RO3b related to the
differences within the luxury industry that can affect how brand value is
managed. The discussion in Section 6.8 provided insight on this RO. The
outcome from this discussion is that all the relevant factors discussed in
Chapters 6 and 7 are key for brand value in luxury. However, they need to be
prioritized at the brand level, depending on the specific characteristics of a
brand such as heritage, DNA, target market, the sector a brand is in, and the
resources they have.

In summary, by having analyzed all these determinants of consumer- and
company-based brand value together within a luxury context, it was possible to
gain a more complete understanding of what elements create and maintain
brand value in luxury. Based on the findings from this research, luxury
companies may be able to leverage their brand value, by targeting their
management efforts on the determinants of brand value that matter the most
from a brand value perspective, rather than those that appear to be overemphasized.

Finally, a further consideration is that the results from this research emerge from input received from the luxury industry. As stated by Kapferer and Bastien (2009, p. 320):

“... literature has so far little relevance for luxury brands. It has not explored the inside of the luxury companies or tried to understand the working models of the managers of companies such as Louis Vuitton, the most valuable luxury brand in the world.”

Thus, this research is not only relevant from an academic perspective but from an industry perspective. The managerial implications for this research for the luxury industry are discussed in the section below.

7.3.6 Managerial Implications

7.3.6.1 How the Luxury Industry Can Implement CSR to Create Brand Value

One of the findings from this research is that CSR policies within the luxury industry are seen as something taken care of by the CSR department and/or CEO office; instead of something comprehensive that every team member within a luxury organization can contribute to.

For luxury brands without CSR policies, it is essential that they work with their staff at all levels so that they can devise comprehensive CSR policies that are aligned with brand values (Cantrell et al., 2014). By doing so, it is more likely that employees will take ownership of CSR practices and will want to participate in CSR, something that can result in a more successful CSR program. Moreover, brands can also work together with trade groups, the government and consumers to develop CSR practices (Godart and Seong, 2014). These practices can be aimed at the entire luxury industry.
This research also found that given the growing importance of CSR within luxury and that it will be increasingly relevant in the future; it is essential that all luxury companies, large and small, emerging and long-standing incorporate CSR into their brands. With regard to how the luxury industry can implement CSR to create brand value, CSR policies and practices need to be aligned with the essence/DNA of the brand, so that they can be seen as authentic. In terms of the literature regarding the importance of CSR within luxury, Kapferer and Mitchaut (2015) call for the incorporation of CSR by luxury brands, as not doing so could result in diminished brand value. Furthermore, the view that CSR practices need to be perceived as authentic, is in line with McEachern (2015) who suggests that non-authentic CSR practices could be perceived as greenwashing. Thus, these findings are in line with the literature, with the difference that in this case, these emerge directly from interviews with the luxury industry.

Moreover, it is clear that in addition to having CSR policies and practices in place, luxury companies should drive CSR awareness, both externally and internally. An outcome from this research emerging from the interviews is that CSR demand within luxury is still low. It is important to note that the literature already calls for driving CSR awareness among consumers (See: Chernev and Blair, 2015), although these calls are not related to a luxury context. Similarly, the existing literature also discusses that there are low levels of CSR awareness among consumers (See: Gordon et al., 2011). However, these findings do not emerge from empirical research and/or a study conducted within a luxury context. Thus, at the internal level, a key strategy to increase CSR awareness within a brand can be the creation of educational programs for employees. These programs can be aimed at explaining what CSR is, how it is perceived by the brand, what the key pillars of CSR are for the brand, and how each employee at every level can contribute to achieve the CSR vision for the brand. This strategy was being pursued by a participating firm in this research and had produced positive results. Hence, it could be adopted by other firms within luxury.
At the external level, CSR can help enhance brand reputation (Mishra, 2015) as long as it is perceived as genuine (Chernev and Blair, 2015), and it is implemented holistically (Meyer, 2015). Moreover, in order to be perceived as trustworthy, luxury brands pursuing CSR need to incorporate CSR into their core values (Blombäck and Scandelius, 2013). From a practical point of view, brands could refer to their heritage in their CSR communications, highlighting how environmental and social values have remained within the company over time. Thus, they can signal that their values are embedded into the brand and have had continuity (Ibid, 2013). In that way, CSR communications could help luxury brands to drive CSR-related consumer awareness (Janssen et al., 2013).

An important consideration that needs to be noted is that, as discussed in section 6.1 ‘CSR’ of Chapter 6, luxury brands can select a higher or lower level of CSR implementation, depending on how they want to position their brands in terms of CSR (Crane, 2005). Thus, for a strategy with minimum CSR standards (‘getting started with CSR implementation’ level), the best approach would be to remain silent about CSR; while for a strategy with stringent CSR standards (‘more comprehensive’ CSR implementation), it would be more appropriate to communicate CSR efforts softly (Ibid, 2005), to ensure that the message is conveyed subtly (Carrigan and Attalla, 2001).

In this research, the brands with more stringent practices in terms of CSR, were the brands that recognized CSR as part of their core activities, recorded progress made in CSR actions and benchmarked this progress to improve their CSR performance. This was a key difference from other luxury brands who only said that they cared about CSR but in practice they did nothing to demonstrate that interest, either, externally or internally.

