Are luxury brands really immune to financial recession? – A comparative empirical investigation of luxury and non luxury brands in the downturn

Abstract

It is often asserted that luxury brands are relatively immune to economic downturns but this has received little empirical investigation. This paper tests a number of hypotheses concerning the relative performance of luxury brands in a recession. It examines the relative quarterly growth in revenue and profitability of luxury, premium and mass market segments and different luxury product categories over the period 2005 to start of 2010. It finds that luxury brands do not appear to be immune as asserted, that both the mass and the luxury segments outperform the premium segment and that this varies by luxury product category. Management implications are derived for managing luxury brands over the economic cycle.

Keywords: *Brands, luxury brands, brands and finance, brands in recession, LVMH*

Track: *Product and Brand Management*

1 Introduction

"Let me be surrounded by luxury, I can do without the necessities" (Oscar Wilde)

Luxury is not a modern concept but goes far back in history and is deeply rooted in human nature - witness the ancient tombs whose occupants were buried together with their most precious jewellery and symbols of power (Kapferer and Bastien 2009). The luxury sector has been growing over the recent decades from around $20 billion in 1985 to a current value estimated at $200 billion for the traditional, mostly European, luxury companies or more broadly $1 trillion if the "new luxury" companies, including European, US and Asian premium brands are included (Chevalier and Mazzalovo, 2008; Luxury Institute, 2010). The main drivers of this growth have been both demand-led, from increasing globalisation (Halliburton and Hunerberg, 2005; De Chernatony, Halliburton and Ratna, 1995) , emerging affluent market segments, the changing socio-demographic profile of female consumers (Kapferer and Bastien, 2009), global media influences, such as the series "Sex in the City", (Dijk, 2009) and international travel, and on the supply side, by traditional luxury companies launching new brands and brand extensions to market their products to middle-class consumers (Vigneron and Johnson, 2004), and by "accessorising their brands" (Dubois and Laurent, 1996). The latest example of this trend has been luxury companies such as Chanel's Karl Lagerfeld or by the British label Jimmy Choo cooperating with middle- and even low-priced brands such as H&M, (Choi and Soon-Hwa, 2009). Considerable research has been conducted on the subject of luxury in various disciplines, including historical analysis (Berry 1994), consumer psychology (Veblen 1899; Mason 1981), consumer behaviour (Dubois and Laurent 1996, Ziccardi 2001) and luxury marketing (Okonkwo 2007; Chevalier and Mazzalovo 2008; Kapferer and Bastien 2009). Furthermore, the "democratisation of luxury" has been a controversial issue much discussed in recent years. However, despite this substantial body of knowledge there has been little work on the vulnerability of the luxury sector to economic downturns and in particular no research exists on investigating product categories in crisis situations.

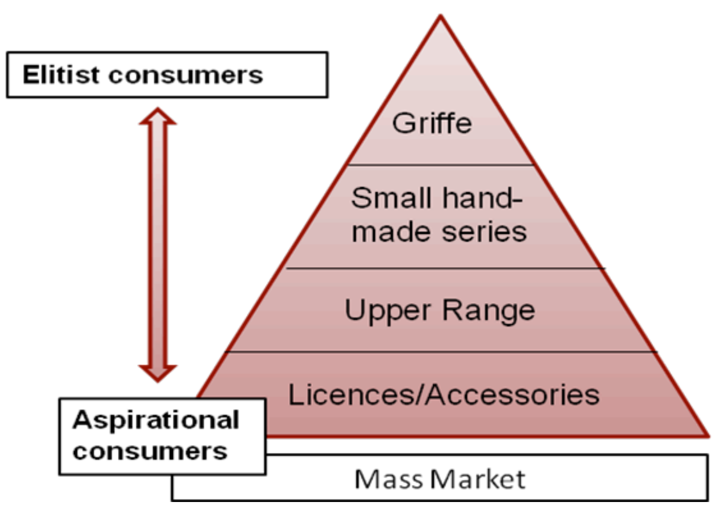
2. Literature Review

The luxury sector is made up of a number of evolving consumer groups (Dubois and Laurent 1996 ; Ziccardi 2001): from *"Old money"* consumers loyal to traditional brands with a long history, such as Hermès, Yves Saint Laurent, Christian Dior or Chanel, through *"Millennium money* consumers with sudden accumulated wealth, including celebrities, athletes or 'dotcom millionaires', through *"New money"* consumers who have climbed the corporate ladder to the highest level and finally to *"Middle Money" consumers* marked by those who can afford occasional luxury products or accessories but who are more sensitive to price – this latter group have been described as "*Excursionists*" by Dubois und Laurent (1996). Although there are clear differences between these four groups much of the research often only distinguishes between "elitist" and "aspirational" consumers.

