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THE FRENCH LUXURY MODEL

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The luxury industry evolved significantly during the 1970s and 1980s. Long-established small businesses once owned by their founder-creators have been replaced by the financial and industrial groups (LVMH, Kering, Richemont, Hermès, Chanel, Ralph Lauren, Calvin Klein, Prada, etc.) that are now the leading luxury brands. These have expanded their outlets considerably, so that luxury goods are now often mass-produced. Formerly restricted to the happy few, luxury is now on offer to millions of consumers, worldwide. Moreover, luxury groups are expanding the scope of luxury goods and almost every industry is developing luxury segments – even those that mainly produce basic goods. Jeans, which used to be the archetypal ordinary, practical and cheap garment, now come in luxury versions: Prada, Dior, Balmain, and Dolce and Gabbana propose a broad range of jeans (priced between \$500 and \$1,000) and Damien Hirst has designed jeans for Levi Strauss that are a snip at just \$27,000! Apple has succeeded in creating computers and mobiles that are seen as luxury goods.

Luxury is the only field in which the French economy has the pole position in the export markets and the French luxury groups, LVMH (owned by the Arnault family), Kering-exPPR (owned by the Pinault family), Hermès and Chanel, are among the international leading groups and benefit from a strong reputation. This is not a trivial thing and this does not concern a marginal area. Before the covid crisis, the French wine and spirits industry exported more than 10 billion euros each year, the fashion sector employed more than 160,000 people in France and regularly exported more than a third of the production. Luxury is today essential to France's international competitiveness; what would be the French trade deficit without this sector

and what would be the unemployment rate! Luxury is also a key industry because its profitability is incomparable.

If the successes of French luxury are so indisputable and so important for France, is there a specificity of French luxury? Is even a French model of luxury? What is modern luxury compared to old luxury? How mass producing and selling modern luxury while luxury traditionally means scarcity? Is it still luxury? If so, what are the characteristics of this model?

In a bid to come up with some answers, and to reach beyond the contradiction between mass production and luxury, we begin by defining luxury and by specifying the contradiction between traditional luxury and mass production. In a second point we consider the old innovations reaching beyond this contradiction. The third point is dedicated to the new innovations and the new opportunities of the seventies and eighties that allowed financial groups to create an innovative institution: the financial and industrial luxury group. This new institution became the leader of the new global and modern luxury sector, worldwide. For these reasons, we characterise, in point 4, the new supply model as being based on management of the heritages they create, representing as a “luxury tree” and demanding accompaniment strategies. Some concluding remarks follow.

1. LUXURY, MARKET LUXURY, MASS MARKET LUXURY

From the beginning of the century, luxury is an industry that produces and sells goods in large quantities. Champagne producers sell more than 300 million bottles each year, Louis Vuitton more than 3 million bags. But luxury, generally associated with the idea of rarity, individualised production or, at the very least, of artisanal type, seems contradictory with the notion of mass production. Indeed, the mass production of identical goods tends to reduce them to standard goods.

The specificity of industrial production compared to traditional craftsmanship is precisely to introduce standardisation: a bottle of Veuve Cliquot is identical to its neighbour, industrial production guarantees the identity, similarity and permanence of the properties of the good in order to meet consumer expectations. Thus mass production, i.e. standard production and luxury, seem to be in opposition.

Management literature often speaks of ‘affordable luxury’, but other authors refuse to consider those sold on mass markets as real luxury goods. It is therefore necessary first to define luxury in order to understand the possibility and conditions of mass merchant luxury.

1.1. DEFINING LUXURY

A lot of definitions of luxury refers to empirical nomenclatures, generally a list of sectors, that leads to difficult problems of delimitation; for instance what part of fashion industry to get into luxury area when street fashion groups as Zara and H&M sell millions of cheap clothes? We need a theoretical definition of luxury, even if it leads to problems when we have to use it for empirical specifications.

In the literature on economics and management there is no general agreement on the definition of luxury. Most authors use naturalistic definitions of luxury, defining it by the presence of a particular property or even several properties (*cf.* for example Giraud, Bomsel, Fieffe-Prevost, 1995). However, it is always possible to find cases in which this property or properties do not exist.

So can luxury be defined by cost? A luxury good is not necessarily expensive. Today, in renowned French restaurants, Chateldon water is considered as luxury water, but the price of a bottle rarely exceeds ten euros, which, in itself, is not significant. Should we then be more interested in the relative price than in the absolute one, i.e. the ratio of the price of the luxury variety to the price of the other varieties? The modification is relevant because it introduces the idea of a gap, a difference, between the ordinary price of mineral water and the “non-standard” price of so-called luxury water. However, the difference may be small, a few euros in the case in question, sometimes even the bottle of Chateldon is offered at the same price as that of Perrier or San Pellegrino. Where the gap exists, it must also be explained: why do consumers have a higher willingness to pay? This leads to a vicious circle: luxury is defined by price and price by luxury.

Can luxury be defined by quality or even extreme quality? The quality of a Hermès scarf has often been discussed and many women’s magazines have reported for years that these scarves tend to lose their colours easily, especially when raining. On the other hand, the quality of a Facom wrench

is infinitely superior, perhaps even absolute since the brand guarantees its tools for life; a damaged tool is immediately exchanged for a new one at any of the brand's points of sale. However, these tools are not included in the nomenclatures of luxury goods.

Can luxury be defined by rarity? The case of diamonds is very often cited in support of the idea, but the Champagne industry produces more than 300 million bottles each year! And no one can dispute this wine as a luxury drink.

All this shows that the naturalistic, essentialist definitions, aimed at linking the luxury good to its endogenous properties, are failing. We can always find an ordinary good that meets the conditions set out to define a luxury good (price, quality or rarity) as a luxury good that does not meet them. In addition, the historical study of luxury shows us that goods can be considered as luxury goods in some societies or at certain times and not in others. Yesterday spices were luxury goods, but today, the same spices, i.e. the same goods, are defined as ordinary goods. In the 19th century, as the wild sturgeons of the Gironde and Adour were not considered noble fishes that could be sold on the Bordeaux markets (particularly because they had many bones), the owners of the small boats fishing them used to leave them to their employees as a supplement to their remuneration. They would take them home, split them, tear off the central edge, then tear off the smelly blackish pocket next to the gills – the one containing the eggs – they gave it to their pigs to eat! Today these eggs constitute the Aquitaine caviar, sold at a price as high as the Iranian caviar.