Moreover, considering that CSR can enhance brand perceptions in luxury (Schmidt et al., 2016), brands should educate their customers about what CSR is about, and why it is important. Luxury is timeless (Gardetti and Muthu, 2015), so luxury companies need to think in the long-term. Therefore, the process of creating CSR awareness for luxury consumers should be seen as a long-term
strategy. In practical terms, creating CSR awareness could be seen as a tiered approach or a process similar to creating a new luxury brand within the brand.

For instance, while presenting products to a client, store personnel could make reference to a credible CSR aspect of the product without overplaying it and without raising controversial aspects that could affect the dream factor. At brand events, instead of solely focusing on brand craftsmanship by showing how an artisan produces a bag, the brand could also showcase key elements of their CSR program.

Furthermore, in their communications, brands can also make reference to how the product makes a social or environmental contribution. For example, Kapferer (2010, pp. 44-45) provides examples of such strategies including: How Dior bags are made from Italian leather produced in bio farms, how the brand is discontinuing paper catalogues by migrating them online; how Tiffany has a “moral obligation to protect the places and materials where their precious material comes from” and how the brand did not buy Burmese rubies, that they did not buy gemstones from non-signatory countries of the Kimberley process, or how the brand has not used real coral since 2002; and how luxury French food supplier Fauchon stopped selling non-seasonal fruits and vegetables to reduce the brand’s CO₂ footprint.

It is important to consider that luxury brands may be able to positively change consumer perceptions if they engage with CSR (Chernev and Blair, 2015). CSR features are becoming more relevant among some consumers (McEachern, 2015) and, therefore, this creates a potential opportunity for luxury brands to change perceptions and drive CSR demand. In the end, CSR engagement may increase luxury perception (Schmidt et al., 2016), it can provide a competitive advantage to luxury brands (Pessanha Gomes and Yarime, 2014) and can help them increase their brand value (Wang, 2010).

With regard to the potential contradictions between luxury and CSR such as supply chain issues, animal rights, environmental issues (Kapferer and Michaut, 2015), including the potential cradle to grave impacts of luxury goods (Carrigan
et al., 2013) it is important to highlight that the “impact of products cannot be zero” (D’Souza et al., 2011, p. 52). Therefore, **luxury brands should avoid setting unrealistic goals regarding CSR.** Still, a positive aspect of luxury is that is timeless and high-quality. Thus, luxury brands can encourage customers to use their products for longer periods of time. Once products are no longer suitable for use, they can be repaired, upcycled or recycled by brands.

While luxury brands can have the ability control their supply chain, set environmental standards at manufacturing facilities, and have comprehensive social policies for their employees; at the end of the day it is not possible to control absolutely everything within CSR. Instead, luxury brands should focus on ‘steadiness and long-term commitments’ rather than trying to put their efforts on ‘spectacular short-term achievements in limited areas’ (Perrels, 2008, p. 1214).

**CSR and luxury share common aspects,** one of them being a **long-term vision** of luxury (See: Beverland, 2004; Crane, 2005; Godart and Seong, 2014). CSR implementation can help luxury brands offer not only more socially responsible products and services, but superior quality and a superior customer experience. These two aspects are the ones consumers are more interested in (See: Carrigan and Attalla, 2001; Moraes et al., 2012; Sudbury Riley et al., 2012).

### 7.3.7 How the Industry Can Manage Brand Value

The current literature fails to address how luxury brands perceive brand value. While we know brand value is a key asset in luxury, data received from the industry indicates that brands are more focused on their products and the customer experience they provide. While these two elements affect brand value, it is necessary that luxury brands also focus on the other key determinants that create brand value.

Brand value needs to be managed (Aaker, 1991), as it can create differentiation (Gupta et al., 2013). If brands do not focus on increasing and preserving their brand value, their efforts in creating an excellent product and providing an
excellent customer experience could be diluted. Thus, luxury brands need to quantify, track and leverage their brand value; and include it as an internal evaluation factor together with other financial and market-related measures. Consequently, it is essential that brand managers take ownership of brand value and do not perceive it as an external measure or opinion.

According to Das et al (2009, p. 33) brand value “is essential for brand success”, which they define as behavior related to how changes in purchase behavior affect market share of the brand. Hence, by understanding how brand value changes over time, brand managers may be able to target growth among groups of consumers, and be able to better position their brands by taking into account the strategies that have a higher impact on brand value (Ibid, 2009).

With regard to brand value creation, companies have specific resources and abilities which are particular to every firm (Hinterhuber, 2013). Thus, brand value creation is likely to be different for every brand and, thus, it is essential that brand executives understand the relevant determinants of brand value for their own brands. By doing so, then they will be able to translate that knowledge into brand-specific action plans.

Following there is a recapitulation emerging from the interviews with the industry on the most significant determinants that, in addition to CSR, create brand value in luxury:

### 7.3.7.1 Company Size

Despite the fact that larger luxury brands have advantages over smaller brands to create brand value (Besharat and Langan, 2014; Moura-Leite et al., 2014), it is important that all luxury brands, irrespective of their size, look at brand value from a strategic point of view. As stated by Wood (2000), brand value adoption to measure performance can help create a long-term focus for managers. This is something that is aligned with the long-term vision of luxury. More specifically, all brands should look at the determinants of brand value, one by one, and
identify the steps they need to pursue to maximize the value they get from each of them.