There are a multiplicity of definitions of luxury whose conceptualisation is often blurred (Vigneron and Johnson, 2004). As long ago as 1899, Veblen postulated that consumer behaviour is driven not by satisfying subsistence needs but by the attempt to attain "esteem and envy of fellow men" where some consumers aim to replicate the consumption of higher social classes. Examples of luxury characteristics include: dreams or aspirations (Kapferer and Bastien, 2009); exclusivity (Chevalier and Mazzalovo, 2008); rarity (Veblen, 1899); bandwagon effects where certain luxuries signal to consumers that they are both prestigious and "must-have" products (Kastanakis and Brabanis, 2012 forthcoming; Vigneron and Johnson, 1999; Chadhauri and Majumdar, 2006; Berthon, Pitt, Parent and Berthon, 2009); and attachment (Chevalier and Mazzalovo, 2008). Consumers' self-image is central, where each individual has a perceived self-concept purchasing products that are seen as relevant for both socially-oriented and personally-oriented luxury consumers (Alden, He, and Chen, 2010; Wong and Ahuvia, 1998; Tsai, 2005; Wiedmann, Hennigs, and Siebels, 2007) analysed using a number of personality variables (Mason, 1984; Dubois, Czellar and Laurent, 2005; Chaudhuri and Majumdar, 2006; Wilcox, Kim and Sem, 2009). This is congruent with Belk's extended-self theory (1988), where the possession of luxury brands serves as a symbolic marker of group membership: hence, the bandwagon behaviour in luxury markets is due to normative pressures. Other marketing variables have been researched such as price as an indicator of quality or prestige, (Nueno and Quelch, 1998; Vigneron and Johnson, 1999), Finally time, timeliness and aesthetics have been analysed (Kapferer, 1997; Kapferer and Bastien, 2009).

Given the growth and profitability of the luxury sector many brands once considered as premium brands have tried to "trade their brands up", (Silverstein and Fiske, 2003; Silverstein and Fiske, 2005). There is a lack of consensus therefore whether a distinction between "true" luxury and "premium" exists: do they differ in nature or is it rather a matter of degree? - "luxury brands represent the highest form of craftsmanship and product quality and command a staunch consumer loyalty base that is not affected by trends […] premium brands are those brands that aspire to become luxury and prestige brands but their marketing mix strategies are more attuned to the mass market" (Okonkwo 2007). According to Kapferer and Bastien (2009) "luxury is not 'premium' at its best". Vigneron and Johnson (1999) defined upmarket, premium and luxury brands as three categories with increasing levels of prestige. Nueno and Quelch (1998) categorised three types of luxury brands as limited awareness, well-known expensive inaccessible and well-known affordable luxury brands. Silverstein and Fiske (2003) classified luxury brands as accessible super-premium, old-luxury brand extensions, and mass prestige (or "masstige") products, which although priced at a premium over mass products are priced well below conventional luxury goods. Kapferer (2008) referred to mass-produced luxuries or accessories (Armani, YSL, DKNY) as the lowest tier in a three or four level pyramid with a limited hand made series near the top and with the bespoke, 'one-off' griffe as its apex, (see Figure 1).

Figure 1 The Pyramid Luxury Brand Framework



Source: Kapferer and Bastien (2009)

. In contrast to the pyramid model an alternative is the “galaxy” framework where products are treated equally with a single concept located at the centre - the consumer can “enter the brand through all doors” (Kapferer and Bastien, 2009). In the “galaxy” model there are no products which dominate the others in creativity nor products which are inferior to the others (Sicard 2006). All sub-brands are based on a single concept located at the centre of the galaxy and differ according to the use or occasion. The “galaxy” model is perhaps more applicable to premium brands rather than to luxury brands.

Although often commonly asserted, there is a shortage of evidence and little empirical investigation of the vulnerability or otherwise of luxury brands to economic downturn. This is the issue that emerged from the literature review and to which we now turn.

3 Research Issues and Methodology

The central issue concerns the relative vulnerability of luxury brands to a recession - do luxury brands perform better than premium or mass brands within comparable industry sectors?; are different product categories affected differently within the same luxury companies? The first objective therefore was to determine the impact of the 2008 financial crisis upon the performance of the fashion mass market, the premium market and the luxury markets. The second objective was to test whether the impact of the financial crisis has been the same for different product categories.