Rather than being defined by their luxurious nature, luxury goods are now designated by the fact that their social and cultural status is (within a given context) related to luxury. As goods perceived and experienced as luxury goods, these cultural products are based on a social convention: high-value goods are what society deems them to be. This luxury status is related to some exceptional characteristic of such goods that allows them to stand out from basic goods. Luxury goods are by definition extra-ordinary, whereas other goods are ordinary, standard, basic or utilitarian. Luxury implies a difference that is distinctive to goods relating to pleasure rather than necessity, and is defined in opposition to standard and ordinary goods.

We add a second condition to distinguish luxury goods from sophisticated or complex and therefore also extraordinary industrial goods. A space capsule is an extremely complex good, an exceptional or extraordinary good: its quality, for example, is extremely high since its reliability must be very close to 100%. However, it is not a luxury good. We therefore have to distinguish goods and services related to necessity, utility, needs (which can be common or exceptional, as in the case of the capsule) and goods and services related to pleasure, desire, hedonic or aesthetics, and not to necessity. For luxury goods, the distinction, the gap is made within goods related to pleasure and not to necessity.

1.2. LUXURY AS A WORLD OF THE EXTRAORDINARY

The aristocratic way of life was founded on splendour: aristocrats gave feasts and balls, played music, went hunting, entered tournaments and so on – that is, they had a very specific way of life – absolutely different from that of the bourgeoisie and the rest of the people. They also consumed luxury goods, which meant extra-ordinary goods (fine wines, large wild game, sophisticated food, rich clothes) and this consumption was encapsulated in their dazzling lifestyle [Margairaz, 1999]. The specificity of the aristocratic lifestyle appears as a transcription of the difference between the ranks, ranks corresponding to a divine hierarchical order that distinguishes groups of a different nature, blue-blooded aristocrats and red-blooded people, some at the top of the social scale, close to heaven and God, others at the bottom, close to earth and evil.

Aristocrats belonged to a “society of being” while the bourgeoisie belonged to a “society of having”. When the enriched bourgeoisie competes with the nobility throughout the 18th century, seeking to distinguish itself from the rest of the people and to integrate itself into the dominant elite, it cannot access splendour, the domain of being which presupposes a cultural capital that it does not have. But the bourgeois had money and could buy goods – even expensive ones – yet could not compete with aristocracy in the register of being (think of Molière’s *Bourgeois Gentilhomme*, who attempts to mimic the aristocrats but – lacking the corresponding cultural capital, succeeds only in being ridiculous). The increasing economic power of the bourgeois allowed them to access luxury goods and (making use of the development of commoditisation) to substitute the logic of having for the logic of being.

Thus they replaced splendour with luxury and in so doing, encouraged the expansion of the luxury sector.

1.3. ARISTOCRATIC LUXURY AND ELITE LUXURY

In aristocratic society a radical social segmentation between the elite and the people governed social functioning: in France, the “Old Order” (*Ancien Régime*) talked of blue (aristocratic) and red (commoner) blood. Luxury is peculiar to aristocratic groups: ordinary people were not considered capable of appreciating luxury goods; to give them luxury goods would have been ‘as giving pearls to pigs’. According to the framework of the *société de Cour* [Elias, 1983] this distinction was strictly organised through norms and rules. At the same time, the rivalry – both between courtesans and internationally, between the Royal and Imperial Courts – tended to render luxury consumption ever more exuberant.

Since luxury goods are reserved for the aristocracy and the Courts, their markets are necessarily narrow. This explains why luxury goods are considered rare – yet this scarcity is mainly related to their outlets rather than to their intrinsic characteristics (it is always possible to produce more sophisticated goods – and even to find more diamonds – by hiring more people).

Later on, in the 19th century, interpenetration between the bourgeoisie and old aristocracy led to the constitution of a social elite separated from vulgar people by its wealth, power and education. The old aristocracy and the high bourgeoisie flocked to new and ostentatious leisure venues [Veblen, 1899]: seaside holidays, horse races, concerts, art galleries, dancing, etc. With the rise of the Bourgeoisie in the 18th century and its triumph in the 19th century, aristocratic luxury became elite luxury. Luxury is increasingly embodied in goods produced for the market and likely to be purchased by all, on the sole condition of having sufficient purchasing power. For instance, the French Revolution decreed that every citizen can dress as she or he wishes, without reference to her or his social position. Moreover, the middle bourgeoisie wanted to stand out from ordinary people and live more comfortably; all of this created new expansion opportunities for luxury markets.

The aristocratic model evolved towards an elitist model in which the luxury goods market widened, so that luxury goods were being consumed

by people belonging to the economic, social and cultural elite, the upper classes.

Nevertheless elitist luxury sets up a contradiction between luxury and mass production. The traditional model of distinction (upon which traditional western luxury was founded) is in direct opposition to mass-produced luxury. Luxury refers to extra-ordinary goods produced by the craft sectors, using a sophisticated and highly-skilled workforce – a far cry from industrial processes. According to the Baumol effect, craft production increases both the absolute and the relative prices of luxury goods (see for instance, Haute Couture prices), which tends to increasingly limit the size of their markets. The mass production of numerous identical goods tends to downgrade them to standard goods by introducing standardisation. Industrial production guarantees the identity, similarity and permanence of the goods – to match consumer expectations. Mass production is then dedicated to standard goods having basic utility, capable of satisfying basic needs. In short, luxury and mass production are opposites, in terms of supply and demand conditions.