It is important to note that there are no fixed formulas (Christodoulides et al., 2015) and the management/prioritization of the determinants of brand value is something that needs to be contingent with company size. For example, smaller luxury companies can have difficulty in adopting an effective fully controlled distribution process, or investing in multi-million dollar marketing campaigns. Larger companies would not necessarily face those issues due to the amount of resources they have. Thus, considering that brand value is dynamic, those elements should be reassessed on a regular basis, based on how they are actually contributing to achieve a brand’s goals in terms of brand value.

7.3.7.2 Controlled Distribution

Having fully controlled distribution can help luxury brands to provide an experience to their customers (Ijaouane and Kapferer, 2012). This, in turn, can lead to higher brand value. However, it is important to consider that due to its high cost, controlled distribution is something that a limited number of brands can afford. Instead, luxury brands should focus on limiting their distribution as much as possible without focusing on full control.

It is important to take into account that one of the realities of luxury is that for most luxury brands it is not economically feasible to avoid wholesaling and/or selling through department stores. In the end, the ultimate goal of controlled distribution is to be able to exert control of the customer experience (Paul, 2015). Therefore, if luxury brands maintain close ties with third-party distributors and work closely together with them, brands can increase their brand value. For example, luxury brands can create training programs for wholesalers, so that they are able to convey the brand message to customers who buy from third parties.
7.3.7.3 COO

COO can be an important differentiator for luxury brands (Besharat and Langan, 2014; Macchion et al., 2015b). However, it is something that does not need to be restricted to a handful of countries traditionally associated with luxury. In other words, brands can still create value as long as they associate themselves with countries with specialized expertise in a given field.

For example, an artisan in Agra, India may be able to produce a comparable or even higher quality encrusted marble table than an artisan in Tuscany, Italy. Similarly, a producer in Suzhou, China, a town with over 4,000 years of tradition in silk production, may be able to produce a silk scarf with the same quality as a niche silk manufacturer from Lyon, France. It is important to consider that in terms of COO, it is all about creating the right perceptions and the pursuit of excellence by producing or sourcing products from places that share this value of excellence.

7.3.7.4 Marketing and R&D/Design

Brands need to invest the right amount of resources so that they can produce beautiful and excellent products that create a dream (Kapferer, 2009). One of the ways that luxury brands have to create this dream is through marketing. However, nowadays, marketing success is no longer guaranteed based on dollars spent, as was recognized by industry experts during the interviews. Thus, luxury brands need to acknowledge that a high percentage of marketing relies on the consumer (Schmitt et al., 2014).

Therefore, brands need to pursue strategies such as having brand ambassadors, driving awareness in social media, or launching events in order to shape how their brands and products are perceived by current and potential customers. These strategies are already conducted by leading luxury brands, as stated during the interviews; however these are not always pursued by smaller brands. It is important to note that this type of efforts do not necessarily result in short-
term revenue for brands, and therefore, these efforts need to be part of a wide marketing program which balances both shorter and longer-term revenue goals.

### 7.3.7.5 Energized Differentiation

Luxury is always evolving, and in order to keep on top, luxury brands need to keep offering excellence (Hudders et al., 2013). To do so, brands should continuously evaluate how their product offering and their customer experience reflects brand excellence. While luxury is timeless, brands need to be able to adapt to modern times. For example, luxury retailing is moving from an in-store only experience to e-commerce (in both stationary and mobile devices).

Brands need to deliver more than a product (Randhawa et al., 2015) and, therefore, they need to ensure that all their touch points with the customer are delivering an excellent experience. Differentiation can extend to other areas such as the use of innovative materials, the introduction of new technologies for luxury watches or cars, or the pursuit of comprehensive CSR actions. It is all about being excellent but also doing things other brands do not do.

### 7.3.7.6 Esteem

As discussed under energized differentiation above, brands need to offer excellence (Hudders et al., 2013). By doing so, they will be able to rank high on esteem from a consumer perspective which in turn will increase and preserve their brand value. To be esteemed, brands need to be able to deliver on what they are promising. For example, when someone buys a $1,500 dollar suitcase, there is an expectation from the customer that it will last. If after using that bag a few times it suddenly fails, then the customer will go to the store to complain. If the customer is asked to pay a high cost to repair it, he/she will become disappointed and his/her esteem for that brand will dilute.

The same can happen if a customer from Gucci buys a pair of shoes online, and then, after discovering that they do not fit as expected, he/she has to pay high shipping charges to return the shoes to Italy. Situations like those are not
compatible with the value of excellence. Excellence needs to be offered at all touchpoints with the customers, from pre-sale to post-sale. Consequently, brands need to be aware of all these touchpoints to ensure that all customers get an excellent experience during the course of their entire relationship with the brand.

### 7.3.7.7 Relevance

Customers are only likely to be interested in a brand if they consider it to be relevant (Kamp and MacInnis, 1995). To be relevant and be desired, brands need to be able to balance their product offering and their brand DNA, and at the same time, ensure that the brand is associated with their target market. For example, a traditional brand like Hermès was able to team-up with Apple to produce a Hermès iWatch. The reason behind this partnership is that the watch would incorporate key Hermès features such as their double tour strap, and the traditional dial designs used in other Hermès watches.