A data sample of twelve luxury brands and four non-luxury companies was created, (see Table 1). The sample of non-luxury companies contains mass market and premium market companies and functions as a control sample. The luxury brands are from four different product categories: fashion & leather, perfumes & cosmetics, watches & jewellery and wines & spirits. For each category, data for at least three companies was utilised. The data analysis comprised quarterly revenues and biannual profits from 2005 to start of 2010 and was collected from the quarterly and annual reports of the respective companies.

Table 1 Analysis of Market Segments - Sample of Companies

Market Segment	Weights in Sample
Mass Market	
H&M	47%
Inditex	53%
Premium Market	
Phillips-van-Heusen	34%
Polo Ralph Lauren	66%
Luxury Market	
LVMH	53%
Hermès	16%
Gucci Group	32%

For each market segment, a weighted average growth rate was calculated. This weighted average growth rate served as an index for comparison purposes. In addition, the profit margins of the different companies have been analysed in order to evaluate the profitability of the different market segments. The companies were chosen on the basis of the following three selection criteria:

1.) The companies needed to be a listed corporation
2.) The companies needed to publish quarterly financial reports between 2005 and 2010.
3.) The companies needed to be among the leaders within their product category in at least one of the two criteria:
    a. Size of revenues (listed on Forbes Global 2000 ranking, 2011)
    b. Brand awareness (listed on Interbrand's Leading Luxury Brands, 2010)

<u>Luxury Market Sample</u>

All three companies come from Europe. LVMH and Hermès originated in France, Gucci in Italy. With a brand portfolio of over 50 brands and annual revenues of €17,053 billion in 2009, LVMH is the biggest company within the luxury industry. The company is highly diversified and its products are divided into four business groups: fashion & leather goods (e.g. Louis Vuitton, Fendi, Donna Karen, Loewe, Marc Jacobs); wines & spirits (e.g. Moet & Chandon, Dom Pérignon, Veuve Clicquot, Hennessy, Glenmorangie,); perfumes & cosmetics (e.g. Christian

Dior, Guerlain Givenchy, Kenzo,); and watches & jewellery (e.g. TAG Heuer, Hublot, Zenith, Dior Watches, Chaumet). The fifth business group, selective retailing was excluded from the analysis.

Hermès was founded in 1837 and is one of the most established luxury brands, generating €1.914 billion in 2009. The core products are leather goods, specifically the Kelly bag, priced at between €3000 and €25000 as well as the Birkin bag, whose revenues were boosted though its presence in the cult series "Sex and the City". The special editions of these bags reflect the griffe.

The Gucci Group or PPR Gucci was created in 1999 by the purchase by PPR of a minority interest in Gucci and the immediate purchase of the YSL Group (Chevalier und Mazzalovo 2008). Since then, the group has purchased many other brands (e.g. Bottega Veneta, Balenciaga and developed its own from scratch (e.g. Alexander McQueen, Stella McCartney). The company generated revenues of € 3,390 billion in 2009 (Annual Report 2009).

For comparison purposes, the pyramid business models for one brand of each company is depicted in Figure 2.

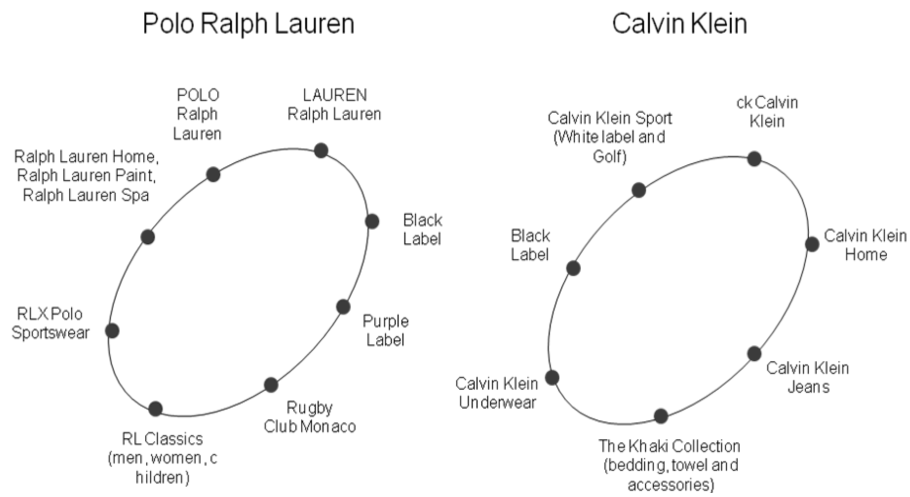
Figure 2 The Pyramid framework for LV, Hermès and YSL

Source: Modified from Kapferer and Bastien (2009)

<u>Premium Market Sample</u>

The product portfolio of Phillips-van-Heusen is constitued by different brands, such as Calvin Klein, Arrow and Van Heusen, as well as licensed companies, such as BCBG MaxAzria. The company also purchased Tommy Hilfiger. For the following analysis, only Calvin Klein will be considered as it is the best-selling and most recognised brand of Phillips-van-Heusen's portfolio. Polo Ralph Laurent and Calvin Klein pursue a galaxy model illustrated in Figure 3.

