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Is the financial crisis a threat for the luxury business?

Writers

Erik Zhang

Filip Andersson

Supervisor

Jens Hultman

Examiner

Christer Ekelund

Abstract

Title:	Is the financial crisis a threat for the luxury business?
Authors:	Erik Zhang & Filip Andersson
Supervisor:	Jens Hultman
Background/problem:	Many business and industries have been hardly influenced of the occurrence of this financial crisis (2008) which is expected to be the worst financial crisis since 1929. Historically the luxury business has always been immune to uncertainties and crisis. It is of great interest to see how the luxury business reacts in the financial crisis from a marketing strategy perspective.
Purpose:	To explain the impact of the financial crisis on the luxury business by using and identifying the nature of luxury and the suitable marketing strategies.
Methodology:	A deductive philosophical approach and a positivistic and interpretative research approach are applied in this thesis.
Findings:	The luxury business has not been influenced by the financial crisis based on the interviews. The main reasons behind it are interpreted as the nature of luxury itself and its unique customers.
Conclusion:	Based on our study and the involved companies, it is assumed that the luxury business is invulnerable to the financial crisis.
Key words:	Luxury brand, luxury products, marketing strategy, financial crisis.

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Filip Andersson

Erik Zhang

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Chapter 1

Introduction

In this chapter the background of this thesis is described and the problem discussion is also presented in order to connect the research question and its purpose together. Finally, a disposition of the thesis's structure is showed as the ending of the chapter.

1. 1 Background

In recent years, globalization and increase in spending power are two obvious drivers of the growth in luxury consumption (Kapferer, 2009). Based on the classic macro-economy theory, once the disposable income increases the consumption will also increase. In this case, the luxury business may also be included since that business has gone through an enormous transformation and the result is an explosion of luxury products through the economic improvements and a stronger consciousness about luxury products (David report, 2007).

In the luxury business, the demands for luxury products have increased because of the increasing income and the distance between the customers and luxury products has become closer and closer. The sale number of luxury items speaks for itself (Hadenius & Sk ärvad, 2004). The annual report 2007 of the Gucci Group, the third largest luxury group in the world showed a 15% sale growth. According to the LVMH group, the largest luxury group in the world, its fashion and leather goods as well as other goods and operations (perfumes, cosmetics and jewelry) increase year after year. The common strategy of companies in the luxury business is to expand internationally with various portfolios consisting of different products to eliminate risks, which for instance could occur in a financial crisis (Ferragamo, 2004). The economic situation and future prospect have been favorable for luxury companies which have grown and expanded the past years. The costumers have become more positive towards luxury brands which can be one of the reasons behind the success of luxury brands (Andersson, 2004).

In Sweden, the disposable income has also increased in past years (SCB, 2009) and the demand for luxury products has also increased. Wallin (2007) confirms that customers in Sweden are demanding more and more quality and excellence in products and material. They want to indulge themselves and show their passions. Mariano (2007) also thinks that the customers of today are more quality-aware.

In 2008, the financial crisis is predicted to become the worst financial crisis since the deep depression in the end of 1920. The future prospect for the next few years is pessimistic and there are many signs indicating that this financial crisis will take a long time to recover from. The economic growth may decrease for many countries in the next few years and this may have an impact globally on the consumption behavior of customers worldwide (Åkesson, 2009). Since the economic conditions are strongly related to luxury products, we found it very interesting to study how the luxury business would respond in a financial crisis.

1.2 Problem discussion

The luxury business has experienced a time of huge demand from the customers in the past years when the economic situation was promising and hopeful. Today the economic situation has been remarkably changed and many analysts think that the luxury business will have a tougher period of decreased sales and demands in the coming years. According to Cheryl Krauss (2008) from Bain & Company, the growth of the global luxury market once thought invulnerable to economic fluctuations has actually been influenced by the economic slowdown and it will face its first recession since 2003. The financial crisis will take some industries into a recession, and a comeback is mainly dependent on how the companies respond to the financial crisis. Companies with strong international brands are predicted to be the most sustainable in this crisis.

It may be possible that this financial crisis that started in 2008 has slowed down the expansion process for the luxury business. According to the LVMH (the biggest luxury market in the world), its latest expansion in Japan has been cancelled because of this crisis and its uncertainties. In an economy with huge uncertainties, it takes courage to construct a sustainable strategy facing price pressure and weak

demand. Managers in the luxury business will try everything to protect margins by balancing the product cost (Silverstein & Fiske, 2002). Under these circumstances, we ask ourselves the questions; “How should companies in the luxury business maintain competitiveness in a financial crisis?” “Is the concept of exclusivity and other characteristics of luxury a helping hand or could there be some other marketing strategies ?”

1.3 Purpose

The purpose of this thesis is to obtain understanding of how companies in the luxury business react in a financial crisis. The purpose is also to create a theoretical model which could explain the complex situation in the financial crisis which companies in the luxury business have to face. This may be achieved with the information from related theories and interviews with managers involved in this area.

1.4 Research question & objective

Question 1: How should companies in the luxury business apply the marketing strategies in the financial crisis?

Objective 1: To discover and explain the characteristics of luxury and how the luxury business can mitigate the effects in a financial crisis from a marketing strategy perspective.

1.5 Limitation

Regarding the time, resources and other factors, this research has its limitations. The limitations will help to highlight the main focus and give significant outcomes of this thesis in this subject and the limitations are the following:

- We observe the scientific problem from the perspective of companies in the luxury business.
- The companies have offices located in the southern part (Malmö) of Sweden.

- The brands or products of the companies are correctly defined in accordance with the definitions of a luxury brand in chapter two.

1.6 Disposition

To have a good overview over the structure of this thesis and facilitate for the reader to understand the outline, the structure of the thesis is presented below.

Chapter one gives a general background and an introduction of the subject to the reader. The intension of the subject will be presented in research question and its objective.

Chapter two highlights the theories which are applicable and closely connected to the subject, but also essential for the discussion and critical thinking in order to provide contributions in this area.

Chapter three begins by discussing the methodology, research philosophy and the philosophical approach of this thesis. Finally the data collection and the empirical framework are also presented.

Chapter four presents the data collection and the interpretation of the outcomes.

Chapter five shows the result of the research question and the outcomes are summarized as a conclusion of the thesis together with suggestions and final words for future research.

Chapter 2

Theoretical framework

In this chapter the definition of luxury and its characteristics are highlighted based on relevant literatures and articles. The important issues and factors regarding maintaining luxury brand's success are discussed. A model concerning marketing strategy especially designed for the luxury business will be developed in the end of this chapter.

2.1 Introduction

The significant difference between the management of luxury brands and mass production brands has decreased and many luxury brands have been misplaced and affected by other industries with high-tech marketing activities. It is time for a wake-up call to bring to mind that the concept of luxury brands and the luxury brands marketing process does not fit with the traditional marketing strategies (Kapferer, 1997). Kapferer (1997) also points out that luxury has been transformed into an essential industry which requires high profitability.

2.2 Definition of luxury

According to the Concise Oxford English Dictionary, the definition of luxury is a “state of great comfort and extravagant living.” Another definition is “an inessential but desirable item, a pleasure obtained only rarely.” According to the definition provided by Babylon, luxury is “something which is unnecessary and often expensive, something which contributes to one's pleasure or comfort; indulgence in expensive and unnecessary items; costly and magnificent living.” Hata (2004) claims that luxury is only for people of a certain class and the traditional value is the ability to enjoy quality products for a long time which means that higher-priced quality products are considered to be a worthwhile possession and investment. Since customers' behaviors have changed dramatically, a redefinition of luxury is needed, including the luxury experiences of the customers (Dubios & Czellar, 2002).

Luxury products are divided into two categories: inaccessible product and accessible product. An inaccessible product has the highest standing above other products. These products are made of exclusive material and are almost unreachable with very limited quantities produced. Only a small group of the wealthiest elites could afford them. An accessible luxury product is less unreachable and less expensive than inaccessible luxury products, which means that the exclusivity is also less. Accessible products are aimed mainly at the middle class with sufficient wealth (All é ès, 2004).

In this thesis, all the terms of discussions and theories concerning luxury is referred to accessible luxury products with the characteristics of luxury brand which is described below. We have chosen not to focus on luxury products such as perfume and cosmetic products because these type of products do not match the definition of luxury products which have a long life time. In this case these products are excluded.

2.3 The characteristics of luxury brand

The fundamental aim of a luxury brand is to have a small amount of selected customers and exclude other customers. It is harmful when a luxury brand has too many different products because the brand may lose its identity and the distinction of luxury will be terminated (Kapferer, 1997). In the luxury business craftsmanship is more highly valued and more appreciated than mass production. For example, compared to products such as electrical appliances, the prices may decrease when newer products with the latest functions are released. Luxury products obtain value over time. The longer the items are used, the more emotionally involved the user becomes to them. The items also acquire a unique characteristic, and older or used items are often more valuable than new ones (Hata, 2004). There are two main aspects behind people's decision of purchasing luxury items. The first one is the purchasing power of customers who want to have quality and the other one is the willingness of appreciating the aesthetic and art of luxury products (Kapferer, 1997).

Nueno and Quelch (1998) state that a luxury product is a work of art designed for an exclusive market. The main traditional characteristics of luxury brand are defined as:

- The functionality in relation to price is low, while the intangibility and value perception in relation to price is high.
- Consistent quality, identifiable and classic design in all the products.
- Historical heritage of craftsmanship.
- Production is limited in order to obtain exclusivity and high price.
- A connection which creates a combination of emotional association and product quality.
- Global awareness and reputation. (ibid)

2.4 Brand

Before going straight to how luxury brands achieve success and if the financial crisis has any impact on the luxury business, brand and especially brand equity has to be mentioned, since that is the basis for any company to create luxury brands (Kapferer, 1997) and it may be the strongest sustainable tool to stand in a financial crisis (Krauss, 2008).

Brand is an important concept in marketing and has been well established for around a century. Brand is the brand image reflecting a product or service in customers' perceptions (Grönroos, 2007). The role and value of brand is a significant issue, since there had been several spectacular take-offs of well-known brands during the 80s. The value of the brand has contributed to visibly estimate companies' assets to the market (Urde, 1997). According to Hollensen (2007) companies today must differentiate from their main competitors and a strong brand image is helpful for companies to become a powerful market player.