Moreover, the price of the watch was in-line with other Hermès watches, which would ensure that nobody would have access to a Hermès branded good at a discounted price (as a regular iWatch costs at least twice as little as an entry-level Hermès iWatch). Another example is how Leica, the traditional German camera manufacturer was able to adapt to an increasingly important digital camera market by launching its first digital camera in 1996. Despite being digital, the camera maintained the same elements of design and excellence prevailing in traditional Leica cameras. So Leica was able to update its offering by remaining loyal to its brand DNA. If Leica would have decided not to enter the digital photography revolution, the brand would probably be defunct by now.

In terms of brand association, if a brand like Dsquared2, which is considered irreverent but chic, suddenly becomes demanded by old men, it would risk being associated with old people and, thus, its younger clientele would probably seek another brand to avoid this type of association. Such an effect would result in the brand becoming irrelevant which could then dilute its brand value.
7.3.7.8 Managerial Implications from a CSR Perspective

Lastly, for many of the determinants of brand value discussed above, it is possible to contextualize their managerial implications from a CSR perspective:

- **Company size** may dictate how many resources a brand can spend in CSR pursuits, as the larger a brand, the more resources it will have.

- **Controlled distribution** may be approached from a CSR perspective by transporting goods using environmentally friendly vehicles, by using less packaging, reducing energy use at stores, and use of recycled materials in shopping bags and brand printed materials.

- **COO** can also be linked to CSR, as there are countries where practices such as freedom of association, environmental standards and good working conditions are more widespread than in others. For example, a fabric made in France may have a stronger CSR association than a fabric made in China.

- With regard to **marketing** and **R&D/Design**, luxury companies can invest in ecodesign and pursue green and social marketing approaches (see subsection ‘Communicating CSR Through Green and Social Marketing’ in section 2.2.2.3). These types of investments could even help decrease the level of **counterfeiting** a luxury brand experiences. For example, counterfeiters could be deterred to counterfeit upcycled products manufactured by Louis Vuitton given the difficulty in making them look unique.

- In terms of the consumer pillars of brand value, the pursuit of CSR can provide **differentiation** to luxury brands with respect to brands with lower CSR implementation. Then, because of this differentiation, consumers may have increased brand **knowledge** and feel higher **esteem** toward those brands and perceive them as more **relevant**.

7.4 Further Research

This thesis addressed how CSR contributes to brand value in luxury; and also contextualized it within a range of other determinants that contribute to brand
value within the luxury industry. While the research aim and research purpose of this thesis were achieved, it is important to note that due to the complexity of the topic, and the inherent limitations associated with producing a PhD thesis, there are still various areas, where further research would be helpful to increase knowledge around brand value and luxury. Key areas of further research are provided below.

First, with regard to consumer-based brand value, Seo and Buchanan-Oliver (2015, p. 94) call for further research in this domain by stating: “While some characteristics of brand luxury could be preserved over time and constructed by firms, other dimensions are co-created with the consumer, and are influenced by the broader context of socio-cultural meanings”. This suggests that consumer-based brand value is subject to social and cultural influences and, therefore, the constructs we use to measure it, can be subject to change. Based on the research conducted for this thesis, three determinants of consumer-based brand value; knowledge, desirability and esteem, warrant further research.

a) Brand knowledge. This research showed that brand knowledge appears to be overemphasized by the luxury industry. Luxury brands put significant resources and effort in trying to convey brand information to customers, however, it seems that luxury customers are not that interested in that information. As stated by Mizik and Jacobson (2009, p. 30) “it is not just which brands consumers know but also what they think about these brands that matters”.

This subject area could be explored further by conducting an empirical study comparing the level of knowledge customers have about a brand, versus the level of knowledge they consider optimal. Thus, it would be possible for luxury brands to put less emphasis in conveying unneeded information to customers and potential customers. By doing so, brands could focus their efforts on more relevant determinants of brand value. As stated by Roper et al (2013), managers need to consider that they have different types of consumers, and therefore, they need to tailor their message to them.
Brand desirability. Brand relevance was one of the pillars of consumer brand value analyzed and discussed in this thesis. However, it seems that the brand relevance construct may need to be reassessed and instead, perhaps it could be replaced by brand desirability. In other words, the fact that a brand is relevant does not mean that it is desirable and, thus, desirability may be a stronger factor in driving consumer brand value than relevance.

Further research on desirability is suggested by Miller and Mills (2012), who propose the study of this variable to determine how it can add value within a luxury context. To explore this issue, an empirical study looking at both brand desirability and relevance and how they contribute to brand value, would be appropriate.

Brand esteem. In this thesis, brand esteem was measured as a construct of three variables: Leadership, reliability and high-quality. Despite the importance of esteem as a determinant of brand value, it appears that the suitability of this construct for brand value in luxury needs to be analyzed further.

Leadership may be a consequence of high-quality and reliability and, therefore, having these variables as part of the same construct may not be appropriate. As stated by Schultz et al (2014, p. 427), current methods for “measuring brands may no longer be adequate or even relevant”. This suggests that future empirical research could be conducted to determine whether brand leadership may be a better proxy to measure brand esteem.