2. REACHING BEYOND THE CONTRADICTION BETWEEN LUXURY AND MASS PRODUCTION: OLD INNOVATIONS

During the 19th century changes occurred in some luxury sectors. New technologies allowed industrial production to replace handcrafting – as in the perfume industry. New distribution channels appeared: the *grands magasins* and chain stores brought fashion goods to every city. This evolution was very clearly shown in France with the successive emergence of luxury suppliers – no longer individual artisans but rather in the form of familial (capitalist) enterprises, oriented towards markets and motivated by profitability: Puiforcat (1820), Manufacture de Gien (1821), Mauboussin (1827), Christofle (1830), Bernardaud (1863), Ercuis (1873) in the arts of the table, Hermès (1837), Vuitton (1845), Hédiard (1854) and Dupont (1872). At this time, the development of luxury industries was constrained in English-speaking countries by puritanism – resulting in the worldwide pre-eminence of French (and, secondarily, Italian) luxury.

Two industries played a key role in the expansion of luxury markets and organisational change: the Champagne industry and French *Haute Couture*.

2.1. THE CHAMPAGNE WINE, THE FIRST PRODUCT OF MASS LUXURY

Whereas in 1832, just 600,000 bottles were sold, this number had risen to seven million by 1844 and 17.5 million by 1870 – of which almost 14 million were sold abroad. Great *Maisons de Champagne* developed wine exportations and innovated in the wines marketing, often using the networks they had formed in the textiles trade. They mainly aimed at the German market and at the British market which was likely to have a strong and fast growth (in 1802, Moët is selling 6,826 bottles in Great Britain but, in spite of the Continental System, 54,980 were sold in 1810). This growth was supported by the creation and development of new suppliers: Besserat de Bellefon (1843), Boizel (1834), Bollinger (1829), Canard Duchêne (1868), Deutz (1838), Charles Heidsieck (1851), Krüg (1843), Charles Lafitte (1848), Pommery (1836), Mumm (1827) and others.

Nevertheless, during the 19th century, the champagne wine production remained characterised by its deep heterogeneity¹. The main part of the production was a production of poor quality wine for the mass markets of the Paris area: 90% of the production consisted of red wines, and in 1875, the volume of champagne strictly speaking represented less than the 2% of the whole volume of the wines made in Champagne (Colin, 1973). But the development of outlets in the European courts was going to turn external markets into the driving force of production growth and to lead to a new identification between sparkling champagne and wine of celebration giving it therefore a relative specificity. The dependence on exportation, synonym of high transportation costs, strengthened the incentive to choose a product of quality and with a high unitary value. In 1870, only the 25% of the champagne wines were consumed in France.

In the last quarter of the 19th century the economic depression, together with the phylloxeric crisis, and afterwards around 1910 serious sub-production crises, led to modify the relations in the area. The poorest viticulture was incapable to resist the crises and to compete with the growing productions of the South of France. Many vineyards were deserted and a selection of the best soils was made; from more than 56,000 hectares in 1862, 38,000 were remaining on the eve of the First World War.

¹ For a history of this development see Barrère (2010) and for a formalised analysis using evolutionary games, see Barrère (2007).

For the viticulture of quality run by the great houses, the big 1910's crisis was going to be the opportunity to ensure its hegemony and impose its strategy. They were going to use the crisis that put into question the previous development model to take advantage of the specific benefits they had: capacity of innovation, possibility of producing a quality wine, and knowledge of the foreign markets. For this purpose they used the struggle for the PDO (Protected Designation of Origin) as a means to impose the whole sector a policy of quality and to restructure it on new bases. The «protection» by the PDO (a legislation invented on this occasion in the Champagne area and afterwards extended to many wines and agricultural products) was going to allow the segmentation of the market in two strictly separated categories, the ordinary sparkling wines and the quality sparkling wines, namely champagnes. Starting from a comparative advantage of quality and fame at the beginning of the period of the sparkling wines development, they were going to accentuate it and make of it a definitive advantage.

At the beginning of the 20th century the restructuration of the sector around a policy of quality has been possible thanks to different changes:

- The growth of the demand, particularly the international one, allowed a clear specialisation in the production of sparkling wines (to the detriment of the one of quiet wines). In 1910 red wine had nearly disappeared, at least from the main vineyards of Reims and Epernay. Moreover, as the differences in soils played a minor part a general policy of quality allowed to obtain at the same time a less scattered and average quality.
- The technical progress in growing vines but above all in making wine were constituting for the wine growers a barrier at the entrance in the production of the final product. The necessity of assembling different wines in order to improve and stabilize quality, the recourse to chemistry, oenology and to expansive equipment limited the part of the wine growers to a role of grape suppliers. While at the beginning of the 19th century wine growers were often entirely making the product, at the end of the century the Houses assembled wines and sold them, wine growers produced grape and sold it to wine merchants.
- The control of the exportation market by the great wine merchants led to an internal restructuration allowing moreover these last to implement

the progresses of oenological technology and to organise the differentiation of the products according to the local preferences of the exportation markets.

- The fact that grape was hardly transportable without being spoiled, the importance of the protection represented by transport costs and taxes and the possession of specific assets (storage places, expertise,...) consolidated the relation between grape-locally made and wine.

Under these circumstances the economic domination of the big *Maisons de Champagne* and its political control on the region succeed in imposing, via the PDO, the strategy of quality, on the whole sector. The great *Maisons* imposed it to the fraudulent wine merchants (those who did not buy local grape or musts) against their opportunistic strategy of production from imported raw material. They also imposed it to the wine growers, by playing on the requirements of the PDO, making it compulsory to link the quality of the final product to the quality of grape. So the practices of free riding were little by little eliminated. To obtain the benefit of PDO, wines had to obey to a certification process, founded on qualitative criteria. Therefore, the PDO system eliminated the strategies of low quality, imposed high quality, and set up Champagne wine as a luxury good.

With Champagne, the gap between standard and luxury goods was based on extra quality – but was also related to the iconic status of the wine, considered the wine of feasts and ceremonies. Extra quality could be reproduced even where production became mass production: Champagne wine is an “industrial” wine, produced by assembling different types of grape growing across a territory that can be enlarged. The main problem inherent to democratisation of this luxury product was maintaining the image of a luxury wine while expanding the quantities sold.

This was achieved through a concerted inter-professional regulation: management of the supply/demand of grape relation through the administrative determination of the price of grape, extension of a common discipline of production, standardisation of the right vine working methods, definition of quality norms, permanent reinforcement of quality.