2.5 Brand equity

To concentrate on brand equity is a good way to get a sense of a brand. Aaker (1996) defines brand equity as a set of brand assets and liabilities which influence the brand. For instance logos and symbols which are associated by the brand, and how these influence the value of the product or service. Another view is to see brand equity as brand value and brand meaning, where brand meaning implies brand detail, brand association and brand personality. Brand value is the outcome on how well the brand meaning is managed (Blackstone, 1995). Keller (1993) defines brand equity as customers' response to companies' marketing efforts and how well they can differentiate their products against their competitors.

Brand equity can broadly be divided into two different parts which are financial brand equity and customer based brand equity. Financial brand equity can be calculated by looking at stock prices or brand replacement (Mayers, 2003). One suggestion is to measure movements in the stock price for capturing the dynamic nature of brand equity, in the sense that future prospects for the brand will be reflected on the adjustments on the stock price (Simon & Sullivan, 1993). Another suggestion for measuring financial brand equity is to look at the potential value of a brand from an acquiring firm's point of view for assessing the brand equity (Mahajan *et al*, 1991). One can also look at brand replacement and focus on the costs of establishing a new brand, coupled with the probability of successes (Simon & Sullivan, 1993). Finally one of the most published financial methods for calculating brand equity is used by the financial world in their annual list over world-wide brand valuation. Their method calculates brand-related profits, and then assigns a multiple based on brand strength. Brand strength is a combination of leadership, stability, trading environment, internationality, ongoing directions, communication support and legal protection (Mayers, 2003). Another way of dividing brand equity used in marketing reviews is to split it into consumer perceptions and consumer behaviors. Consumer perceptions involve awareness of the brand, brand association and perceived quality. Consumer behaviors on the other hand involve brand loyalty and the focus on paying a price differential (Mayers, 2003). Aaker (1991) uses consumer preference ratings for a branded

product versus an unbranded correspondent product. However, many authors believe that brand equity can be explained of a brand name because the name of the brand is the most important factor for the brand. The negative aspect by just looking at the brand name is that it does not consider the customer marketplace behavior which is needed for assessing the brand against other correspondent brands.

Customer based brand equity can be explained as the response a company gets from its brand marketing. It occurs when a customer is familiar with the brand and has some favorable, strong and unique associations with the brand (Lasser et al, 1995). A brand should never fall short of customer's expectations, because their high expectations are in fact the reason they repurchase the brand. The more value customers find in products, the higher their expectations (Hata, 2004).

Five important considerations that define brand equity can be distinguished. First, brand equity refers to customers perceptions of the brand. Second, a global value associated with brand can be distinguished which defines the brand equity. Third, the definition of brand equity is that the global value associated with brand comes from the brand name and not only from the physical aspects of the brand. The fourth definition is that brand equity is not absolute, but instead relative to competition. The fifth and final definition of brand equity is that it has a positive influence on financial performance (Lasser et al, 1995).

The aim of a luxury brand is to focus on creating faithfulness to an identity and that can only be built through coherence, which means that companies have to know who they are and insist on it. Identity communicates a brand's roots and its heritage; in fact everything that gives it its exclusive authority and legitimacy in a particular territory of values and benefits (Kapferer, 2009).

2.6 Creating a successful luxury brand

Hata (2004) explains that there are several requirements for being a real brand in the luxury business. The requirements consist of a long history, consistent

tradition, unique technology and know-how, a unique philosophy, unique aesthetic values, high quality and quality assurance.

Being in touch with the history, tradition, unique technology, and aesthetic will facilitate customers to understand and perceive the brand's authentic value. To correspond a brand's value correctly, "consistency as a story" is more essential than visually attractive advertisements. Consistency helps to build up a brand's image and communicates the brand's ideas and philosophy to customers (ibid). This leads to the following proposition.

Proposition 1: Brand equity in form of legitimacy, intangibility and identity has positive impact on the luxury brands.

Brand can differ greatly depending on how the brand is marketed. Some brands are marketed as cheap brands and some are marketed as luxury brands. The way of running luxury brands can be divided into four different key elements. First is design and communication management (Nueno *et al*, 2000). In luxury brands the founder is often seen as the key designer, especially in many French high fashion companies. The problem with this is to find a way for the brand to survive after the founder has passed away. To reduce the problem with a single important designer, a high fashion company can create a knowledge design community inside the company (ibid). Ralph Lauren has been successful in this and is therefore not as dependent on their founder as their key designer. Furthermore, a luxury brand needs to manage the complex problem of extracting value on the marketplace and communicate its message worldwide. It is essential for luxury brands to display their products in high fashion magazines or fashion events so the value and the message that a luxury brand wants to carry is delivered in the best possible way (ibid). Another important factor in design and communication management is how the brand name should be displayed on the products. Many luxury brands display their product name in a discreet way on their products which is the opposite from many sneaker companies who write the brand name all over the shoes. The argument for using discreet signs on their product is that the luxury brand wants to be recognized by those they want to impress without being flashy. However, many luxury brands like Louis Vuitton or Chanel have trademarks on their products

which indicate their origin. Some luxury brands also use products to be recognized, for instance Gucci with their bone bag handle (ibid).

In a traditional marketing, the purpose of advertising is to make a sales proposal and a sales pitch. In luxury, the desire comes first. The advertisement requires communicating the values and myths around the products to the customers' minds in order to create a desire or a dream. It means that factors such as private shows, product placement and art are very important for any luxury brand (Kapferer, 2009).

An appropriate advertising in form of closer communication to customers about the values of the luxury products is needed to convince the customers when the credit, mortgage costs and unemployment are growing. People in financial crisis are looking for things which are more meaningful than just splashing money (Bergin, 2008). This leads to the following propositions.

Proposition 2 (a): The purpose of advertising in form of special meetings and events is not to sell in the luxury business, it is to create desire and a dream.

Proposition 2 (b): The creation of customers' desire and dream may have a positive impact on the customers' purchasing behaviours in a financial crisis.

The second element is product line management. It has been established that companies in the luxury business can better deliver value to their customers by offering a narrow product line (Nueno *et al*, 2000). It also drives down production and stock costs. Another example of product line challenge which companies in the luxury business can be faced with is whether they should offer lower priced products so that they can offer their products to a larger market. Tiffanys uses this and their low priced products accounted for 95 percent of their sales. However, many companies in the luxury business argue that the brand name and its exclusive reputation can be damaged by offering lower priced alternatives. Another factor is if luxury brand should license out their design and brand name or control their product line inside the company. It is important to find a license partner who can deliver the quality and design which is expected of them. Calvin Klein uses a

license partner for their watch production which has been favorable for them. The last important issue to consider in the production line is if a luxury brand should create a junior brand which is not as expensive and can be marketed to younger customers. Versace created Versus which is targeted for younger customers. They choose this strategy in order not to overstretch the primary brand. However, by creating a junior brand Versace can suffer from unprofitable brand cannibalization and increased brand image dilution (*ibid*).

The next element is service management. Traditionally customer service has been operated by fulfilling special orders to the customers. However, in a more competitive climate in the luxury market, the need for management system that can improve customer tracking systems has increased. Companies can better monitor where and what customers buy and thereby, better customize their offerings by improving customer tracking systems. They can also develop customer databases which can help companies monitor their customer and send them offers about sales or events which are compatible with their needs (*ibid*). Databases also protect the retailer as they do not lose as much information if a sales person leaves as they would have if they have not had a customer database. Finally there is channel management. Channel management can be divided into three different strategies. A company should expand the distribution if the company wants to increase the availability of its brand. Bulguri used this strategy in the mid 90s when they increased the amount of stores in many of their markets. Tiffany also used this strategy and launched several new stores in order to increase the availability of the brand. The second strategy contract distribution is used when a luxury brand wants to recapture the brand from overextending it, because they have opened to many stores. Gucci was forced to use this strategy and decreased the amount of stores distributing their brand. The third strategy is recovering distribution. This strategy is used when a company wants to open up wholly owned stores in foreign markets instead of using local retailers. Chanel and Dior used this strategy when they saw that the Japanese market was lucrative enough to launch wholly owned stores (*ibid*).

The most successful companies in the luxury business constantly challenge the boundaries of channel management in order to develop new lucrative distribution channels. Luxury brands also have more power than normal brands have because they do not have to use retail chains in order to penetrate markets. Some companies like Chanel or Ralph Lauren have also launched huge flagship stores in key cities around the world. The reasons for this is to showcase the brand lifestyle, establish the brand image and offer an entertaining shopping environment that will make customers more willing to pay the price for the products. The demand for luxury products has increased in the last 20 years especially in the Asian market as their income has increased. Two challenges for luxury brands have arisen due to the increased demand. The first one is how far the design, distribution, and communication of brand image can be globalized. Second, how far the brand through line extensions, junior brands or affordable accessories can be democratized in order to increase sales among young customers. The most important aspect for a luxury brand manager is to realize that the brand name is the most important asset (*ibid*)