Second, differences are likely to occur depending on company size, or the category a brand is in. Moreover, variations in brand value determinants are likely to change from time to time. With regard to company size, the valuation of large or well-established brands may be different than smaller firms, which is something which requires further research (Mizik and Jacobson, 2009). Also, the determinants of brand value are not static.
One year a brand may have a larger R&D/Design project, while the next the outcome of those R&D/Design efforts may be marketed with a large campaign. Similarly, due to the success of brand-initiated actions, one year a brand can have higher consumer brand value than the previous one. Thus, as suggested by Lindgreen et al (2012), longitudinal studies looking at different types of brands should be conducted. Furthermore, as proposed by Ailawadi et al (2003), further research could compare historical values against those of competitors. This would make it possible to better understand how brand value changes over time at a brand-category level.

**Third**, with regard to the understanding of CSR within luxury brands, this thesis identified disparities in terms of how CSR is understood among brands but also within brands. Pedersen (2009) considers that managerial views on CSR can change, depending on company size, manager values or geographic location. Geographical differences are especially important, as some geographic areas may have different local values and culture; and these values and culture may shape local views on CSR (Popoli, 2015). Moreover, CSR programs differ in terms of objectives, how they are designed or executed (Liu et al., 2014) but also based on brand orientation (Kapferer and Michaut, 2015).

These authors call for the study of these issues in future CSR studies. This suggests that it could be possible to expand this research with an empirical study to determine how employees at different areas within the same luxury company (CSR department, brand managers, production/design managers, customer service managers, human resources managers, sales managers) perceive CSR. Furthermore, this input could be segmented by geographical location, and brand orientation towards CSR (e.g. environmental or social) to identify how CSR views change based on these differences.

**Fourth**, Aiello et al (2009) conducted a study on COO with a small sample size. Their study provided an indication on the potential relevance of COO for luxury brands, but, as stated by the authors, further research with larger data sets is needed to confirm these findings. As discussed in Chapter 3 of this thesis, this research had a similar limitation with the data set and, therefore, it was not
possible to fully study how brand value interacted with COO. Thus, it would be appropriate to conduct a follow-up study with a larger dataset.

Fifth, Christodoulides et al (2015) consider that the determinants of brand value can vary by country, given that each country has its own environment and its own cultural context. For Christodoulides et al, these differences mean that further research could be conducted to identify how consumer-related brand value perceptions can differ across countries.

In terms of CSR, authors such as Kapferer and Michaut (2015) and Carrigan et al (2016) call for research identifying how consumer perceptions towards CSR and socially responsible companies operate in different national contexts. Considering that this research is mainly based on US data, it is possible that the results from this thesis could vary if data from other countries such as Italy, France, Switzerland or the UK were used. Thus, further research could analyze how the role of CSR and the other determinants of brand value vary when using non-US data.

In summary, this thesis contributes to increasing the understanding of the role of CSR and the other determinants of brand value within luxury. As stated by Lehmann and Srinivasan (2013, p. 75) : “Building strong brands and measuring their value has become a priority for many organizations”. Thus, it is expected that these findings will not only contribute to expanding academic knowledge, but also helping luxury firms to realize the need to quantify and manage brand value, and recognize CSR as an important contributor to brand value that all luxury brands need to have.
References


References


doi:10.1002/csr.132


References


References


References


Appendix A

[Date]

Dear [xxx]

We are conducting a research project on luxury-goods firms and brand value at the University of Glasgow’s Adam Smith Business School. The project is co-funded by the Scottish Government’s Saltire Mobility Fund.

For this project, we are interviewing branding and/or sustainability managers at the most influential luxury companies in the world.

We would be very grateful if you or someone at [company name] working in the areas of branding and/or sustainability could take part on this study. We strongly believe that participating in this research project would be beneficial to [company name] as the results of the study would allow you to better understand how brand value is created and which management actions can be pursued in order to increase it.

The time commitment for this project will be minimal. In total, we expect to require approximately three hours of your time. For your reference, the level of effort required for this project is divided as follows:

- In preparation for the interview, participants will be asked to consider their thoughts and feelings in relation to brand value
- A face-to-face interview with an expected duration of one hour. The goal of the interview will be to discuss the thoughts/ideas gathered during the previous step
- An opportunity to respond to follow-up emails during the course of the project

We are planning to conduct the interviews in New York City during October and November 2013. Follow-up data requests are expected to take place during 2014. The project is expected to be completed by late 2015. At that point, we will distribute our final findings to project participants.

This research work is being conducted by Ramon Bravo-Gonzalez (r.bravo-gonzalez.1@research.gla.ac.uk) under the supervision of Prof. Iain Docherty (lain.Docherty@glasgow.ac.uk) and Dr. Deirdre Shaw (Deirdre.Shaw@glasgow.ac.uk) from the University of Glasgow; and Prof. Don Lehmann from Columbia Business School (drl2@columbia.edu).
We will be happy to provide further details on this project, so that you are able to evaluate your potential participation.