So doing, the great *Maisons de Champagne* invented a new type of product: the democratic and mass-market luxury product. In the 1950s, 50 million bottles were sold annually and, from 2004 this figure had increased

to more than 300 million bottles – of which around 45 per cent were exported. This proved possible, as the wine continued to seem an exceptional product, synonymous with special occasions, and as a wine that is very different from others, carrying semiotic characteristics.

2.2. THE FRENCH *HAUTE COUTURE*

French *Haute Couture* was the second sector to create mass-oriented luxury. The *Haute Couture* sector produced highly sophisticated models on the basis of very expensive fabrics and very long handcrafted manufacturing processes, for a tiny elite. The Baumol effect led to steep price increases, undermining the sector's profitability. Expanding outlets was thus a necessity. Paul Poiret launched the trend for applying the *Haute Couture* reputation to perfumes and accessories (the prices of which were far lower than sky-high *Haute Couture* prices) and which could be sold to the bourgeoisie. Outlets were far bigger, and industrial production allowed economies of both scale and scope to be made. Until the fifties, this system was profitable, but the fashion system's economic conditions changed considerably, increasing the costs of *Haute Couture* creation, and many *Maisons* disappeared: after World War II there were still 106 *Maisons de Couture* in Paris, by 1967 only 19 were left, and now there are fewer than ten. The survivors are those that have been able to introduce mass production.

After World War II, Christian Dior linked *Haute Couture* and ready-to-wear by creating high quality ready-to-wear. This gave birth to a new luxury ready-to-wear, the *prêt-à-porter des couturiers et créateurs* in turn allowing the *Maisons* to expand their market. They used their reputation to sell high-quality, fashionable clothes in line with the development of the semiotic value of clothes. At the same time, this allowed a new broadening of the accessories market – particularly perfumes – that was driven by the rising semiotic value of the great trademarks. The profitability of ready-to-wear and accessories compensates for the non-profitability of the *Haute Couture* segment, and close links were set up between the mass production goods, the creativity lab, and the top segment's reputation [Barrère et Santagata, 2005].

3. NEW OPPORTUNITIES AND NEW INNOVATIONS

A new step in reaching beyond the contradiction between luxury and mass production was taken during the seventies and the eighties. The development of semiotic goods [Baudrillard, 1970] and the growth of immaterial utilities, as opposed to material ones, [Douglas and Isherwood, 1979] constituted a new opportunity to change the conventional conception of luxury. Changes in production and distribution modified the working of the market while new macro-conditions generate a strong growth of luxury demand on globalised luxury market. Ultimately, new opportunities, new innovations, and new strategies allowed the emergence of luxury groups based on a new model.

3.1. THE DEVELOPMENT OF SEMIOTIC GOODS

The seminal work of Baudrillard (1970) focused on the semiotic dimension of consumption. Goods carry signs representing significances, senses, and give symbolic benefits. For instance, a fashion good, a dress of Jean-Paul Gaultier, brings a direct semiotic utility (the purchasers, as Bourdieu, 1974 said, acquire a part of the magic of the maker's label) and an indirect and social semiotic utility (the dress is bought because it offers signs of distinction and signs of identity). So people demand goods because they want semiotic and symbolic values. Using Lancaster's methodology, according to which a good is a bundle of characteristics (Lancaster, 1966, 1971), we can say that, among the characteristics of goods, semiotic ones are growing; immaterial utilities increase in comparison with material ones (Douglas and Isherwood, 1979).

If in the aristocratic ages the symbolic value of luxury goods was mainly dependent on their scarcity and price, modernity allows producing semiotic value without very strong costs of production, beyond the traditional area of costly raw materials and very skilled labour. Let us consider the case of a luxury bottle of perfume. What is the cost of the raw in percentage of the final price? Less than ten per cent! Probably between two and five per cent for almost all the perfumes. So, you don't pay for the raw material, you pay for the design, you pay for the invention of the formula of the perfume (a combination of flavours, created by a very skilled person, a nez), you pay for the semiotic image of the perfume, associate to the iconic image of some stars. Thus perfume is produced, not

mainly with raw material, but by creativity (the nose) and heritage (the image and the reputation). If the aristocratic distinction between luxury and ordinary goods was based on a material difference (due to extra-scarcity or extra-quality), then the modern distinction could also be founded on the immaterial difference represented by the semiotic value of the goods.

The development of semiotic values on the markets is a part of the process of culture commodification analysed by Walter Benjamin (1936). Technological developments allowing the production and the reproduction of cultural works break the previous model based on the singularity and uniqueness of the work of art. Culture then can enter commodities era, be mass-produced to be mass distributed and consumed, according to an industrialist framework which was previously reserved to industrial goods (production with equipment, supposing high financial investments allowing economies of scale...). An industrialist market model (see for instance the Factory of Andy Warhol as mass production) is taking place to manage culture. This process leads, for Horkheimer and Adorno (1947), to a submission of the field of culture to market economic regulation. They had in mind the traditional cultural products strictly related to art field: books and literature, paintings, movies and theatre, ... Nevertheless the commodification of culture also introduced a commodification of tastes, allowing to normalise individual tastes to constitute regular segments of demand. Semiotic goods participate to this process that leads to organise mass and differentiated segments within the luxury outlets.

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

Veblen analysed the demand for luxury as a consequence of conspicuous consumption. Today, this is probably a strong motive for luxury demand among those fast becoming rich in emerging countries. However, many other motives related to semiotic values, and pleasure and desire characteristics, can explain the strong development of luxury demand, be it regular or occasional. Although this remains a very limited segment of the elitist luxury sector (Haute Couture, famous restaurants, Ferraris and Rolls-Royces, diamonds, etc.), most luxury goods have become mass-market – often industrially produced.