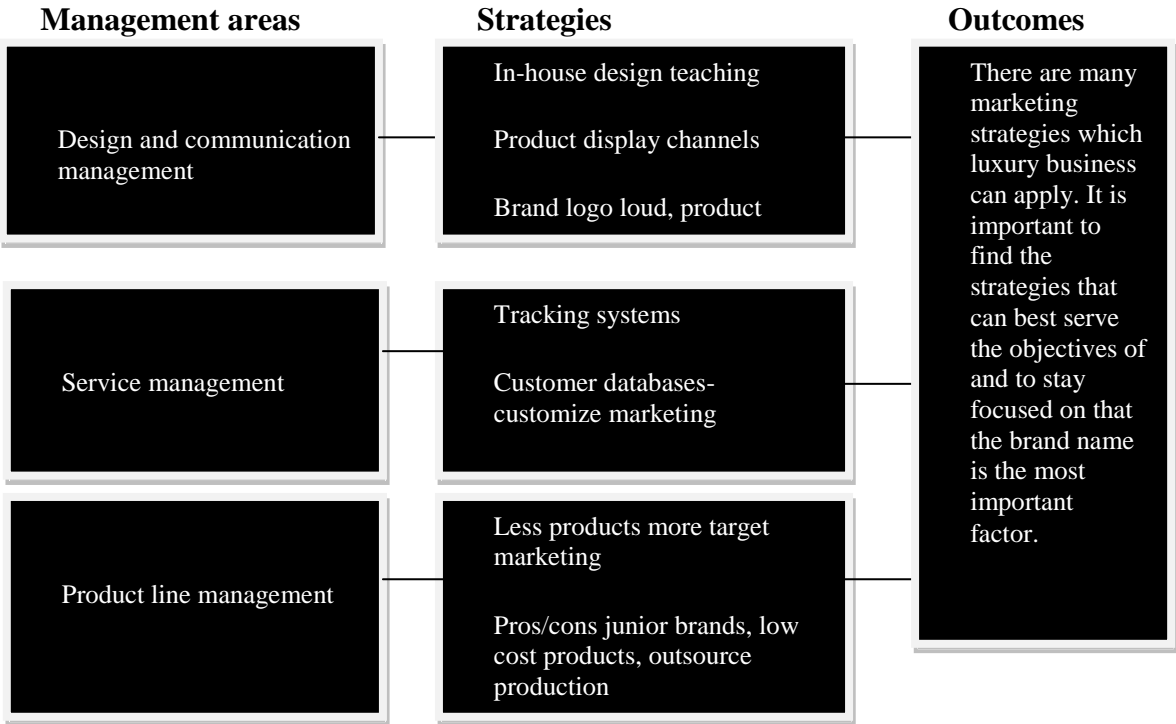


Figure 2.1: Model of “Key factors and approaches of creating successful luxury brand” inspired of Nueno & Quelch (1998)

According to Kapferer (2009), companies in the luxury business should not respond to the rising demand comparing with traditional mass marketing where the main aim is volume growth. The rarity is the concept of luxury and it will sell as long as the customers understand the reason behind it. Rarity (in terms of excellent quality and exclusivity) can be managed, just like relationship with the customers. The idea is to resist demand in order to be master of it.

Customers who are used to luxury products are more careful about the rarity, the quality and the value of the products and they will therefore continue purchase luxury products. Quality and rarity are the priorities of these customers' value and that are the main factors to understand why the luxury business may survive this financial crisis, especially for luxury brand with long heritage and strong identity (Fellowes, 2008). This leads to the following propositions.

Proposition 3 (a): Rarity keeps the concept of luxury immune and alive.

Proposition 3 (b): Sharing the ideal of rarity and quality with the customers may have a positive impact on the customers' purchasing decisions in a financial crisis.

2.7 Preferences of customers

Some authors argue that luxury products are bought because they can increase the statues of the owner (Silverstein and Fiske, 2003). Schwartz (2002) argues that the middle class can increase its perception of prosperity buying luxury products. Middle class citizens can make themselves look wealthier than they are with the help of luxury products. Mandel (2002) has tested different factors influencing customer behaviors. For instance, when business students read about successful businessmen, they developed a more positive picture about the future and the possibility for a high salary. This also increased the desire among business students to buy luxury products (Mandel *et al*, 2002). However, the test also showed that when they read about a successful biologist the result was the opposite and they developed a negative picture about the future. This shows that people have positive prospects about the future if they read articles about successful businessmen that they can relate to, and share the same preferences as they do (Mandel *et al*, 2002).

This test shows that luxury products can be advertised by associating successful people that costumers can relate to. People tend to compare themselves to people in magazines and TV-shows without realizing it. Mandel's (2002) study also states that social comparison does not only impact one's feelings of self-satisfaction, but also on one's brand preferences which have not been discussed before. It is important to realize that this study was a experiment. This means that maybe the findings are not compatible in other areas.

2.8 Supportive marketing strategies

Furthermore, there are also several crucial supportive strategies selected from the literature, which will be developed and integrated into the whole marketing strategy for luxury brands. The aim is to uphold the flexibility and suppleness when applying and adopting different marketing strategies depending on the ongoing financial crisis in the world and other unpredictable circumstances. According to Håkansson & Wahlund (1996), a marketing strategy should be redefined when a company grows and develops. It should also be adopted for constantly changing markets. Håkansson & Wahlund (1996) further state that the marketing strategy must be a part of the overall business and developing strategies.

2.8.1 Segmentation

The customers on the luxury brand market have been changed as well as the perceptions and attitudes towards luxury brands. The reasons may be that there are other factors which impact their purchasing decisions and behaviors than the traditional customers in the past (David report, 2007). This means that it is of great priority to consider the new-coming customers needs and desires, but also to take care of the traditional customers at the same time (ibid).

Segmentation is a way to identify individuals and groups with similar preferences in order to serve them commercially and effectively. This has fundamental implications for a marketing strategy (Jobber & Fahy, 2003). It is valuable for the marketers to apply a marketing strategy when the desires and motivations of their customers are identified (ibid). This has also an essential impact on luxury brands

since there is no common or specific definition of luxury. A continuously need of redefining luxury in correlation with segmentation of customers is crucial.

Jobber and Fahy (2003) further claim that a segmentation criteria consists of three categories, which are behavioral, psychographic and profile. The main purpose with segmentation is to explain different behaviors (purchase behavior, perception and beliefs, etc) when customers make purchasing decisions. This helps marketers to construct a marketing strategy suitable for their different customers.

Psychographic segmentation is applied when there is an indication that the purchasing behavior is connected to the lifestyle and the personality of the customers. Profile segmentation means that marketers have to recognize the socio-economic group or the geographic location among customers. All these categories are important and they provide flexibility and inspiration for marketers to use a segmentation mix. (ibid)

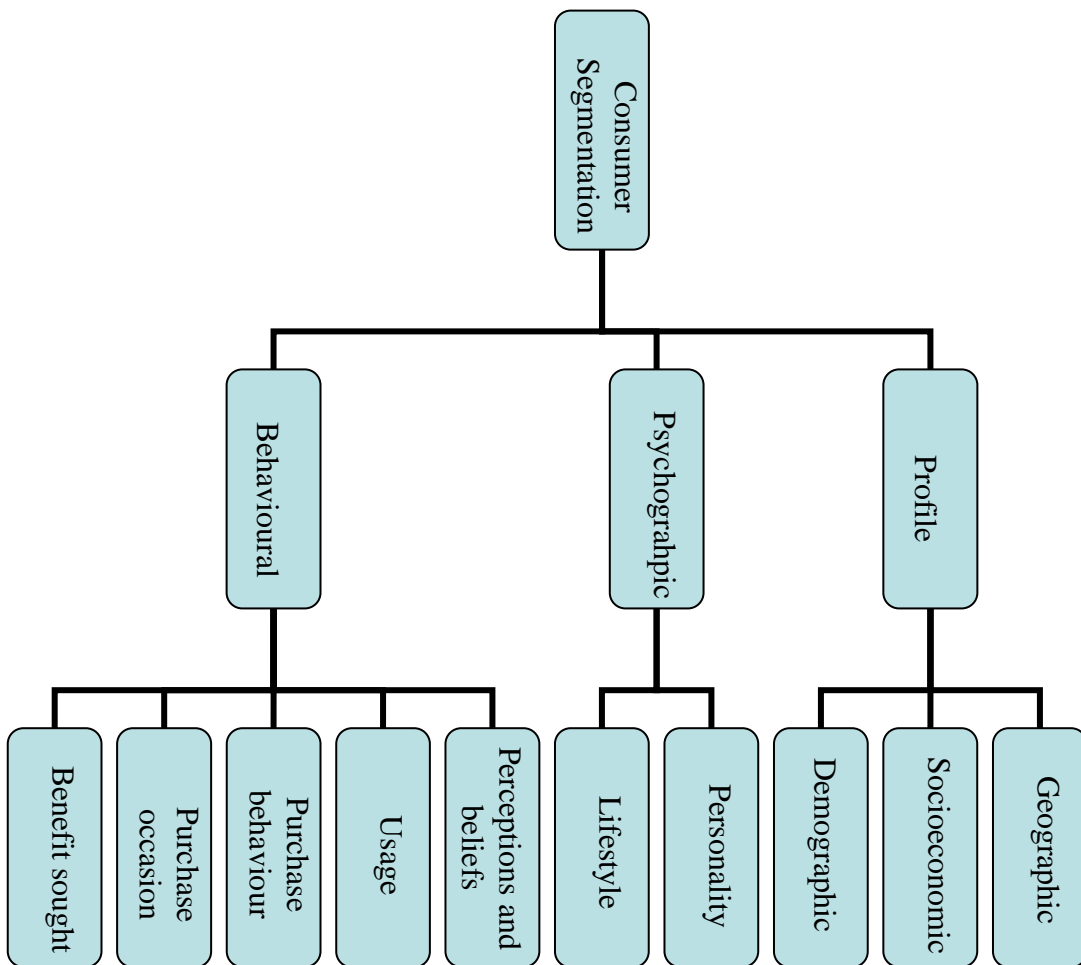


Figure 2.2 “Segmenting consumer markets” demonstrated by Jobber & Fahy (2003)

2.8.2 Customer segmentation luxury

According to SRI Consulting Business Intelligence, customers of luxury brands are mainly divided into three groups.

Luxury Functionality – The characteristics of this group are that the customers are relatively old and wealthy. The willingness of this group to buy products with high quality and excellent functionality is strong. The common purchasing behaviors among these customers are that they make logical and rational decisions rather than emotional and spontaneous. This group accounts for the biggest share of luxury brands than the other two groups.

Luxury Reward – The customers in this group are younger than the first group but older than the third group. The common purchasing behavior is that status, prestige and class are important. The customers are driven by their wishes of being successful and they gladly show their achievements to others. They purchase luxury which expresses importance, but do not want to seem sumptuous and riotous. Marketing communication with acceptable luxury consumption is suitable for this group.

Luxury Indulgence – The customers in this group are the young generation which greatly values freedom, personality and individuality. They purchase luxury products in order to fulfill their self-indulgence and they are eager to pay more for the products which can make their wishes come true. They enjoy the feeling which the luxury products provide them and they are not afraid to express it. Emotional connections and belongings are important to associate in order to achieve to this group.

According to Kapferer (2009) luxury has to focus on an open-close principle. This means that the companies in the luxury business have to provide extra value and service to its main customers who are the biggest customers of luxury products. This can be achieved by public relations which are carefully targeted. This can be compared to economy class and business class on an airplane. Grönroos (2007)

furthermore confirms that a small group of customers often stand for the biggest share of a company's entire market.