Sincerely,

Prof. Iain Docherty and Dr. Deirdre Shaw

Adam Smith Business School
Appendix B

Ethics Committee for Non-Clinical Research Involving Human Subjects

Staff Research Ethics Application □ Postgraduate Student Research Ethics Application □

Application Details

Application Number: CSS 400130019

Applicant’s Name: Ramon Bravo-Gonzalez

Project Title: The Effect of CSR on Brand Value in the Luxury-Goods Industry

Application Status: Approved

Start Date of Approval (d.m.yr): 14/03/14

(Blank if Changes Required/Rejected)

End Date of Approval of Research Project (d.m.yr): 16/09/15

Only if the applicant has been given approval can they proceed with their data collection with effect from the date of approval.

Recommendations (where Changes are Required)

• Where changes are required all applicants must respond in the relevant boxes to the recommendations of the Committee and upload this as the Resubmission Document online to explain the changes you have made to the application. All resubmitted application documents should then be uploaded.

• If application is Rejected a full new application must be submitted via the online system. Where recommendations are provided, they should be responded to and this document uploaded as part of the new application. A new reference number will be generated.

(Shaded areas will expand as text is added)

Major Recommendation of the Committee

Applicant Response to Major Recommendations

Minor Recommendation of the Committee

Applicant Response to Minor Recommendations
### REVIEWER COMMENTS

(OTHER THAN SPECIFIC RECOMMENDATIONS)

<table>
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<tr>
<th>The applicant has addressed issue raised in previous submission of amendments</th>
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</table>

Please retain this notification for future reference. If you have any queries please do not hesitate to contact Terri Hume, Ethics Administrator.

End of Notification.
Appendix C

Please tell me about the role of customers in creating brand value

______________________________

Statements:

a) Luxury brands need to be relevant to consumers to create brand value
   Yes ( )   No ( )   Why:
   ________________________________________________________________
   
Consumers care about brand reliability, leadership, and high-quality
   Yes ( )   No ( )   Why:
   ________________________________________________________________
   
Loyal consumers want to know more about the brand
   Yes ( )   No ( )   Why:
   ________________________________________________________________
   
Consumers care about how dynamic, innovative, distinct and different is the brand
   Yes ( )   No ( )   Why:
   ________________________________________________________________
   
Larger companies have an advantage over smaller companies in creating brand value
   Yes ( )   No ( )   Why:
   ________________________________________________________________
   
Corporate Social Responsibility (CSR) contributes to brand value in the luxury industry
   Yes ( )   No ( )   Why: ____________________________
   ____________________

Country of origin (i.e. producing a luxury good in a country like France, Switzerland or Italy) is important to create brand value
   Yes ( )   No ( )   Why: ____________________________
   ____________________

Having fully controlled distribution is essential to create brand value
   Yes ( )   No ( )   Why: ____________________________
   ____________________

The product and the customer experience are critical elements of brand value
   Yes ( )   No ( )   Why: ____________________________
   ____________________

The value of a brand depends on having top talent at an organization
   Yes ( )   No ( )   Why: ____________________________
   ____________________

Having control of the message (e.g. product/brand attributes) is key to create brand value
   Yes ( )   No ( )   Why: ____________________________
   ____________________
The luxury industry is highly diverse. Therefore it is not possible to have a single brand value model that fits all

Yes ( )  No ( )  Why:

__________________________________________________________________

___________
Appendix D

Brand Value and Consumers

Initial Equation:

Call:
`lm(formula = log_Tobin_Q ~ CSR_Index_Overall_DSJI_Global_ESG + Interbrand_Global + Lux_Construct_II_Upperclass_Prestige_average + NUM_OF_EMPLOYEES_REPLACED + Knowledge_C + Relevance_C + Energized_Differentiation_C + Esteem_C + DIF_MKT_AND_RD_REPLACED_BY_TOTAL + Controlled_dist + Counterfeiting_Index_REPLACED, data = Dataset)`

Residuals:
Min 1Q Median 3Q Max
-1.21152 -0.24785 0.01247 0.23594 1.54387

Coefficients:

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<th>Estimate</th>
<th>Std. Error</th>
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<td>CSR_Index_Overall_DSJI_Global_ESG -3.324e-01 3.173e-01 -1.047</td>
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<tr>
<td>Interbrand_Global 2.299e-01 1.417e-01 1.623</td>
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<td>Relevance_C 6.232e-01 1.694e-01 3.678</td>
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<td>Counterfeiting_Index_REPLACED 2.783e+01 6.003e+01 0.464</td>
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Pr(>|t|)

| (Intercept) 0.257571 |
| CSR_Index_Overall_DSJI_Global_ESG 0.297768 |
| Interbrand_Global 0.108161 |
| Lux_Construct_II_Upperclass_Prestige_average 0.547827 |
| NUM_OF_EMPLOYEES_REPLACED 0.084763 . |
| Knowledge_C 0.877484 |
| Relevance_C 0.000401 *** |
| Energized_Differentiation_C 0.011261 * |
| Esteem_C 0.007997 ** |
| DIF_MKT_AND_RD_REPLACED_BY_TOTAL 0.433353 |
| Controlled_dist 0.813498 |
| Counterfeiting_Index_REPLACED 0.644057 --- |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.4774 on 89 degrees of freedom
Multiple R-squared: 0.3393, Adjusted R-squared: 0.2576
F-statistic: 4.155 on 11 and 89 DF, p-value: 6.036e-05
**Refined Equation:**