Figure 3 The Galaxy Framework for Polo Ralph Lauren and Calvin Klein



Source: Modified from Kapferer and Bastien (2009)

The product portfolio of both brands is very broad, including prêt-à-porter, accessories, perfumes and sportswear. There are furniture, paintings, cafes and restaurants íncluded under the Polo Ralph Lauren's brand name. Bedding, towels and accessories are sold by Calvin Klein. All sub-brands are based on a single concept located at the centre of the galaxy. In the case of Polo Ralph Lauren, the centre of the galaxy is based on the company's creator Ralph Lifschitz. He is an incarnation of the American Dream, starting from nothing and becoming rich (from "Rags to Riches"). As discussed previously, dream is a major factor of the luxury concept. Although Polo Ralph Lauren is not a luxury brand in the traditional sense, the products may be luxury products for those who dream of the brand (Kapferer and Bastien 2009). These brands target the "middle" money as well as "new money" consumer.

<u>Mass Market Sample</u>

For the mass market sample, one European and one American companies were selected. H&M was established in 1947 by Erling Persson. The company describes its mission as "Fashion and

Quality at the Best Price", which demonstrates that it targets the mass market. However, H&M clearly distinguishes itself from other mass market brands through its collaboration with well-known designers. The chain launched various collections including Karl Lagerfeld, Stella McCartney, Roberto Cavalli and Jimmy Choo. The price levels of H&M products remained low and affordable. The second company is the Spanish corporation Inditex Group. The brand portfolio includes the brands Zara, Bershka, Massimo Dutti, Oysho, Pull and Bear, Uterqüe and Stradivarious. In particular Zara follows a very innovative design strategy as a fashion imitator.

We developed the following three hypotheses:

H1: *Contrary to the commonly asserted view. we posit that a financial crisis has a negative impact upon the luxury industry and specifically on Louis Vuitton Moet Hennessy (LVMH).*

- LVMH was chosen as the world's largest luxury group, whose 2010 brand value was ranked by Interbrand as the most valuable luxury brand (16^{th} overall) at $21.9 Bn. The analysis was three-fold: 2005-2009 quarterly trends in revenues by business group; biannual profit margins by different business group; and revenues in Europe, the United States, Japan and Asia.

H2: *Luxury companies should perform better than premium, and in turn mass consumer good companies within comparable product categories in a financial crisis.*

- This was analysed by weighted average trends and seasonal fluctuations in quarterly revenues and in biannual profit margin by market segment (luxury, premium and mass category) between 2005 and 2009
- The apparel market was chosen and a weighted sample of companies within each category was calculated (Luxury: LVMH, Hermes and Gucci; Premium: Philips van Heusen; Mass: H&M, Inditex {Zara})

H3: *The implications of the financial crisis are different for different product categories within the luxury sector.*

- This was analysed by weighted average trends and seasonal fluctuations in quarterly revenues for four luxury product categories (Fashion & Leather, Perfume & Cosmetics, Watches & Jewellery and Wines & Spirits)

- A weighted index for each product category was created based upon the weighted average revenues of three to six companies for each category.

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4 Findings and Discussion

The year 2008 started with a global downturn that originated in 2007 and arguably with earlier roots. What started as a financial crisis, soon expanded into the larger real economy, affecting both mature and emerging markets alike (World Wealth Report 2009). World equity markets lost a decade of gains and volatility of individual stocks reached record levels. The world gross product (WGDP) fell by 2.6 percent in 2009, compared with positive growth of 2.1 percent in 2008 and an average annual growth of almost 4 percent per year prior to the crisis during 2004-2007 (United Nations, 2009). The years 2006 and 2007 represented two robust years of growth of the High Net Worth Individual (HNWI) population. At the end of 2008, however, the world's population of HNWIs was down by 14.9 percent from the year before, while their wealth had dropped by 19.5 percent (World Wealth Report 2009). The ultra-HNWI's suffered more extensive losses in their financial wealth than the HNWI population as a whole. The ultra-HNWIs population decreased by 24.6 percent, as the sub-group's wealth dropped by 23.9 percent, pushing many down into the "mid-tier millionaire" pool.