In a financial crisis, the wealthy customers still demand luxury products, because if a person loses millions, another person makes a fortune somewhere else. This means that this wealthy group of customers always exists, and these customers just need more motivations and reasons before committing (Fellowes, 2008 & Bränström, 2009). This leads to the following propositions.

Proposition 4 (a): The luxury business must concentrate on a small group of clients.

Proposition 4 (b): This small group of clients may have a positive impact on the profitability of companies in the luxury business in a financial crisis.

2.8.3 Pricing strategy

Hollensen (2007) declares that there are three strategies for deciding price on a product. They are presented as skimming, market pricing and penetration pricing.

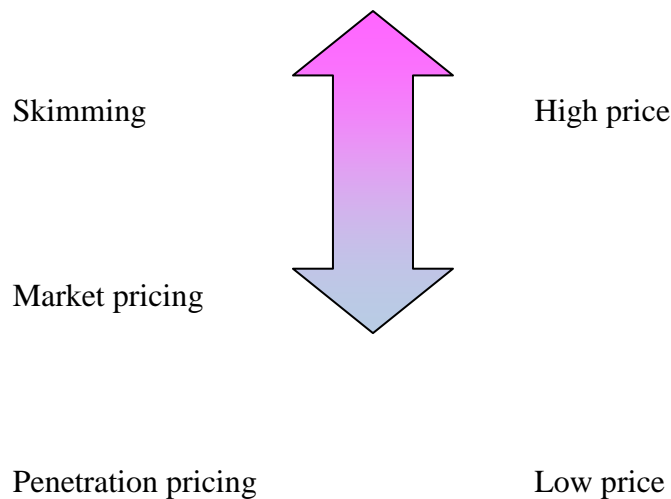


Figure 2.3 “Pricing strategy” presented of Hollensen (2007).

The purpose of a skimming price is to obtain the highest profitability as possible. This strategy requires that the products must provide exceptionality and uniqueness to the customers. Since the prices are high, the requirements of products are

uncompromising in order to keep customers' eagerness and loyalty (Hollensen, 2007). Luxury products should do not sell at unbeneficial prices just simply adjust to the market or reduce prices (Hata, 2004).

In the luxury business today companies seem to share the same pricing strategy. The companies can retain a higher price through an intensive control of distribution which means that in a flagship store, all the possessions and management over the brands are strictly organized. In this case the risk of forcing to sell the products on outlet and seasonal sales is minimized (Hadenius, *et al.* 2004).

Marketing pricing is used when similar or identical products already are on the target market. The prices will be set based on the competitors' prices. This strategy limits the possibility for companies to use pricing strategy as a differentiation marketing tool because the companies have to accept the price of the market (Hollensen, 2007).

Penetration strategy aims to increase market growth and obtain market shares by providing products at low prices. The target customers are price-sensitive and the products are often mass-produced. This strategy requires companies to have strong financial ability in order to be sustainable (Hollensen, 2007).

Hata (2004) explains that price competition as a pricing strategy works in industries where innovation and technology develops constantly. New products are continuously being introduced. For instance, in the high-tech branch a technical improvement can reduce the price of a micro-chip drastically. This leads to a price reduction through mass production which can increase competitiveness. However, this is not applicable to all industries. In the luxury business companies should keep away from this strategy at all costs and luxury brand products ought to be marked up. Customers appreciate the products because they are high-priced. If a luxury brand reduces prices, costumers may perceive that the brand is desperate to stay alive (*ibid*).

Kapferer (2009) explains that one cannot to be "reasonable" in luxury. A reasonable price connects to a reason and therefore it is a comparison. Being

reasonable means to decrease the object to its tangibility. It does not mean that anyone can set a high price, instead it constantly requires additional improvements in quality and value of the luxury products.

Krauss (2008) says that the changing values and habits of the customers provide opportunities for companies to win customers. The focus on pricing and segmentation is still important even if the economic situation today is pressing on costs savings. The companies still have to be optimistic about the future because the financial crisis will not last forever. According to Fellowes (2008), a opposite action taking to a traditional way may sometimes be preferable. For instance, during the big depression 1929, Henry Luce founded the Fortune Magazine. He set the price at one dollar when other publications only cost five cents. The magazine was printed in expensive paper and it became a success. This shows that people were willing to put their trust in quality even when the time was hard. Kapferer (2009) thinks that sales personals have to help people understand and share the value, time and spirit of the products which explains the price, then the customers are prepared to purchase. This leads to the following propositions.

Proposition 5 (a): Luxury decides the price, price does not decide luxury.

Proposition 5 (b): Communicating the price spirit in terms of quality and value to the customers may have a positive impact on the customers' willingness to purchase luxury products in a financial crisis.

2.8.4 Customer relationship

According to Kapferer (1997), one vital presumption that the luxury business exists is because it protects customers from non-customers by creating a distance between them. This is normally applied through high prices and a carefully selective distribution. If the customer relationship fails to provide the value to the chosen amount of customers who stand for a huge share of the luxury sales, luxury brands would be terminated (Ibid). This highlights the significance of maintaining a long-term relationship with these customers.

Grönroos (2007) confirms the importance of customer relationship and argues that companies not only have to acquire customers, but they also have to keep and develop a relationship with them. This creates a relationship process. The first step in the process is to attract customers by the offerings. Secondly the companies have to satisfy their customers with the offerings provided to them in order to obtain repurchase. Finally the companies have to maintain trust and an emotional connection with their customers in order to create loyalty. By building up a long-term relationship with their customers the companies can benefit from high profitability (*ibid*).

In the luxury business, the loyal customers help companies to improve their products and services by giving them their honest opinions. It is important to listen to the customers and how to respond to them (Hata, 2004). Furthermore, it is important that the companies concentrate on customer relationship, instead of wasting time on price negotiation. The focus is on customers' needs through personal interaction. In this way, the customers would not worry if they have bought a product at the best possible price or whether they should have negotiated the price further. Nevertheless, it requires a strong relationship between the companies and their customers (*ibid*).

It is preferable to obtain a long-term relationship with the customers because these customers are very aware about the products and brands and they are willing to pay a higher price for them. To achieve the ambition of obtaining a long-term relationship with the customers, a efficient communication is needed (Grönroos, 2007). In luxury business the communication needs to mainly focus on existing customers, who may make another purchase or convince their network to do the same thing (Kapferer, 2009).

As mentioned earlier, the customers who still demand and purchase luxury products in the financial crisis are the customers who understand and appreciate the value of the products. They are often loyal to the brands and not price-sensitive (Fellowes, 2008). They may also have a long-term relationship with the brands since they are the main customers. This leads to the following propositions.

Proposition 6 (a): The aim of a long-term relationship is to facilitate the communication with the customers in the luxury business.

Proposition 6 (b): Having a long-term relationship with the customers may have a positive impact on sales of luxury products in a financial crisis.

2.8.5 Social responsibility

Social responsibility is an ethical or ideological theory that companies have to consider in the business market of today. It can be considered as a way for a company to create a positive image for the company. Green marketing and environmental thinking are a part of social responsibility. Green marketing can be explained as the marketing of products that are considered to be environmentally friendly. By integrating green marketing into the marketing strategy companies can benefit from an increased positive picture about the company and if they are in the frontline of green thinking it can also lead to competitive advantage (Hollensen, 2007). According to David Report (2007) customers are environmentally aware about packing, energy consumption in production and social responsibility. Research has shown that many customers of luxury brands think that social responsibility and green marketing are important, especially the younger customers (ibid). Therefore, it can be argued that social responsibility and green marketing will increase the importance for the luxury business in the future.

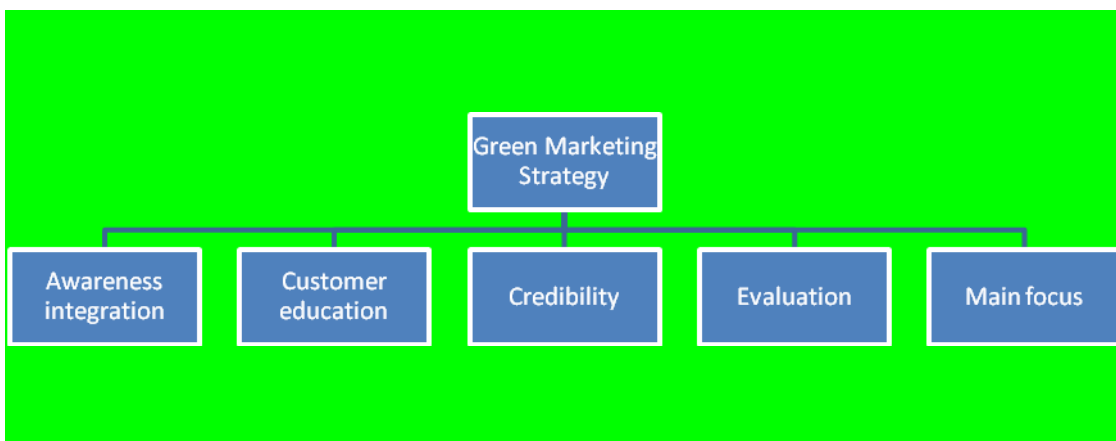


Figure 2.4 “Green marketing strategy” based of Ginsberg and Blomm (2004)

To develop a successful green marketing strategy a company has to consider five strategic issues (Ginsberg & Blomm, 2004). The first issue is to integrate green marketing awareness in the entire organization. The second issue is customer education which means that the companies demonstrate the importance of green products to their customers, for instance through labels and advertisement. The third issue is to strengthen the credibility by following environmental codes and certifications, because they create a healthy reputation among the customers (ibid). The fourth issue is to observe competitors' strategies as well as customers' perceptions in order to evaluate the process and result of green marketing. The last issue pointed out by Ginsberg and Blomm (2004) is that companies still have to focus on the product in its quality and attribute in order to attract customers. Hata (2004) states that practicality, artistry and functionality of luxury products are the vital factors of success in the luxury business.

There are already some luxury brands that are trying to obtain a positive social involvement, all from charities to arts and sports projects. Stella McCartney is a brand icon and a vegetarian with strong believes in animal rights. She is a good example of a designer who has developed luxury designs that are both beautiful and ecological (Wilson, 2009). According to Kapferer (2009) it is important for the luxury business to maintain an ethical stance and incorporate it into its marketing strategy. The idea of the luxury business should also contribute both socially and enviromentally, rather than the opposite. This leads to the following propositions.