Call:
```
lm(formula = log_Tobin_Q ~ NUM_OF_EMPLOYEES_REPLACED + Relevance_C +
    Energized_Differentiation_C + Esteem_C, data = Dataset)
```

Residuals:
```
       Min       1Q  Median       3Q      Max
-1.14796 -0.30696 -0.04699  0.30134  1.48510
```

Coefficients:
```
                     Estimate  Std. Error   t value     Pr(>|t|)
(Intercept)          -7.449e-01  3.318e-01  -2.245      0.027063 *
NUM_OF_EMPLOYEES_REPLACED  -1.585e-06  5.765e-07   -2.749     0.007137 **
Relevance_C             6.547e-01  1.431e-01   4.576      1.42e-05 ***
Energized_Differentiation_C  1.449e+00  4.322e-01   3.352     0.001147 **
Esteem_C                -1.541e+00  4.172e-01  -3.694      0.000367 ***
```

---

Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.4702 on 96 degrees of freedom
Multiple R-squared:  0.3086,  Adjusted R-squared:  0.2798
F-statistic: 10.71 on 4 and 96 DF,  p-value: 3.208e-07
Brand Value and Market Capitalization

Initial Equation:

Call:
`lm(formula = log_Cur_mkt_cap ~ Counterfeiting_Index_REPLACED + Controlled_dist + CSR_Index_Overall_DSJI_Global_ESG + DIF_MKT_AND_RD_REPLACED_BY_TOTAL + Energized_Differentiation_C + Esteem_C + Knowledge_C + Relevance_C + Interbrand_Global + Lux_Construct_II_Upperclass_Prestige_average + NUM_OF_EMPLOYEES_REPLACED, data = Dataset)`

Residuals:
- Min: -3.7857
- 1Q: -0.5540
- Median: 0.0121
- 3Q: 0.6597
- Max: 2.2540

Coefficients:

|                          | Estimate | Std. Error | t value | Pr(>|t|) |
|--------------------------|----------|------------|---------|----------|
| (Intercept)              | 7.332e+00| 1.006e+00  | 7.286   | < 2e-16  |
| Counterfeiting_Index_REPLACED | 8.614e+01| 1.395e+02  | 0.617   | 0.53854  |
| Controlled_dist          | 5.158e-01| 4.829e-01  | 1.068   | 0.28835  |
| CSR_Index_Overall_DSJI_Global_ESG | 2.033e+00| 7.375e-01  | 2.757   | 0.00708 ** |
| DIF_MKT_AND_RD_REPLACED_BY_TOTAL | 1.940e-01| 2.092e-01  | 0.927   | 0.35623  |
| Energized_Differentiation_C | 2.184e+00| 1.131e+00  | 1.932   | 0.05652 . |
| Esteem_C                 | -9.092e-01| 1.321e+00  | -0.688  | 0.49316  |
| Knowledge_C              | 1.184e-01| 1.862e-01  | 0.636   | 0.52656  |
| Relevance_C              | -4.378e-03| 3.938e-01  | -0.011  | 0.99115  |
| Interbrand_Global        | 9.807e-01| 3.292e-01  | 2.979   | 0.00373 ** |
| Lux_Construct_II_Upperclass_Prestige_average | -3.536e-02| 2.220e-02  | -1.593  | 0.11476  |
| NUM_OF_EMPLOYEES_REPLACED | 7.007e-06| 1.541e-06  | 4.548   | 1.70e-05 *** |

Pr(>|t|) 1.23e-10 ***

Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 1.109 on 89 degrees of freedom
Multiple R-squared:  0.4764,  Adjusted R-squared:  0.4116
F-statistic: 7.361 on 11 and 89 DF,  p-value: 8.152e-09
Refined Equation:

Call:
`lm(formula = log_Cur_mkt_cap ~ CSR_Index_Overall_DSJI_Global_ESG + Energized_Differentiation_C + Interbrand_Global + Lux_Construct_II_Upperclass_Prestige_average + NUM_OF_EMPLOYEES_REPLACED, data = Dataset)`

Residuals:

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Coefficients:

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Pr(>|t|)

|                                                      | Pr(>|t|) |
|------------------------------------------------------|----------|
| (Intercept)                                          | < 2e-16  ***|
| CSR_Index_Overall_DSJI_Global_ESG                    | 0.000146 ***|
| Energized_Differentiation_C                          | 0.066085 . |
| Interbrand_Global                                    | 0.002163 **|
| Lux_Construct_II_Upperclass_Prestige_average          | 0.077675 . |
| NUM_OF_EMPLOYEES_REPLACED                            | 1.26e-05 ***|

---

Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 1.092 on 95 degrees of freedom
Multiple R-squared: 0.4585,   Adjusted R-squared: 0.43
F-statistic: 16.09 on 5 and 95 DF,  p-value: 1.83e-11
## Luxury Construct

### Initial Equation:

Call:

```R
lm(formula = log_luxury_construct ~ NUM_OF_EMPLOYEES_REPLACED +
    Relevance_C + Energized_Differentiation_C + Esteem_C + Knowledge_C +
    NUM_OF_EMPLOYEES_REPLACED + CSR_Index_Overall_DSJI_Global_ESG +
    Counterfeiting_Index_REPLACED + Controlled_dist + Interbrand_Global +
    DIF_MKT_AND_RD_REPLACED_BY_TOTAL, data = Dataset)
```