3.2. CHANGES IN PRODUCTION AND DISTRIBUTION

New technologies now allow extra-quality to be produced on a larger scale, dramatically reducing transport and transaction costs. Today the traditional luxury production process – centred on very high-quality labour; according a key role to specialised handcraft; using only scarce raw materials – is replaced by diverse and complex combinations of mechanical and manual processes, including regulation and scientific technologies. It therefore became possible to use mass production to obtain luxury goods – not by skimping on quality, but by reducing costs. It is also possible to produce differentiated luxury, with different levels of quality at different costs and prices. Distribution and communication technologies also changed massively, allowing both the development of consumer information and the possibility of simultaneously offering consumers a wide range of luxury goods and services – both traditional and new.

Big companies can now use sophisticated strategies including advertising, communication and sponsorship, to persuade consumers to buy their products. They derive from the exploration of behaviours by the marketing disciplines. Neuroimaging studies investigate how commercial brand information is processed in the brain (Paulus and Frank, 2003; McClure et al., 2004; Deppe et al., 2007; Schaefer et al., 2006). Psychological and sociological studies consider the consequences of emotion created by advertisements in brand preference formation (Gorn, 1982; Whissell and McCall, 1997; Shadel et al., 2002; Anderson et al., 2005). The neuromarketing uses magnetic resonance imaging to study the activity in the prefrontal cortex; it allows understanding what brain does while making a purchasing decision and to explore the determinants of taste judgments the economic consequences of which are decisive. For instance,

images of dominant brands, such as the iPod, stimulated the same part of the brain activated by religious symbols. Besides these techniques, communication strategies include a lot of instruments to reduce and to manage the diversity of tastes: advertisement, storytelling, sponsoring, expertise, trademark, selective distribution,

3.3. THE NEW MACRO-CONDITIONS: INEQUALITIES, WEALTH AND GLOBALISATION

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

The demand for luxury is now sustained by social groups with very high assets in western Europe, Japan and in the United States but also and more and more coming from Russia, China, Brazil, India, Emirates, etc. The 2019 report by Merrill Lynch and Capgemini (Cap Gemini and RBC, 2019) estimates the number of “high net worth individuals” (“High-net-worth-individuals” HNWI) in the world, that is to say, heads of households with a capital mobilised over one million dollars (excluding their primary residence and their consumer goods), to 11 million in 2011 and 18 in 2018. They are with their families a social group of more than 60 million people, likely to regularly consume luxury goods. In addition, the number of “rich” and the amount of their wealth is rapidly increasing. The number of HNWI grew by 7.6% per year on average over the period 1996-2005, accelerates to 9.9% over the period 2008-2013 and 8.7% for 2011-2017. The total wealth of HNWI is too increasing faster and faster: amounting to 32.8 trillion US \$ in 2008 to 70.2 in 2017 and 68.1 in 2018.

The report also shows that wealthy individuals from emerging countries have been having for several years a significant effect on the luxury market. Among them, the Ultra-HNWI (those with US \$ 30 million or more in investable wealth) constitute only 0.9% of the HNWI total but own more than the third of the total wealth. They consume elitist luxury at

very high prices that allows luxury sellers to make on them very big benefits.

Secondly, many middle-income people are able to buy luxury goods on a regular or occasional basis. A virtuous circle is then initiated between demand and supply of luxury goods. The expansion of demand does it possible to go beyond traditional and small-scale production to radically reduce the cost of some luxury goods. And this reduction allows developing an affordable luxury that attracts new consumers.

Luxury groups latch onto these opportunities, disrupting the traditional organisation of luxury and imposing a new model. Only they are capable of providing luxury goods to everyone around the world and selling them to a large number of consumers. In line with the way in which global wealth is segmented, they organise the luxury markets in hierarchical segments: from the low segment offering luxury dreams for little money to the very top segment, only open to the lucky few. They develop a new supply model, inspired by the early innovations of the Champagne and fashion industries, yet bring new answers to reach beyond the contradiction between mass production and luxury. At the same time, they are able to act like this only because they own specific resources: their industrial size is sufficient to withstand the volatility of demand; to lead broad communication and distribution campaigns; to introduce creative management, and to manage property rights.

4. THE FRENCH MODEL OF LUXURY: A NEW SUPPLY MODEL BASED ON HERITAGE MANAGEMENT

French luxury results from a historical construction process that dates back to the 17th and 18th centuries Court society. It also benefitted from a cultural context that stimulated its development while hampering its potential European competitors. When puritanism and austerity ruled the Spanish and the English Courts, the *Grand Siècle* of King Louis the 14th developed splendour and luxury; his royal successors and the Emperors continued along this path. With the rise of the bourgeoisie, the aristocratic luxury of the Court society was transformed into elite luxury and this allowed France to emerge at the end of the 19th century as the country of luxury, and Paris to be the capital of luxury, good taste and the art of

living. Thanks to remarkable innovations, luxury firms built a luxury sector, able to address the globalised markets of the late 19th and early 20th centuries. From the eighties the financial groups that have taken charge of its development have been able to put in place an original production and marketing model. They have been able to seize the new opportunities of globalisation and increase of wealth by developing a new supply model, which is inspired by the first innovations of Champagne and fashion industries, but bring new answers to surpass the contradiction between mass production and luxury. At the same time they were able to act like this because they own specific resources: their industrial size is sufficient to resist to the volatility of demand, to lead wide communication and distribution campaigns, to introduce creative management, to manage property rights, and so on. They succeed in surpassing the contradiction between mass production and luxury.

The new supply model defined in order to produce a mass luxury product focuses on management of the key specific resource of luxury groups: their heritage. We begin by analysing the role of heritage, before moving on to

4.1. HERITAGE AS A SPECIFIC RESOURCE

By producing over time, companies build heritages, that is, specific resources which pass through time and can be used for new production and market reputation [Barrère, 2013]. In the case of luxury production these heritages are particularly important. Luxury companies accumulate reputation, creative and craft knowledge, and patents; they develop an internal productive atmosphere similar to the industrial atmosphere defined by Alfred Marshall [1919]. By taking over historic *Maisons de couture* and luxury companies, luxury groups such as LVMH, Kering and Richemont take ownership of the private heritages constituted by these companies – and it is on this foundation that they build their development of new luxury goods, and expand their markets.