The first hypothesis was partially supported since overall, the LVMH group was in fact vulnerable to the financial downturn in the period 2008/09 – both revenue and profit margins declined over the period. However, this finding varied across product categories.

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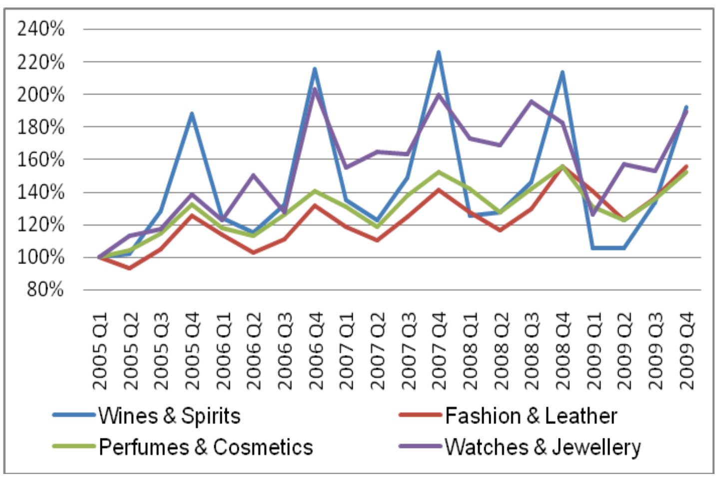
Both revenue and profitability were more adversely affected for Wines & Spirits and Watches & Jewellery than for Fashion & Leather and Perfumes & Cosmetics. The more mature markets suffered more strongly whereas the emerging markets continued to grow, with the exception of Japan, in part due to weak currency. Revenues and profits recovered across categories and regions in the second half of 2009 suggesting therefore perhaps that luxury brands have the potential to recover more strongly out of recession?

Given the strong seasonality, the compound annual growth rates (CAGR's) between 2005 and 2009 were analysed, namely 5.54%, 3.71%, 5.96% and 0.72% respectively for fashion & leather, perfumes & cosmetics, watches & jewellery and wines & spirits. The business segments of jewellery & watches followed by fashion & leather had the strongest revenue growth. To evaluate the impact of the financial crisis, the period from mid-2008 to the end of 2009 was decisive. For watches & jewellery, Q3 in 2008 was strong followed by an uncommon downturn in Q4. The other business groups illustrated a notable downturn in Q1 and Q2 in 2009. From Q2 of 2009 onwards, an increase was observed leading to partial recovery at the end of 2009, (see Figure 4).

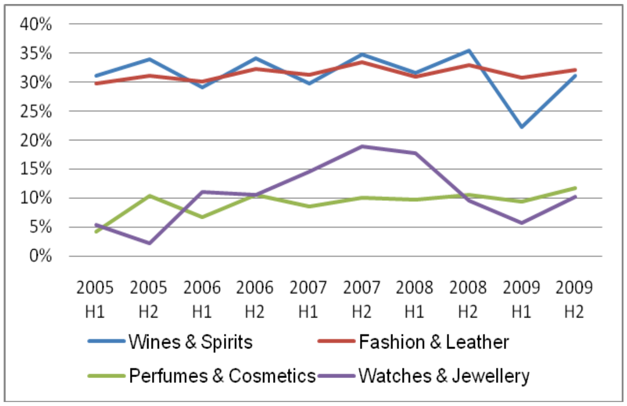
Figure 4 LVMH's Growth in Revenue by Business Group (Base Q1 2005)



Source: Data from Annual Reports

Similarly, two of the product categories, Wines & Spirits and Watches & Jewellery, showed a decline in profit margins during the recessionary period as compared to the other two categories, (see Figure 5).

Figure 5 LVMH biannual profit margins by category – 2005-2009



In summary, LVMH was affected by the financial crisis 2008/09. Revenues and profitability of wines & spirits and watches & jewellery decreased more than for fashion & leather and perfumes & cosmetics. In particular, the category of wines & spirits was subject to fluctuations.

The second hypothesis was rejected. Although the luxury product category performed better than the premium category, both of these in fact were more negatively affected than the mass market category, within the chosen apparel sector. This is evidenced in the correlation matrix in Table 2.