Proposition 7: The luxury business may gain positive and social acceptance in the markets by incorporating green marketing into its marketing strategy.

2.8.6 Uncertainty

In an uncertain time, there are other external factors which may affect negatively the luxury business. According to David Report (2007) luxury only was for a few people in the past but today luxury is almost for everyone. The concept of luxury has changed. The exclusivity is not unique anymore and the phenomenon of over consuming has also been criticized because there are still many people in the world who are starving and living under difficult conditions. Silverstein and Fiske (2002)

state that the uncertainties in a financial crisis have influenced the customers' purchasing behaviors and the customers are now more aware about what products and services that are essential for them.

A marketing strategy is needed in order to connect to the theories. The marketers have to consider which theories to incorporate into a marketing strategy, since there are always unpredictable uncertainties. The companies should ask the question "how do we handle a changing environment when the strategy is already developed" (Mintzberg, Ahlstrand & Lampel, 2005). Although the answer is not cleared, the companies need to plan a strategy even during the time when the formation of the strategy is developed. It is almost impossible for marketers or managers to coordinate all the external and internal factors at the same time. When facing uncertainty the spotlight should be on premature closure. When the degree of uncertainty is low, explicit strategies blindly focus on the direction of the strategy. This may cover the flexibility of adapting to the environment. However, an explicit strategy is suitable for the moment but it is not sustainable in the long run. This does not mean that an explicit strategy is worthless, instead it is very important to plan and support the explicit strategies. The questions then are: "when and how" (ibid).

2.9 The luxury marketing strategy model

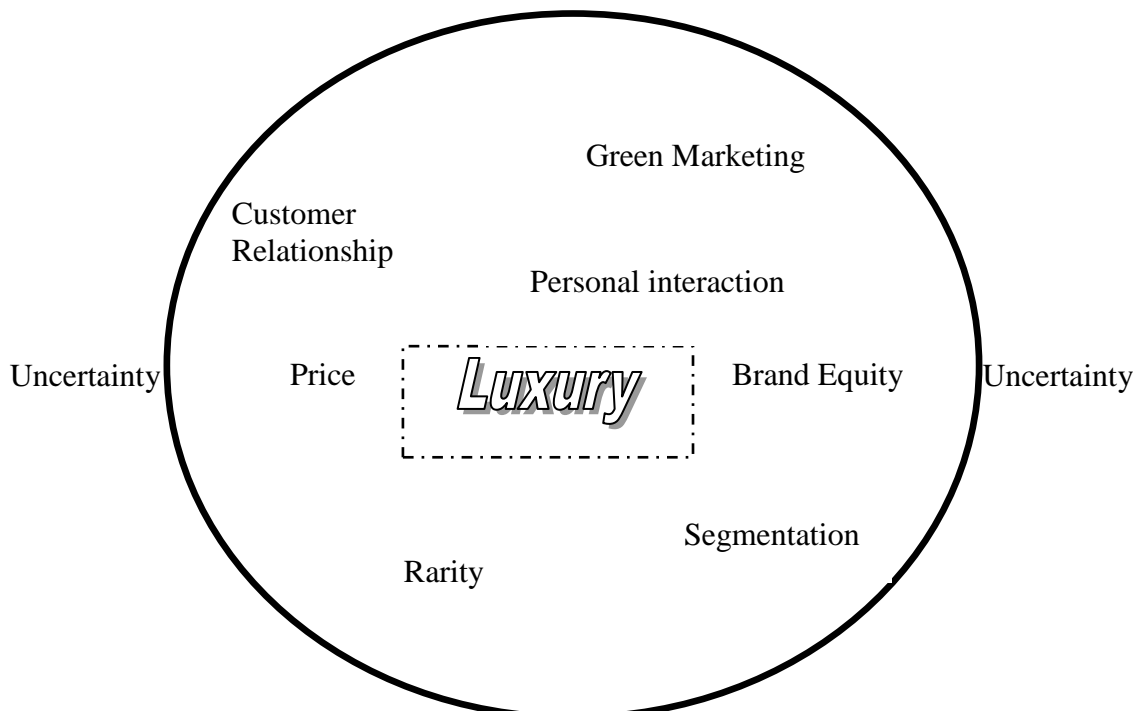


Figure 2.5 “The luxury marketing strategy model” based on the theoretical review in this chapter.

“The luxury marketing strategy model” figure 2.5 is based on the theoretical reviews a model. The propositions are developed from the theories, and the factors in the model and the propositions are connected to each other. The interview questions are later developed from the propositions. Therefore, it is believed that the answers from the interviews can help us develop the model even further.

2.10 Theoretical critique

In this chapter some general theories about brands have been discussed in order to establish a starting point of the theoretical review. The definition of luxury and its characteristics helped us to construct other theories surrounding this subject. Other theories about marketing strategy have also been highlighted that can be applied to the luxury business. Many of the marketing theories are not closely connected to the financial crisis since the financial crisis is a temporary phenomenon. With that consideration in mind, we are very aware that the theories may have some disadvantages. But we tried as much as possible to connect all the theories to luxury business since there is scarce of information concerning this area.

2.11 Summary

The general definition of luxury, its characteristics and other theories concerning brands are explained, then the descriptions of creating a successful luxury brand are presented. Later on different marketing strategies are highlighted and applied into luxury business in order to help the companies to face the challenges in the financial crisis. Several essential propositions based on these theoretical standings are developed and they will be tested through interviews.

Chapter 3

Methodology of research

This chapter presents the methodology and the research philosophy which are applied in this thesis. The philosophical approach is also discussed and the motivations behind the choices are explained. Later on the empirical parts will also be presented.

3.1 Choice of methodology

The aim of the research is to find out the main factors behind the successes of luxury brands from a marketing strategy perspective, and which role they play in the financial crisis. Having the aim in consideration, a mix of positivistic and interpretivistic research philosophy is conducted. A deductive research will also be conducted because it is considered to be a scientific research, where the theories already are established and they will be examined, explained and interpreted independently.

The intension is to seek which requirements the luxury brands need in order to become successful and sustainable and if these factors could be able for the luxury brands to mitigate the financial crisis from a strategic planning and marketing perspective. The starting point is to find related literature in order to have a general understanding about the area, and then obtain broad knowledge about the function and strategy marketing within the business with a explanatory as research design.

3.2 Research Philosophy

The research philosophy is divided into three categories which are positivism, realism and interpretivism and they have different characteristics mainly based on the structure and the development of knowledge and process (Saunders & Thornhill, 2007). Research philosophy is an important part in perceiving the world. It involves many statements and assumptions which would shape the research

strategy and the direction of the thesis. The significance of studying research philosophy is to better understand the field and follow the aim of the thesis. (ibid)

Positivism is the methodology which creates propositions from existing theories with sufficient and supportive data. It connects those theories to the practical values. The outcomes from research of this methodology will show law-like generalizations which mean that the outcomes from all the researches in the same field should show the same result. Another significance of the methodology is that the research is applied in a value-free way, this makes the limitation that the researcher does not have the possibility to influence or be influenced by the subject of the research. (ibid)

Realism consists of direct realism and critical realism. Direct realism defines that the truth is what you perceive and it tries relate it to reality. Critical realism states instead that the world should be seen in many different perspectives. The primary idea of realism is to reflect the reality independent on human minds. (ibid)

Interpretivism is the philosophy of law which means that, for instance the behavior and culture could be identified by studying the knowledge, ideals and thinkings of people. This philosophy is preferable and helpful in researches within marketing and behavior of organization. (ibid)

Based on the research question and purpose of this thesis, the intension is to explain the research subject which means that a positivistic and a interpretivistic approach are most suitable. In this thesis the focus is to understand the building stones to create a successful luxury brand and how these building stones are capable to respond to the financial crisis. The building stones will be identified from a marketing strategy perspective and studied in a value-free way. This means that the subject and researcher cannot be affected by each other.

3.3 Philosophical approach

An philosophical approach is important for the structure and the direction of a scientific research. It helps to follow the main issue and facilitate the designing and the patterns of the research (Saunders *et al.* 2007).

There are two different philosophical approaches when constructing a research, they are deductive approach and inductive approach. The deductive approach begins from identifying theories and concepts in order to build up propositions. This approach is preferable when there is a lot of secondary data and existing theories. The inductive approach means that the researcher first has to collect data in order to create theories. This approach is preferable when there is a limited amount of information about the research subject (*ibid*).

Based on a positivistic and interpretivistic approach, it is more desirable to apply a deductive approach than an inductive approach. There are many theories which are applicable for developing and testing the propositions.

3.4 Choice of theory

From the beginning the definition of luxury and its characteristics were identified in order to provide the structure of the luxury business. These will later on be the presumptions when discussing and analyzing the relative theories. Theories regarding brand equity were later discussed since this is one of the most important assets of the luxury business but also because they handle the vital significance concerning the brand and its function. In the end of the previous chapter, a model of maintaining success of luxury brands was highlighted in order to understand the process of luxury brand marketing strategy.

3.5 Research strategy

There are mainly three research strategies and each strategy has its benefits and weaknesses (Yin, 2003).

An exploratory study is helpful if one studies a phenomenon or when the outcomes are predictable. This strategy is beneficial if the aim of the research is to highlight the occurrence of an incident. Usually research question that starts with “What” is used (Yin, 2003). An explanatory study deals with the subjects which need to be traced over time. This strategy will help to find the causality between the variables. Research questions starting with “why” and “how” are suitable when conducting a

explanatory research (ibid). A descriptive study is focused on the particular consequence with a certain incident. The result itself is of slight priority (ibid).

Since the aim of this thesis is to obtain a deeper understanding of the luxury business, and how the luxury business could apply their marketing strategies in the financial crisis, an explanatory study is conducted. This facilitates for the readers to see the connection between the luxury marketing strategies and its influence on the financial crisis.

3.6 Data Collection

3.6.1 Primary data

Primary data is the data which is collected by the researcher. The collected primary data is specially designed for the research's purpose (Christensen, L, Engdahl, N, Gr ääs, C & Haglund, L, 2001).

3.6.2 Secondary data

Secondary data is the data which has been collected by others and applied in other previously studies or purposes. Secondary data mainly consists of data such as number of sales numbers, statistics, and information about product, company and customers (Christensen *et al.*, 2001).