Residuals:

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Coefficients:

|                                | Estimate | Std. Error | t value | Pr(>|t|) |
|--------------------------------|----------|------------|---------|----------|
| (Intercept)                    | 2.528e+00| 3.169e-01  | 7.980   | 4.49e-12 |
| NUM_OF_EMPLOYEES_REPLACED      | 1.184e-06| 5.016e-07  | 2.361   | 0.02041  |
| Relevance_C                    | -3.303e-01| 1.216e-01 | -2.716  | 0.00791  |
| Energized_Differentiation_C    | 7.086e-01| 3.680e-01  | 1.925   | 0.05733  |
| Esteem_C                       | 5.654e-01| 4.361e-01  | 1.297   | 0.19806  |
| Knowledge_C                    | -1.364e-02| 6.243e-02 | -0.218  | 0.82759  |
| CSR_Index_Overall_DSJI_Global_ESG| -1.680e-01| 2.467e-01 | -0.681  | 0.49760  |
| Counterfeiting_Index_REPLACED  | 4.005e+01| 4.638e+01  | 0.864   | 0.39011  |
| Controlled_dist                | 2.695e-01| 1.598e-01  | 1.687   | 0.09511  |
| Interbrand_Global              | 2.602e-01| 1.072e-01  | 2.426   | 0.01727  |
| DIF_MKT_AND_RD_REPLACED_BY_TOTAL| -1.329e-01| 6.914e-02 | -1.923  | 0.05770  |

(Intercept)                       ***
NUM_OF_EMPLOYEES_REPLACED         *
Relevance_C                       **
Energized_Differentiation_C       .
Esteem_C
Knowledge_C
CSR_Index_Overall_DSJI_Global_ESG
Counterfeiting_Index_REPLACED
Controlled_dist
Interbrand_Global                 *
DIF_MKT_AND_RD_REPLACED_BY_TOTAL  .
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.372 on 90 degrees of freedom
Multiple R-squared:  0.38, Adjusted R-squared:  0.3111
F-statistic: 5.515 on 10 and 90 DF,  p-value: 2.331e-06
Refined Equation:

Call:
\[ \text{lm(formula = log\_luxury\_construct ~ NUM\_OF\_EMPLOYEES\_REPLACED + Relevance\_C + Energized\_Differentiation\_C + NUM\_OF\_EMPLOYEES\_REPLACED + Controlled\_dist + Interbrand\_Global + DIF\_MKT\_AND\_RD\_REPLACED\_BY\_TOTAL, data = Dataset)} \]

Residuals:

\[
\begin{align*}
\text{Min} & & 0.99052 & & -0.24737 & & 0.03483 & & 0.24163 & & 0.77101 \\
\end{align*}
\]

Coefficients:

\[
\begin{array}{llll}
\text{Estimate} & \text{Std. Error} & \text{t value} & \text{Pr(>|t|)} \\
\hline
(Intercept) & 2.298e+00 & 2.354e-01 & 9.763 & 5.88e-16 \\
NUM\_OF\_EMPLOYEES\_REPLACED & 1.204e-06 & 4.545e-07 & 2.648 & 0.00949 \\
Relevance\_C & -1.830e-01 & 8.649e-02 & -2.116 & 0.03700 \\
Energized\_Differentiation\_C & 1.012e+00 & 3.277e-01 & 3.089 & 0.00264 \\
Controlled\_dist & 2.778e-01 & 1.589e-01 & 1.749 & 0.08361 \\
Interbrand\_Global & 2.600e-01 & 1.019e-01 & 2.551 & 0.01234 \\
DIF\_MKT\_AND\_RD\_REPLACED\_BY\_TOTAL & -1.818e-01 & 5.843e-02 & -3.112 & 0.00246 \\
\hline
\end{array}
\]

\[
\begin{align*}
(\text{Intercept}) & \quad *** \\
\text{NUM\_OF\_EMPLOYEES\_REPLACED} & \quad ** \\
\text{Relevance\_C} & \quad * \\
\text{Energized\_Differentiation\_C} & \quad ** \\
\text{Controlled\_dist} & \quad . \\
\text{Interbrand\_Global} & \quad * \\
\text{DIF\_MKT\_AND\_RD\_REPLACED\_BY\_TOTAL} & \quad ** \\
\end{align*}
\]

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.3721 on 94 degrees of freedom
Multiple R-squared: 0.3521, Adjusted R-squared: 0.3108
F-statistic: 8.516 on 6 and 94 DF, p-value: 2.171e-07
## Appendix E

<table>
<thead>
<tr>
<th>Controlled Distribution</th>
<th>Counterfeiting Index</th>
<th>CSR Index</th>
<th>Current Market Capitalization</th>
<th>Marketing and R&amp;D</th>
<th>Energized Differentiation</th>
<th>Esteem</th>
<th>Interbrand Global</th>
<th>Knowledge</th>
<th>Luxury Construct</th>
<th>Number of Employees</th>
<th>Relevance</th>
<th>Tobin Q Ratio</th>
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