Table 2 – Correlation matrix – Luxury market categories

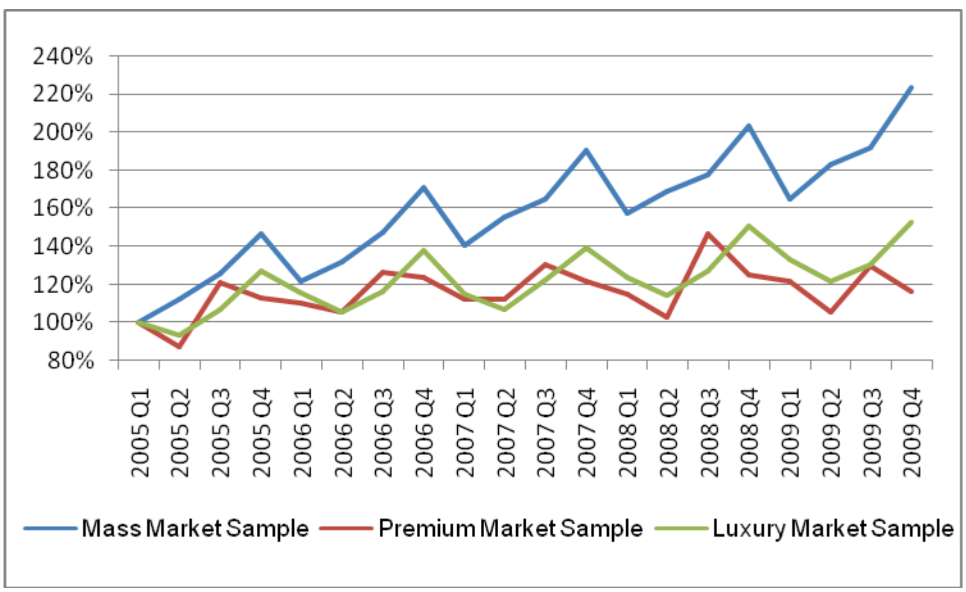
	Mass Market		Premium Market		Luxury Market		
	H&M	Zara	PvH	RL	LVMH	Hermès	Gucci
H&M	1	X	x	x	x	x	X
Zara	0,88	1	x	x	x	x	X
PvH	0,11	0,50	1	x	x	x	X
RL	0,34	0,67	0,84	1	x	x	X
LVMH	0,81	0,91	0,35	0,62	1	x	X
Hermès	0,87	0,89	0,16	0,44	0,94	1	X
Gucci	0,44	0,65	0,42	0,70	0,72	0,68	1

Considering the correlation coefficients, it can be confirmed that the companies are highly correlated within the three samples. The average correlation coefficient within the mass market was 0.91. Polo Ralph Lauren and Phillips-van-Heusen, included in the premium market sample, have a correlation of 0.84 and the luxury market sample's average correlation was 0.78. Therefore, it can be concluded that one determinant factor of the performance of a company is the market segment it belongs to.

Furthermore, it can be noted that the mass market sample is also highly correlated with luxury companies, specifically with LVMH and Hermès. The correlations coefficients are around 0.90, which suggests that the mass market and the luxury market are highly interdependent. The premium market, however, distinguishes itself from both the luxury market and the mass market.

The mass market companies continued to grow during the recession period whereas the premium category declined throughout 2008 and 2009 with the luxury category declining but at a lower rate and appearing to recover in the final quarter of 2009, (see Figure 6).

Figure 6 Growth in Revenues by Market Segment (Base Q1 2005)



Source: Annual Reports

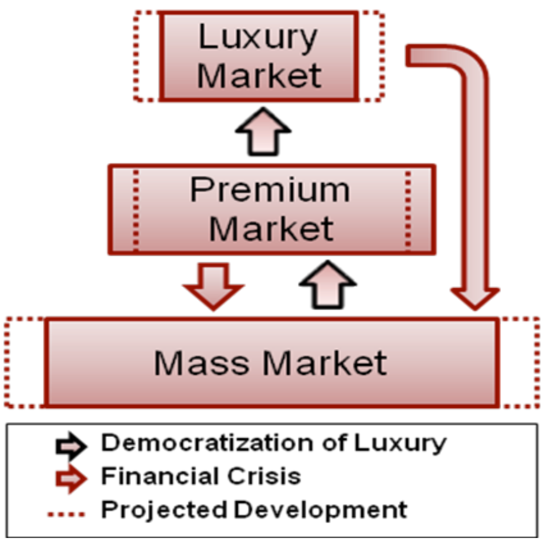
The growth pattern for the luxury segment resembles that of the mass market, however, its CAGR of 4.6% was only half that of the mass market sample, at 10%. Nevertheless this growth was relatively consistent and the impact of the financial crisis less noticeable than for the premium market category which showed a CAGR of only 2.4%.