3.6.3 Data collection methods

Many earlier researches and literatures about luxury business have been studied, but there is a need of studying the occurrence of the financial crisis connecting to the luxury business. Since there is insufficient information about this area, the primary data is necessary in order to find accurate answers to the research questions. The main method of collection primary data is through interviews with managers in the luxury business, because they are in the front line witnessing the financial crisis and this will provide up-to-date information, which is suitable for the purpose of the thesis.

3.7 Interview

Interview is more or less a structured conversation with one or many respondents in order to collect data (Christensen *et al.*, 2001). The way of doing interview is divided into three categories which are structured interview, semi-structured interview and unstructured interview (Saunders *et al.*, 2007).

Structured interview is applied when conducting quantitative questionnaire with predetermined questions. The questions are formalized and the answers are often pre-coded. One important issue when conducting this type of interview is that the interviewer needs to have a constant voice so that the respondents could avoid being affected by the interviewer (Christensen *et al.*, 2001).

In a semi-structured interview, an interview guide consisting of certain questions has to be mentioned during the interview. The interview guide may be different depending on the content or rank of the interview questions. This type of interview is preferable when conducting qualitative research (Christensen *et al.*, 2001).

Unstructured interview is also called “deep-interview” because there are no specifically questions prepared in advance. The interview is informal and the aim is to search deep into a certain subject. Since there are no standardized questions in advance, the interviewer has to focus on the subject when doing the interview (Christensen *et al.*, 2001).

In this thesis, a semi-structured interview is selected in order to obtain the necessary information. The information from scientific articles, literatures and theoretical concepts are the preconditions to create the propositions which could be tested and analyzed by conducting a semi-structured interview. A guide line of questions based and connected to the propositions is developed in order to fulfill the interviews.

3.8 Data analysis

There are several issues which have to be in consideration when analyzing qualitative data. It requires a unification before the information of the interviews

could be analyzed, and this means that the data should be perceived and understood in a way that is correctly interpreted by the analysts. Moreover the perceived data also has to be in accordance with the view of the respondents (Saunders *et al.*, 2007).

In order to systematically and effectively analyze the data, a guideline of interview questions later on is presented and the propositions are categorized and connected to the interview questions.

3.9 Analysis method

In order to make the analysis lucid and clear, it is preferable to present an analysis method which will let the readers to follow the interpretations easier in the next chapter.

There are mainly seven luxury marketing strategies related to the financial crisis in this thesis, and they are assumed to have important roles for the luxury business in a financial crisis. These marketing strategies have their own significance, but they are also interacted and connected to each other. This means that all the marketing strategies have to be considered in order to maintain efficient luxury marketing strategy in the financial crisis, and they cannot be separated.

The purpose with the marketing strategies is to see if there is a causality between them and the financial crisis. This is the reason that a explanatory study is required. The propositions based on the marketing strategies will lead to the answers of the sales, customer's behavior and purchasing decision concerning the luxury business and it may indicate if the financial crisis have any impact on the luxury business.

Overall the marketing strategies are supposed to influence each other, but most important is that they have the same intension to explain the sales, customer's behavior and purchasing decision concerning the luxury business. This will then lead to the final outcome of the thesis which is the financial impact on the luxury business.

3.10 Operationalisation

Operationalization is a method to identify connections or relations between different measurable factors. The purpose of making these factors measurable is to examine and explain the correlation between them. The operationalization is often conducted in a quantitative research where the numbers could be measurable, but it is also possible to measure the correlation in a qualitative research (Saunders *et al*, 2007). The purpose of this thesis is to explain how the luxury business could apply the marketing strategies in the financial crisis from the luxury business's perspective.

The operationalization is conducted to make the answers measurable in order to understand how companies in the luxury business respond to the financial crisis from a marketing strategy's perspective. This was completed by having interviews with involved managers in the luxury business. The interviews were conducted on Swedish, but the meanings and answers were carefully translated into English. There are several expected answers which will make it possible to systematically measure and analyze the outcomes. For instance if the sales of luxury products are constant, it may indicate that the purchasing willingness of the customers is the same in the financial crisis.

The questions are based on the theories and the propositions. In the beginning the respondents will present themselves and the companies they work for. The financial crisis will also be discussed. Later on different marketing strategies related to the luxury business and the financial crisis are described. Finally the future of the companies are discussed.

Opening questions

1. Tell us about the company and your position.

This question will make sure that the persons are the right interview persons.

2. How long have you worked in the company?

The intention with question 1 and 2 is to have a general understanding about the managers of the companies.

Description of the financial crisis

3. How does the sale look like in Sweden and internationally?

The answer to this question may give an indication about how the sales have been affected by the financial crisis.

4. What do you think about the present economic situation?

This question gives the respondents the possibility to elaborate about the financial crisis.

5. How has the economic situation influenced the company?

This question will give us a sign about the impact of the financial crisis on the sales as well as the whole company.

<p>Proposition 1: Brand equity in form of legitimacy, intangibility and identity has positive impact on the luxury brands.</p>

6. How important is the brand for the company and how do you manage the brand?

The theoretical review states that the brand is one of the most important resources of a company and the answer of this question will give the significance about the brand and how the company deals with it.

7. What does the brand stand for and what does it mean for the customers?

The theoretical review highlights that a brand needs to have a clear message to their customers and stand for it. The intention of this question is to see what the philosophies of the companies' brands are and their significance for the customers.

Proposition 2 (a): The purpose of advertising in form of special meetings and events is not to sell in the luxury business, it is to create desire and a dream.

Proposition 2 (b): The creation of customers' desire and dream may have a positive impact on the customers' purchasing behaviours in a financial crisis.

8. How do you associate the brand with your customers?

It is crucial to associate the brand with the customers according to the theories, and this question will give the answer if the customers have the essential perception of the brand.

9. How do you display the brand?

This question aims at describing how the companies communicate the brands by using marketing tools.

10. Which type of marketing do you use? Has the financial crisis influenced the choice of the marketing, and why?

This question is the following question which specifically aims at the marketing channel choice of the companies. The answer may also notify if the marketing channel choice has been affected of the financial crisis.

Proposition 3 (a): Rarity keeps the concept of luxury immune and alive.

Proposition 3 (b): Sharing the ideal of rarity and quality with the customers may have a positive impact on the customers' purchasing decisions in a financial crisis.

11. Which characteristics do the products obtain?

According to the definition of luxury products and brands, there are some standard characteristics which have to be fulfilled as a real luxury product or brand. This question may provide the information about which characteristics their products contain.

12. What is the core value of the products and how do they differentiate from other mass-produced products?

The core value is the strongest competitiveness of the companies and it is essential to know what the core value is of the companies. This question may also distinguish the main difference between luxury products and mass-produced products.

Proposition 4 (a): The luxury business must concentrate on a small group of clients.

Proposition 4 (b): This small group of clients may have a positive impact on the profitability of companies in the luxury business in a financial crisis.

13. Which is/are the target group/groups and how do their preferences and needs look like?

Luxury should not be available for everyone because it may damage the perception and exclusiveness of the luxury brands. This question may explain generally who the customers are for luxury products and why they buy luxury products.

14. How is the value created to the customers except the products?

Value offerings of the products are important to customers, but also other issues such as after-sale service or repair. This question seeks except the products other factors which may have meaningful values for the customers.

15. How is the core value communicated to the customers?

As stated earlier, since the core value is crucial for the companies to survive, it is necessary to delivery this message correctly to the customers. This is what the question is designed for.

Proposition 5 (a): Luxury decides the price, price does not decide luxury.

Proposition 5 (b): Communicating the price spirit in term of quality and value to the customers may have a positive impact on the customers' purchasing willingness in a financial crisis.

16. How do you achieve competitiveness from a price-perspective?

This question intends to find the value of a premium price strategy and what it means for the companies.

17. How has the economic crisis influenced the prices of the products, and why?

This question is closely connected to financial crisis in what way it has affected the premium price strategy.

18. What would a price cut mean for the brand and the customers?

This question is designed to seek what impact a price cut would have on the brand and the customers.

Proposition 6 (a): The aim of a long-term relationship is to facilitate the communication with the customers in the luxury business.

Proposition 6 (b): Having a long-term relationship with the customers may have a positive impact on the sales of luxury products in a financial crisis.

19. In which way is the customer relationship important and how do you arrange the relationship with the customers?

By having a good relationship with its customers may be beneficial in a long term perspective. This question tries to find in what way the customer relationship is important for luxury brands and how the companies reinforce this customer relationship.

20. How do you value your loyal customers and how do you treat them?

Loyal customers generally are more willing to pay a higher price for their favorite products and brands. This answer from the respondents of this question may present the value of loyal customers for luxury brands and how they should be managed.

Proposition 7: The luxury business may gain positive and social acceptance in the markets by incorporating green marketing into its marketing strategy.

21. Are ethical behavior and environmental issues important for the company and how will it influence the company now and in the future?

Green marketing is a marketing strategy to achieve social acceptance and responsibility. This question is interesting because companies in luxury business normally did not stand for environment-friendliness. It is of great value to see what green marketing mean to the companies.

Overview questions

22. How will you adopt the marketing strategy considering the financial crisis?

This question is considered to let the respondents freely elaborate about the marketing strategy in a financial crisis.

23. How do you manage uncertainties?

This question has the same intension as the previous one, but this question is more aimed at other uncertainties which can occur during a financial crisis.

24. Do you see any opportunities with the financial crisis?

A financial crisis does not always have to represent threats and disadvantages. It is interesting to see which opportunities there are for companies in the luxury business.

25. How does the future look like for your company and the luxury business?

This is the final question and tries to give an indication about the future prospect about the company and the whole luxury business.

3.11 Validity

Yin (2003) presents four design tests, construct validity, internal validity, external validity and reliability. Construct validity develops the specific operational measures for the perceptions which have been revised. Internal validity tries to find the causality between two variables for instance in a relationship. External validity develops possibilities to generalize the outcomes. Validity refers to credibility and how the outcomes are connected to the reality. Validity in research means discovering the factors and influences which may affect the final outcomes from a certain causality (Christensen *et al.*, 2001). Validity is presented when there is a causality between two variables and if the outcomes are determined as intended (Yin, 2003).