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

- Memory effect: the history of the *Maison de couture*, the memory of great designers (Chanel, Balenciaga, Dior, Saint Laurent) and the cult of creation are major incentives to creativity.

– Stock effect: this derives from both the physical stock of designs and models and the cultural heritage of a style (for example the Chanel style). It is extremely valuable, because in addition to allowing new designers to “revisit” old collections, styles and fashion history, it allows customers to identify a style.

– Experience effect: apprenticeship from famous masters in the *Maisons* facilitates the transmission of creativity, especially between generations. The same is true of the savoir-faire developed by workers and craftspeople.

In the Champagne industry, as in Swiss watchmaking and Italian crafts, we see similar effects. The great *Maisons de Champagne*, like the famous luxury car manufacturers (Rolls-Royce or Ferrari), watchmakers (Rolex), and jewellers (De Beers or Boucheron), own specific heritages, arising out of their long history. These heritages furnish reputation (think of the communication by Vuitton, Hermès and Mont-Blanc on how long they have been in existence) – which is a key input for selling luxury goods.

Suppliers can also use common heritages related to an industrial or cultural cluster (Parisian fashion, Italian *Alta Moda* and the luxury craft industry, Swiss watchmaking, etc.). Common heritages include heritages of craftsmanship, handed down through generations of workers, providing them with the technical skill to perform sophisticated operations that arise out of a long series of inventions and innovations. The importance of craftsmanship heritage is attested to by the behaviour of the leading companies in luxury accessories such as Vuitton, Hermès, Gucci and Prada. These companies limit outsourcing, seeking to set up plants in places rich in highly qualified labour. In addition, analyses of industrial and cultural districts [Bagnasco, 1977; Becattini, 1998; Santagata, 2010] have shown how the social heritage of craftsmanship constituted a key condition for economic and social development. Common heritages also include creative knowledge heritage, producing experience effects as a result of the ability to design new luxury goods. Heritage therefore plays a key role as a source of inspiration, production and contemporary creativity. Lastly, heritage of taste (for example semiotic heritages producing a common reading of signs) lead to homogeneous representations and

contribute to creation – while also playing on demand. They allow demand to adjust to supply, since creativity corresponds more to the production of new goods, previously unknown to consumers, and new wants, than it does to an alignment on individual preferences. Heritage makes creation credible, legitimates creative work, and provides a competitive edge on world markets via an image heritage.

4.2. THE CORE OF THE MODEL: A CREATIVE ECONOMY BASED ON HERITAGE

How can the extra-ordinary be created in the hedonic goods and services sector (positioning goods as luxury goods) on the basis of heritage without abandoning mass production? In our opinion the extra-ordinary character of luxury goods is twofold: extra-ordinary concerns both the goods (luxury goods are extra-ordinary products) and the suppliers (luxury goods are offered by extra-ordinary companies).

4.2.1. *Extra-ordinary companies*

The extra-ordinary character of companies producing luxury goods and services is mainly based on their heritages. Bernard Arnault, the owner of LVMH, used to say that Louis Vuitton has a 150-year history, which makes it unique. Heritage works two ways here. Firstly, these are reputation heritages. This reputation guarantees consumers high quality and/or strong creativity, because previous consumers have legitimated the products over a long period of time. If Vuitton has a 150-year history and is a growing company today, this proves the consistent quality of its products. The Dior name links the talent and creativity of Christian Dior to the goods currently supplied by the Dior company. Secondly, heritage produces a specific image, connecting present products to past times, allowing products to take root within a historical and geographic context – and modern consumers express an increasing demand for heritage, which is construed as a demand for stability. Consumers are eager to rediscover their traditions, their history; they are in search of their “roots” [Rocheftort, 2001]. This is particularly important in a world of semiotic goods. Note how many luxury goods are sold complete with a potted history (the Fisher space pen – used for the Apollo missions – is presented in Italy as a “unique pen with a story to tell”, and Moleskine notebooks include a little booklet telling us about their historic origins).

It is the extra-ordinary character of luxury companies that enables them to reach beyond the fundamental luxury-mass production contradiction. Vuitton produces more than three million bags on an industrial scale – yet the Vuitton company retains its unique status.

4.2.2. Extra-ordinary products

Reference to the past would fail, were present goods not to match up to the reputation. The luxury group has to maintain a gap between its products and standard products. That implies both high quality and, increasingly, innovative and creative products. Creativity also uses heritages: there are two distinct forms of culture, the “new”, which comes about through creativity, and the “old”, which draws on stock, through heritage. Yet current creativity both recycles the creativity of the past – which has accumulated, constituting a heritage – even as it adds to it. Moreover, when luxury industries use creativity and heritage together, a virtuous circle is established: goods, knowledge, and ideas produced constitute types of heritage that, in return, favour creativity.