Overall, the profitability analysis suggests a tendency for luxury companies to be more profitable and less vulnerable to a financial crisis whereas the premium market segment showed a drop in profitability. Within the luxury category Hermes, perhaps the most traditional of the sample luxury brands, performed most strongly with profit margins of 30-40% even during the recession period. Within this category the core products and the accessories triggered growth with the mid-position items the most vulnerable. The mass market category also showed less susceptibility to the recession, except for Inditex's second half of 2009. Within the premium category, inn contrast to Polo Ralph Lauren, Phillips-van-Heusen evidenced a significant drop in profit margin from 12 percent to 2 percent in the second half of 2008 whereas Polo Ralph Lauren sustained a profit margin of 15 percent. Q 1 in 2009 was very weak for both companies with a profit margin of around 7 percent for both companies.

The analysis shows that profitability is not entirely dependent on the market segment in which the company is operating. The profit margin of the Gucci Group, although operating in the luxury segment, is very low. Phillips-van-Heusen also lacks profitability, whereas Hermès, LVMH and H&M were very profitable.

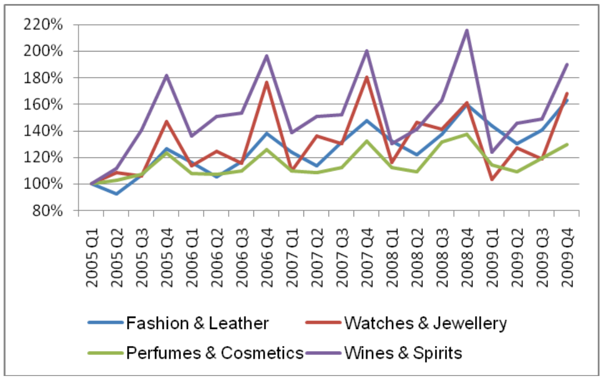
Considering the growth of the companies during the financial crisis, the following question arises: Why did the mass market sample and the luxury market sample outperform the premium market sample? In addition, the high correlation coefficient between the mass market sample and luxury market sample requires some comment. There are two possible interpretations. The first could be that for premium brands, the peak of the year is shifted to Q 3 because wholesale revenues form a large portion of the revenues. The second could be that mass market producers such as H&M and Zara, gained importance in the fashion world over the last decade. Their strategy, based upon a combination between "mass" products and luxury brands has set a trend. The "mix and match" concept is regarded as fashionable. Therefore, consumers who have traditionally only purchased luxury brands may also buy brands such as H&M or Zara. It is assumed that these consumers will still buy luxury products in an unstable economic environment, but increase the portion of mass products with which the luxury products are combined. A graphical presentation of this issue is illustrated in Figure 7. As a result of increasing wealth, consumers moved from the mass market to the premium market and premium market consumers could afford luxury products. However, the counter-trend "mix and match" led luxury consumers to buy increased mass market brands rather than premium brands. This also could explain the relative performance of mass market companies since 2005.

Figure 7 Illustrative Development of Market Segments



The third hypothesis was supported since the impact of the recession was different across the four product categories, (see Figure 8).

Figure 8 Comparative growth in revenue by product category – 2005-2009



Fashion & Leather was barely affected with revenues growing across all quarters, albeit at a historically lower rates. The most negatively affected category was Watches & Jewellery as these possibly may be more discretionary items whose purchase decision could be postponed. Perfumes & Cosmetics were only marginally affected in the downturn period, with designer perfumes more vulnerable and LVMH and L'Oreal more stable possibly due to their broader portfolio. The Wines & Spirits category also experienced little impact except for champagne where it is possible that the hedonic effect may be weaker in a recession (Vigneron and Johnson, 1999).

5 Limitations and Further Research

The study was constrained by the availability of published financial data for publicly listed companies, therefore excluding private companies, the published data uses different profitability definitions and we had to calculate financial indices and allowances for currency exchange rates.

For each market segment, a weighted average growth rate was calculated to serve as an index for comparison purposes. In addition, the profit margins of the different companies were analysed in order to evaluate the profitability of the different market segments.