In this thesis different marketing strategies based on the propositions and the outcomes from the interviews in relation to this financial crisis have been tested. It shows that the characteristics of luxury and its marketing strategies may be protected from the financial crisis. This means that there is a causality between the marketing strategies and the financial crisis. Based on that, it is assumed that the internal validity may be fulfilled.

3.12 Reliability

Reliability refers to the outcomes or results which will be constantly the same even when other investigators also conducted the same case study afterwards. The findings should be the same as the previously studies concluded. The purpose of reliability is to avoid errors in studies (Yin, 2003).

The interview questions have been carefully designed, and they are simple and understandable. The companies were contacted before the interviews so that the respondents could have good time to prepare. We are aware that the respondents may not tell the whole truth, but since the respondents allowed us to publish their names, we assume that their answers are reliable. The occurrence of a financial

crisis is a temporary incident which means that the result may be reliable for now and a short period after. Since previous documentation of this subject is scarce it is hard to guarantee that the result will be the same in the future.

3.13 Generalisability

External validity is another word for generalisability. The main aim of generalizing outcomes is to see if the outcomes in one case are applicable in another case. In order to establish generalisability, the findings have to be tested in either one or two cases (Yin, 2003). One has to be aware that it is not statistically generalized when interpreting the materials, it is only the situation one has observed. To achieve a statistical generalisability, using another data collection technique is needed. For instance, a cross-section study. It is possible to generalize outcomes from a qualitative research, but it will never reach a statistical generalisability which is possible in a quantitative research where one can discuss the absolute truth (Christensen *et al.*, 2001).

Three companies representing more than ten luxury brands have been interviewed. All the companies are located in Malmö in the southern part of Sweden. The luxury brands presented in the companies consist of a wide range of products in the luxury business. All from luxury cars, fashion to watches. The answers of the respondents are generally similar but with small variation. However, it would be impossible for us to generalize due to the limited sample of the companies. If there are more companies involved in the luxury business, then it is possible to generalize which is the intention with the thesis, but there may still be an indication to generalize in the Malmö region since Malmö is relatively a small town.

3.14 Summary

The empirical methods are explained. Data collection is done by collecting primary and secondary data and an operationalisation is conducted with the interview questions. The operationalisation helps to clarify the meanings and reasons for the questions. Finally the validity, reliability and generalisability have been explained in order to set the quality of this thesis.

Chapter 4

Analysis

In this chapter a description of the interviewed companies in luxury business is presented. The collection of the interview information is interpreted and analyzed.

In the end of the chapter a summary of all the information and the findings are highlighted. A renewed luxury marketing strategy model is also created in order to conceptualize the significance of the luxury marketing strategies.

4.1 Analysis structure

After building up the theoretical review concerning the luxury business, several important marketing strategies have been developed. These marketing strategies will be analyzed and identified later on in order to explain their impact on the luxury business in the financial crisis, and how the companies in the luxury business could apply these strategies. Since this thesis has a qualitative nature, it is hard to use a scale of numbers to interpret the answers, so every single proposition will be instead identified as supported, neither...nor or rejected in order to measure the impact on the luxury business in the financial crisis. This identification is practical to analyze and make it simply for the readers to understand.

To be identified as supported, neither...nor or rejected of each proposition, the answers of the respondents should maintain a clear answer or indication to the outcomes directly or indirectly. Since the intension is to test if the marketing strategies in the propositions have some impact on the sustainability of luxury business in the financial crisis, the propositions which are supported may mean that the marketing strategies have positive impact on a certain issue in the financial crisis. The propositions which are neither, nor may mean that the marketing strategies do not have any positive or negative impact on a certain issue in the financial crisis, and the propositions which are rejected may mean that the marketing strategies are not suitable for the luxury business in the financial crisis. These marketing strategies are brand, price and segmentation etc. These certain issues are sales of luxury, customers' purchasing willingness and behaviors etc. All

the marketing strategies and the issues in the propositions are connected to each other and they are tested in order to measure the causality between them in the financial crisis.

In order to interpret and analyze the information logically and systematically, there are some standardized rules and key words which have to be followed. The measurement is based on the impact between the marketing strategies and several issues in the financial crisis. The key words or issues needed here to interpret the outcomes are: sales performance of the luxury products, the customers' purchasing willingness, purchasing decisions and purchasing behaviors in the financial crisis. For instance if the respondents say that the purchasing willingness of the customers is the same because they are eager to pay for the quality and value of the products even in a financial crisis as the theories stated, then the proposition may be identified as supported and etc. If the sales of luxury products are not affected by the financial crisis, and customers still demand luxury products based on the factors which are stated in the propositions, then analysis and measurement can be made.

A short presentation of each company and the representing brands are presented below. Later the propositions are highlighted together with the information and answers of the respondents and the purpose of each proposition is presented. An analysis of the propositions will be based and summarized by referring back to the theories mentioned earlier together with our interpretations. Important quotations are written down in each proposition to strengthen the statement. It also makes the layout and overview easier for the readers.

4.2 Companies

4.2.1 Autoropa AB

Autoropa is a Swedish importer of luxury cars such as Ferrari and Maserati. They are the only importer of these luxury cars in Sweden. They have open communication with the manufactures which helps their customers tailor their cars for their needs. The company offers a selective range of used luxury cars.

Autoropa's sales departments are located in Malmö, Stockholm and Land Rover in Ystad. Their head office is located in Malmö (Autoropa AB, 2009).

Autoropa started in 1934 by importing and assembling Hudson cars. The cars were shipped in pieces and later assembled in Autoropa's factory in Malmö. Autoropa was also in the early years an importer and retailer of Renault cars. During the years Autoropa has been an importer for a wide range of cars from Renault to Indigo. In 1992 the company was given the opportunity to import and service Ferrari cars and when Ferrari bought Maserati, they were also given the opportunity to import and sell Maserati luxury cars. In 2002 the company was bought by Filip and Jens Larsson, the owner structure was two years later strengthened by the involvement of Martin Nelson and Håkan Nord. During this process Autoropa became the sole importer of Ferrari and Maserati luxury cars. In 2005 Autoropa became a retailer of Land Rover which has broadened their products and customer base by offering a larger type of luxury car (ibid). The interview with the company is done through a telephone interview.

4.2.2 Mullbeck ABCD AB

Mullbeck ABCD AB is a company that offers a well-known selection of international luxury fashion brands both to men and women. The company provides luxury brands mainly originating from Italy and France and targets the customers who want quality clothes which they can be comfortable and looked representative in. For instance, brands such as Dior, Gucci Max Mara, Dolce Gabbana and Fendi are a part of the whole collection of the product offerings. The store name is ABCD and it is located in Stockholm, Gothenburg and Malmö. The business idea is to bring the most beautiful clothes on the markets (Mullbeck ABCD AB, 2009). The interview is done in the store located in Malmö.

4.2.3 Urhandel Bernhard Huke

Urhandel Bernhard Huke started in 1968 when Bernhard Huke opened the first watch store in Malmö. Today Huke consists of three stores in Malmö and 60 different watch brands can be found in these three stores. Huke focus their stores

on different segments and this strategy makes it possible for Huke covering the whole watch market, all from handmade mechanic watches to digital watches. With this strategy they can reach out to all the customers on the watch market. Huke has for the moment 20 employees and the turnover is around 25-30 million Swedish kroner.

One of Hukes main business ideas is that they serve the watches they sell. If any problems occur with the sold watches they can fix the problem for the customers in the store (Urhandel Bernhard Huke, 2009). The interview is done in the store and it handles the luxury part of their assortment such as Rolex, Omega, IWC, Longines and Breitling.

4.3 Analysis

Here below several tables containing significant quotations of the respondents are presented in order to facilitate the interpretation of the answers and outcomes. To facilitate the structure and diminish misunderstandings, the answers of the interpretations will be classified as P (positive), N (neutral) and N (negative) based on the analysis of the interviews. The respondents are classified as MM (market manager of Autoropa AB), SR&PM (store responsible and purchasing manager of ABCD AB) and O (owner of Urhandel Bernhard Huke)

Table 4.1 Quotations correlated to proposition 1

Proposition 1: Brand equity in form of legitimacy, intangibility and identity has positive impact on the luxury brands.		
Position	Response motivated by quotation	
Autoropa MM	S	“Brand must be managed and marketed properly.”
ABCD SR&PM	S	“These brands are of course important”
Hulk O	S	“The brand speaks for itself”

Note: based on Hollensen, S (2007). *Global Marketin: A decision-oriented approach*, 4th ed, Harlow: Pearson Education Ltd. & Kapferer, Noř – J & Bastien, V (2009). *The luxury strategy: break the rules of marketing to build luxury brands*. London: Kogan Page.

Many authors confirm that the brand equity is most important for any company (Hollensen, 2007), especially for companies in the luxury business (Kapferer, 2009). The purpose of this proposition is to examine the importance of the brands for the companies in the luxury business.

In the luxury business, the company needs to stand for its brand, identity and communicate the emotional characteristic to the customers. The characteristic in form of identity or intangibility consists of a long history and heritage of the brand (Kapferer, 2009). According to the quotations in the table 4.1, all the respondents shared the opinion that the brands are very important for the company,¹ and the brands must consistently deliver the intangible values to the customers and contain consensus perceptions.² The brands need always to be managed correctly and follow several directives in accordance with the brands’ emotional values because that is the reason the customers come back.³

We assumed that the brand of luxury is the most important value for the customers, because luxury brands give the owner the status and the belonging where other “normal” brands cannot provide, so the owner can express themselves in a way which makes them feel comfortable and special.

¹ Monica Barkow, Store Responsible Purchasing Manager of Mullbeck ABCD AB. Malmoe, May 26, 2009.

² Ralf Huke, Owner of Urhandel Bernhard Huke. Malmoe, May 28, 2009.

³ Jennie Andersson, Market Manager of Autoropa AB. Telephone interview, May 13, 2009.

As interpreted, all the brands representing of the companies are defined as luxury brands and each of them obtains a unique identity. For instance brands such as Ferrari and Maserati are legitimate as exclusive, fast, classic and the consistency that they always deliver high-qualitative products. Rolex and Omega as brand stand for craftsmanship and heritage. What makes the brand equity in form of legitimacy, intangibility and identity of luxury brands different, comparing with other non-luxury brands is that the luxury brands manage to connect the brand emotion to the customers, so when the customers choose the brands, they find a personal belonging which could be in form of wealth, glory, charm and beauty. These personal belongings could be connected back to themselves. As the respondents stated that the brand equity of luxury brands is vital as the proposition describes, we therefore think that this proposition is fulfilled to be supported.