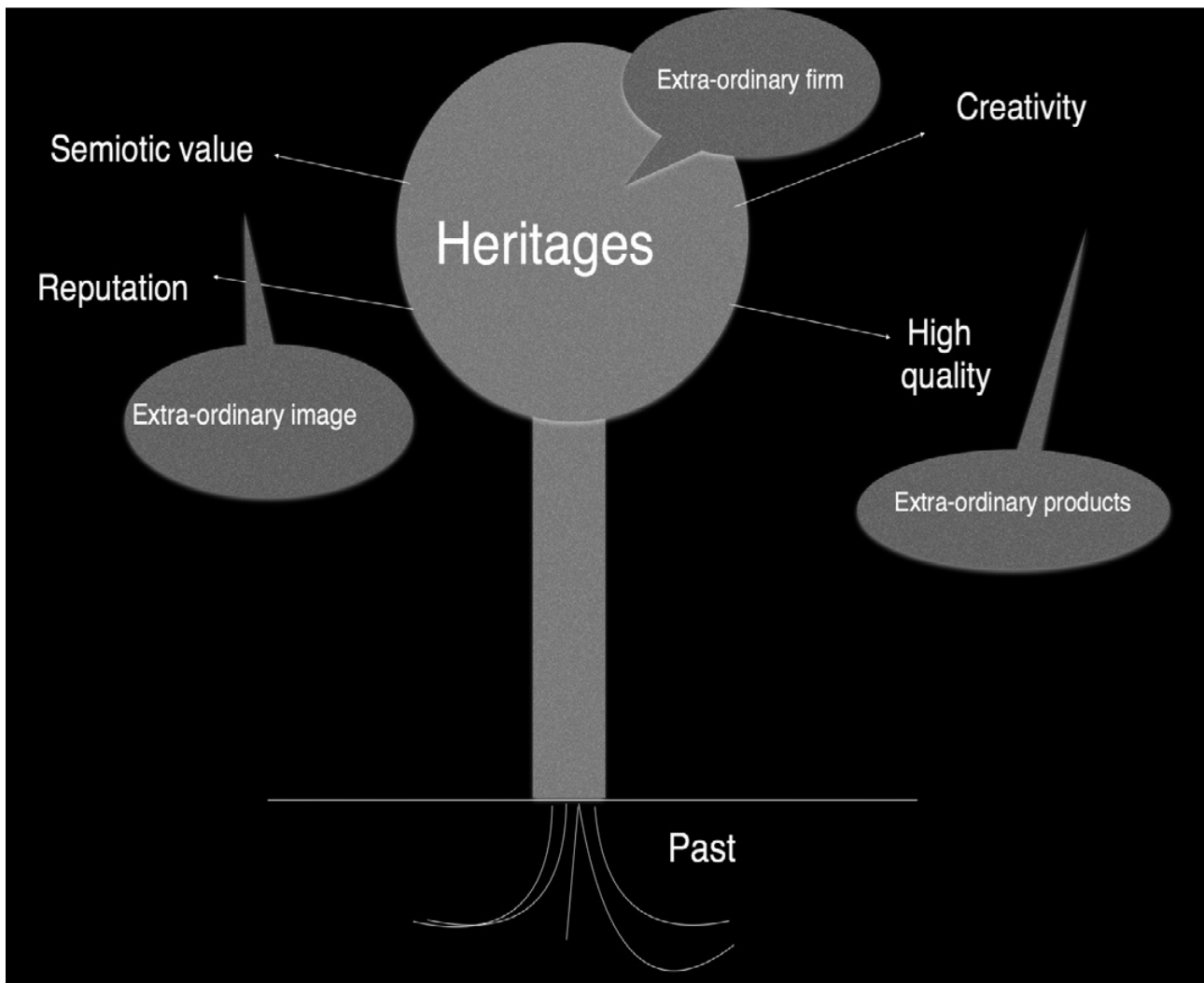
The financial power of luxury groups allows them to inject creativity into the whole range of goods. For instance, the creativity developed in the design of new dresses is used to offer new bags using the same patterns. In so doing, they are able to reach very high profitability. When high quality (now possible within industrial production) is coupled with high creativity, this also contributes to reaching beyond the luxury-mass production contradiction – because luxury goods and services, even when industrially produced, remain extra-ordinary – at least in the minds of millions of consumers.

Fig. 1 – The luxury tree.

Figure 1 summarises the principle of the new model. The luxury tree is deeply rooted in history.

This confers upon it strong value deriving from the possession of specific resources – its heritage. Heritage distinguishes the extra-ordinary from the standard company. On the one hand, by developing creativity and high quality, it leads to the production of extra-ordinary goods. On the other, it

builds an extra-ordinary image for the company, based on its reputation and the semiotic value of its products and trademark².



Nevertheless, using heritage as a basis for a new mass-produced luxury demands certain accompaniment strategies – below we address two of the most important of these.

4.3. THE ROLE OF STRATEGIES

The exploitation of heritage implies strategies that will result in earning money. The reputation and semiotic value of luxury goods whose production has been made possible by heritage can persuade people to consume them – but this supposes that they are aware of both the reputation and the semiotic value of the goods. Reputation and semiotic value lead to communication strategies that aim to play on consumer

² Some present luxury firms, as Apple which is becoming a luxury firm, have a shorter link to past. Nevertheless they used their recent history to accumulate heritages, peculiarly reputation heritages.

tastes. Conversely, both high product quality and creativity have to be protected against copying, piracy and counterfeiting; and this leads to IPR (Intellectual Property Rights) strategies.

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

Fig. 2 – The accompaniment strategies.



The trends analysed by the Frankfurt School now concern the area of tastes. They can also be related to the Chamberlin's framework. As Keynes did, but regarding the micro and meso-level, Chamberlin (1933) focused

on the twofold role of firms in the production: they produce goods but they also have to produce the outlets that will absorb the production and, thus, develop selling costs (expenditure on advertisement, sales promotion schemes, salaries of sales personnel)³.

4.3.1. Communication Strategies: building and exploiting reputation, semiotic value and heritage

Heritage confers a high semiotic value and a strong reputation on goods and services – yet these assets are not systematically generated by heritages consumers may be unaware of. Luxury groups are obliged to develop strong communication strategies. Chanel, for instance, has to remind consumers of its famous past and of the N° 5 – Marilyn connection, in order to reinforce and build the perfume’s iconic value. Groups organise communication policies aimed at enhancing the reputation of their trademarks: through the creation of museums or exhibitions (for example Yves Saint Laurent and Giorgio Armani at the Guggenheim), by purchasing stores on the main squares of the world’s major cities, through sponsoring, or association with artistic events. They value their semiotic heritage in the form of the trademark, which becomes a symbol of distinction between ordinary and extra-ordinary goods. It also adds traditional legitimacy to rationalist (extra-quality and/or extra-creativity) and charismatic legitimacy (the legendary great creators: Christian Dior, Giorgio Armani, Coco Chanel, Paul Bocuse, and so on).

Moreover, semiotic value is not granted by the self-workings of the market – it has to be built. This implies a new relationship between culture and consumption. In addition to selling their material component, sellers also (and often mainly) have to sell their immaterial component. They sell *signifiant* (meaningful) goods to satisfy the consumer demand for *signifié* (meaning). Therefore, they at once sell both goods and culture. And, they have to set out the semiotic content of goods and heritages that is perceptible only within a context, within a system of signs. This often leads to a “reconstruction” of the company’s history: the building and management of heritage are based on an interpretation of history that gives

³ More difficult is, for the sellers, the building of the demand, bigger are the selling costs as illustrated by the sectors where preferences are largely undetermined: in the case of contemporaneous art the standard convention is that half the price goes to the gallerist, half to the creator.

meaning to the reconstructed heritage. In the case of luxury groups, the past is reconstructed to increase the heritage's economic value: for instance, the Coco Chanel myth is rebuilt by glorifying certain aspects of her life, and avoiding others.