Due to the large number of luxury categories and because almost every product market has a luxury segment, it becomes almost impossible to give a detailed overview of the luxury brand market as a whole. This research focused upon fashion and accessories, including leather goods, cosmetics and fragrances as well as wine and spirits. The broader scope of luxury, such as luxury cars, real estate or travel, was not considered. Furthermore, only a limited number of publicly listed companies were available. Therefore, an information bias could result. Also, there may be a discrepancy between the performance of public and private companies. In particular in the fashion luxury segment, some important players of the industry are private companies. The results of the analysis can therefore only be applied to the whole industry when abstracting from these limitations.

In order to investigate the performance of the different market segments (mass, premium and luxury), the profit margin of different companies has been compared. The companies publish different measures of profit, namely Earnings Before Interest and Tax (EBIT), operating profit or operating income. While the difference between EBIT and operating profit is generally relatively minor, the operating income, which considers depreciation costs, can differ significantly from the other two measures. In addition, the companies use different accounting methods: International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Standards (US-GAAP) are both exercised. Due to this inconsistency in profit reporting standards and measures, the direct comparison between the profit measures of different companies is subject to bias. In order to create the appropriate indices for each category, currencies needed to be converted into Euro. However, it is not measurable when and at which exchange rate revenues occurred. Therefore, an average exchange rate coefficient on a half-year basis was estimated based on chart analysis. Since revenues took place at different points of time, a conversion discrepancy was inevitable, which might have slightly influenced the results.

Further research could extend the luxury product category coverage, the time period, comparisons between different recessionary periods and possibly access to internal company data, including private companies, although such access is problematic.

6 Management Implications

The literature review suggested that the luxury industry has changed in the recent period. Through increased wealth a wider population segment acquired the financial means to afford luxury products. Luxury companies relied on this enlarged customer group to finance their griffe products, which coin their image. The implication for companies is that aspirational consumers move upwards from the mass market and purchase accessories and licensees or even upper range products. In contrast to the luxury market, the premium market segment faces stronger negative effects of the financial crisis. The trend “mix and match” encourages consumers to combine mass market fashion brands with luxury products, thereby eroding the middle-price segment. Customers may have become more experimental and like to combine very different styles and brands. During the financial crisis, Hermès and LVMH were able to sustain high profit margins, whereas the Gucci Group lacked profitability. H&M and Zara experienced a strong growth rate in the period 2005 to end of 2009. Despite the growing popularity of innovative mass market companies, profit margins are lower, but nevertheless relatively stable.

The traditional marketing theory of luxury goods, which stipulates that the luxury industry is not affected by economic downturns, cannot be confirmed for all product categories. Although the category of fashion & leather products experienced a stable performance during the crisis, the category watches & jewellery faced declining revenues. A broader diversified portfolio such as that offered by LVMH is associated with higher growth rates and a lower decline than, for example, Hermès’ single brand strategy. It is inferred that long-term investments, such as expensive watches & jewellery, were postponed to the post-crisis future. Perfumes and cosmetics were also restrictedly affected by the effects of the financial crisis, with a remarkable drop in revenues of designer perfumes. Considering the analysis of LVMH, it can be stated that the wines and spirits product category of products consumed in privacy were less affected than products consumed in public. In particular, champagne consumption has been declining during the crisis.

The foremost management implication is to emphasise that the strengthening of the iconic status of the brand is advisable. This can be achieved, for example, through remodelling designs from the archive. It is important to stay with the well established brand concept and it is discouraged to experiment with new concepts that have not been tested. Concentrating on what the company does best and being proactive is the strong implication. In recessions, customers become more critical and tend to return products faster. For a company this causes additional costs. Hence, high quality control has been really important in the financial crisis. In general, cost cutting measures and the implementation of online networks have been successful.

The analysis of the luxury conglomerate Louis Vuitton Moet Hennessy (LVMH) demonstrated that luxury consumption in Europe and America has been affected by the financial crisis. Asian countries were less concerned and continued to sustain high luxury market growth rates, with the exception of Japan. Expected continuing growth in emerging countries' GDP in the next three years points to a favourable outlook for continuing sustained luxury market growth. During the financial crisis, the Emerging Markets stabilised revenues, as increasing wealth made up for recessionary effects.

The study has shown that the luxury industry is not immune to downturns but it has shown more resilience than the premium category. It has also shown variances across product categories and across geographic regions. It is possible to infer a strengthening of the 'true' luxury and of the 'mass' categories and a pressure on the middle 'premium' category – it may be necessary to reconfigure Kapferer's pyramid. We have observed the simultaneous drivers of democratisation of luxury on the one hand with financial pressure on the other. The lessons for luxury companies are to reinforce their core traditional luxury brand identity, to maintain consistency and to learn to 'mix and match' with lower-priced accessory, or entry items in parallel.

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