Luxury goods are also relational goods. Their utility – both material and immaterial – depends on social context and on the behaviours and choices of other consumers. Mimetic and counter-mimetic movements derive from externalities between demand functions, and characterise consumption – leading to cascades and instability that are reinforced by the role played by emotion in the appreciation of goods [Caplan, 2006]. Choices regarding luxury goods derive not from a rational balance between utility and opportunity cost but from an appeal to emotions and passions. In modern societies the “explosion of subjectivity” [Cova and Cova, 2001; Addis and Holbrook, 2001] and the acceleration of obsolescence and renewal of goods serve to reinforce these elements. Creativity affects consumption by offering new goods, new varieties and new collections that influence individual preferences since they do not correspond to any alignment on individual preferences but rather to the production of new goods, previously unknown to consumers [Dolfsma, 2004].

Consumer evaluation of luxury goods and services can be highly disparate and less stable than preferences regarding standard goods, for which rankings are closer together. What's more, price fluctuations have more limited consequences on adjustment processes than standard goods: a reduction to the price of a perfume will not persuade me to change from my favourite one, if I don't like it. A major problem for capitalist luxury industry companies is thus the contradiction between the development of mass production via regular outlets, and the instability brought about by the role of culture and emotions in the formation of demand. Suppliers seek, then, to organise the convergence of tastes on certain legitimate goods, and develop sophisticated strategies aimed at influencing individual and collective tastes. In this way, they contribute to the extension of capital from the economic area to tastes, cultural norms and ideology.

4.3.2. *Strategies on IPR: protecting and exploiting creativity, quality and heritage*

Prior to the seventies, IPR were weak, including within the luxury industry; in some cases, they took the form of trademarks. The narrowness of connoisseur markets in the aristocratic model avoided counterfeiting and creative piracy. In other cases – as in the fashion industry – the reputations built up were internalised in the company, and protected by a personal IPR in the form of a *griffe* (the creator's name). The *griffe* expressed the couturier's individual creativity and constituted a heritage that was transferable across products – leading to the success of derived products (accessories), but not between companies. When a company disappeared, the reputation heritage assets (along with their idiosyncratic value) disappeared too. Moreover, the *griffe* offered only weak protection against counterfeiting and creative piracy [Barrère and Delabryère, 2011].

Today, luxury groups need strong IPR. Firstly, because they have to protect their products against both counterfeiting and creative piracy – protection that is all the more necessary, given that creativity can be used by both competitors and pirates, allowing them to escape having to fund research and innovation. The rise in semiotic value in relation to the material value of goods provides a new incentive to piracy and counterfeiting [Benghozi and Santagata, 2001].

Secondly, IPR also protects heritage against piracy and counterfeiting – yet allows reproduction of these heritages, which must be separated from the person of the creator so that they can be passed on (either over time or across space) within the group – or within the market. The trademark provides a solution: Dior's is world-famous (and was given as a first name to more than a hundred children born in 2012) even though Christian Dior died 50 years ago. The trademark is no longer the *griffe*. IPRs allow the positive image of the great creators who founded their Maisons to be transferred to the company names, so that their pre-existing reputation can be used as leverage for new product types: obviously they create new accessories, to offer consumers a complete set of luxury goods (Vuitton produces bags, shoes, pens, watches, and so on, in addition to luggage; Hermès has added a garment collection designed by Jean-Paul Gaultier to its traditional accessories). IPRs also allow corporate restructuring within this growing industry.

CONCLUSION

The new French financial and industrial groups in modern luxury succeed in reaching beyond the contradiction between mass production and luxury. Making the most of opportunities, they have invented a new supply model (symbolised by the luxury tree) based on the exploitation of heritage – which is what allows them to reach beyond the contradiction:

- Distribution and communication strategies allow the distinction to be made between a mass-produced product and a banal, ordinary one; the new iPhone seems unique and extra-ordinary – even though everyone knows that it is mass-produced.

- High quality can be produced by industrial means.

- Costs can be reduced so that “basic luxury” products can be offered to large masses of consumers (think of the development of masstige).

- Semiotic values no longer depend mainly on costly raw materials, but increasingly on creativity and heritage – especially reputation heritage.

Creativity and heritage can thus be applied to mass-produced goods. Heritage becomes the new key factor in production, playing a direct role in the building of goods and services up to luxury level. It also plays an indirect role by increasing incentives to creativity and innovation, leading to a new virtuous circle between creativity and heritage. The extraordinary image of the goods can then cohabit with mass-produced goods; extra-ordinary products can be mass-produced; extra-ordinary companies can be those using mass production.

The financial and industrial groups we have studied have, therefore, demonstrated their managerial creativity. They continue to use this to develop sophisticated management of market distribution and control, as well as to improve their growth through IPR management. Modern luxury is no longer either a narrow sector nor a marginal activity; considering its profitability and growth rates, it has now become the top industry in the

globalised world. The future seems to belong to it.

New types of luxury supply models may yet emerge, however. In the new industries these cannot be founded on such a collection of heritages as those built by the historic French, Italian and Swiss companies. Nevertheless, different solutions can be considered. Apple has succeeded in quickly accumulating reputation capital and know-how heritage. Chinese companies can refer to the strong culture of Ancient and Imperial China and invent new formulas for a new and specific mass luxury, based on low labour costs and a strong domestic market. Although the problem no longer lies in reaching beyond the contradiction between luxury and mass production, new issues concerning the sustainability of a model based on the development of wealth inequalities are emerging. The covid crisis may reinforce criticisms about the social utility of luxury as well as the ransom of the development of luxury in terms of increasing inequalities, both national and global. But that's another story.

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