Table 4.2 Quotations correlated to proposition 2 (a, b)

Proposition 2 (a): The purpose of advertising in form of special meetings and events is not to sell in the luxury business, it is to create desire and a dream.		
Proposition 2 (b): The creation of cutomers' desire and dream may have a positive impact on the customers' purchasing behaviours in a financial crisis.		
Position	Response motivated by quotation	
Autoropa MM	S	“We advertise us through events and shows.”
ABCD SR&PM	S	“We reach our customers in the store”
Hulk O	S	“We communicate to our customers in the store”

Note: Based on Hollensen, S (2007). *Global Marketin: A decision-oriented approach*, 4th ed, Harlow: Pearson Education Ltd. & Bergin, T (2008). "Financial crisis heralds era of "new seriousness." Reuters Available at: <http://www.reuters.com/article/topNews/idUSTRE49S03B20081029?feedType=RSS&feedName=topNews>. (08-10-29).

Advertisement is an important part of market communication (Hollensen, 2007), and it is crucial to convince customers to purchase in hard times (Bergin, 2008). The aim of these propositions is to oberve how the custoemrs' purchasing behaviours is influenced by the advertisement in a financial crisis.

Autoropa arranges auto shows and meetings in order to reach their customers.¹ ABCD gives the essential service to their customers in the store.² Huke also provides the knowledge and quality about the watches for the customers in the store.³ First the respondents said that they do not have any advertisement which was a misunderstanding because they thought that the question aimed at the advertisement was the normal advertisement often used in the general advertisement.

We assumed that the customers of luxury products prefer a two-way communication when purchasing the luxury products. They may want to purchase in a harmonic and relaxing environment and have a dialogue with the sales person about a specific or certain issue which requires a deeper communication. The communication may convince the customers and reach their personal desires.

As interpreted, we notice that a main issue when comparing the traditional marketing advertisement and the luxury marketing advertisement is that, the traditional marketing advertisement communicates to the customers in order to make sales. The luxury marketing advertisement communicates to the customers in order to create the dream and revitalize the brand's value. Two respondents said that they do not have any advertisement (Table 4.2). It may be that they do not see the advertisement as a traditional advertisement as mentioned before, but all three companies communicate the dream and value of the brands in a personal and interactive way through communication channels as shows, meetings, and stores which make it easier for the customers to find their identities and individual share of the dream, then the customers will purchase later. The respondents did not see any reason to change the way of communicating to their customers. For that reason these propositions may be indicated to be supported.

¹ Jennie Andersson, Market Manager of Autoropa AB. Telephone interview, May 13, 2009.

² Monica Barkow, Store Responsible Purchasing Manager of Mullbeck ABCD AB. Malmoe, May 26, 2009.

³ Ralf Huke, Owner of Urhandel Bernhard Huke. Malmoe, May 28, 2009.

Table 4.3 Quotations correlated to proposition 3 (a, b)

Proposition 3 (a): Rarity keeps the concept of luxury immune and alive.		
Proposition 3 (b): Sharing the ideal of rarity and quality with the customers may have positive impact on the customer’s purchasing decisions in a financial crisis.		
Position	Response motivated by quotation	
Autoropa MM	S	“We do not overproduce products.”
ABCD SR&PM	S	“Small range of products is offered to keep the rarity”
Huke O	S	“The watches are pure handcraft of quality”

Note: Based on Kapferer, Nođ – J & Bastien, V (2009). *The luxury strategy: break the rules of marketing to build luxury brands*. London: Kogan Page. & Fellowes, J (2008). “*Financial crisis: luxury brands boom as rich fly to quality.*” Telegraph UK. Available at: <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/3218808/Financial-crisis-Luxury-brands-boom-as-rich-fly-to-quality.html>. (08-10-20).

Rarity of the luxury products is a main concept in the luxury business in order to create desire and dream (Kapferer, 2009). The propositions are designed for the respondents’ opinion about the impact of this concept.

We know that in the traditional economic perspective, when the demand increases from the customers, the companies are automatically encouraged to catch the production capacity in order to gain market share. But in luxury business, mass-production means that the brand loses its identity (Kapferer, 2009). The luxury products representing of the companies have a relatively limited production comparing with other mass-products (Table 4.3). For instance Ferrari only produces around 6000 cars a year, and as long as the customers understand the value and rarity, they will wait and buy it.¹ Another important issue is that most of the brands provide their customers the opportunity to customize their products so each product is special and adopted after the customers’ personal needs and preferences. In means that in this way, the customers’s individual dream is achieved. It seems that this concept of rarity is confirmed by respondents according to their statement.

¹ Jennie Andersson, Market Manager of Autoropa AB. Telephone interview, May 13, 2009.

We can see the advantages of the rarity concept from a micro-economic perspective that the less production, the higher price. The quality may also be higher, but not necessarily. Logically the company could spend more time on quality, components, material, design and other control issues in order to produce better products than other mass-produced products, and make the customers understand the production process may encourage them to appreciate the values of the luxury products in any time.

According to Fellowes (2009), even in a financial crisis, as long as the customers understand the value and rarity of the products, they are willing to buy and invest in them. Here again we see that the same statement concerning the financial crisis is announced, and all the respondents did not see any different about the customers' purchasing decisions either. This may mean that the rarity and value of the products are still the factors behind the decision makings of the customers in the financial crisis. Therefore these propositions are classified as supported.

Table 4.4 Quotations correlated to proposition 4 (a, b)

Proposition 4 (a): The luxury business must concentrate on a small group of clients.		
Proposition 4 (b): This small group of clients may have positive impact on the profitability of companies in the luxury business in the financial crisis.		
Position	Response motivated by quotation	
Autoropa MM	S	“There is a small group who can afford the products”
ABCD SR&PM	S	“Our customers are relatively wealthier people”
Huke O	S	“Our customers have big interest for the watches”

Note: Based on Dubois, B & Duquesne, P (1990). *Existet il un consommateur de luxe européen. HEC Working Papers, Paris.* & Fellowes, J (2008). “*Financial crisis: luxury brands boom as rich fly to quality.*” Telegraph UK.
Available at: <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/3218808/Financial-crisis-Luxury-brands-boom-as-rich-fly-to-quality.html>. (08-10-20).

The wealthy customers stand for the largest shares of the luxury market (Dubois & Duquesne, 1990). These customers also have a deep appreciation for the luxury products, so these propositions are intended to test the statements.

The customers of Autoropa are mainly male and they are at an age of 35-65. This group of customers is relatively wealthier than other groups because the cars are very expensive.¹ ABCD has a similar group of customers who can afford the clothes and they are very aware about the brands.² The customers who buy the watches of Huke also have a big interest for the watches³. To summarize the customer base is relatively small comparing to the customer base of mass-produced products (Table 4.4).

We assumed that the requirements of purchasing luxury products are higher than other “normal” products, it is reasonable to believe that the amount of customers are very limited. If the luxury business aims to reach every customer, it may be too costly and ineffective since most of the customers cannot afford it or do not understand the values of luxury products. It is also believed that the customers who purchase luxury products often have the purchasing power and the appreciation for the products, and they are very educated about the products.

According to the theories and interviews, we can see two main characteristics of the customers. Firstly the customers are wealthier than the average customers. Secondly they appreciate and understand the value of the luxury products. The reasons may be that the luxury products are expensive and require a certain level of wealth, but also that these customers comprehend the value and desire for the luxury products, otherwise they will probably buy something functional and price-worthy. We can also see a clear difference between the luxury business and the traditional business. In the traditional business, the aim is to cover as much customers as possible, but in the luxury business, the focus is on a small amount of customers. Fellowes (2009) explains that in financial crisis, the customers who realize the value of luxury products still purchase and they are often wealth people.

¹ Jennie Andersson, Market Manager of Autoropa AB. Telephone interview, May 13, 2009.

² Monica Barkow, Store Responsible Purchasing Manager of Mullbeck ABCD AB. Malmoe, May 26, 2009.

³ Ralf Huke, Owner of Urhandel Bernhard Huke. Malmoe, May 28, 2009.

The sales of the luxury products have not been affected of the financial crisis according to the respondents, therefore these propositions may be supported.

Table 4.5 Quotations correlated to proposition 5 (a, b)

Proposition 5 (a): Luxury decides the price, price dose not decide luxury.	
Proposition 5 (b): Communicating the price spirit in term of quality and value to the customers may have positive impact on the customers' purchasing willingness in a financial crisis.	
Position	Response motivated by quotation
Autoropa MM	S "We do not compete with price"
ABCD SR&PM	S "Our products are expensive"
Hulk O	S "Same price everywhere"

Note: Based on Hata, K (2004). *Louis Vuttion Japan: the building of luxury*. USA: RR Donnelley, Kapferer, No ð – J & Bastien, V (2009). *The luxury strategy: break the rules of marketing to build luxury brands*. London: Kogan Page. & Fellowes, J (2008). "Financial crisis: luxury brands boom as rich fly to quality." Telegraph UK.

Available at: <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/3218808/Financial-crisis-Luxury-brands-boom-as-rich-fly-to-quality.html>. (08-10-20).

Hata (2004) suggests that the luxury products should never decrease the price, because image of luxury will be damaged. With these propositions, the aim is to observe the impact of the financial crisis on this price strategy.

The price on the luxury products have been constantly the same according to the respondents (Table 4.5). Some prices have just been adjusted concerning the currency issue since the Swedish crown has been decreased.¹ Based on the statsments and the interviews we believe that the price is a important issue for the luxury business, but the extra values have to be included. It is stated that the luxury products have a high symbolic value, and we think that this symbolic value is hard to measure and quantify which gives the luxury business the space to set a certain price. But as discussed in proposition one, the symbolic value has to be correctly

¹ Monica Barkow, Store Responsible Purchasing Manager of Mullbeck ABCD AB. Malmoe, May 26, 2009.

communicated to the customers in order create a dream and desire which in turn affect the purchasing willingness.

Since the intangible value is the biggest strength of luxury products, we assumed that the price is relatively high in order to match the luxury image. The price level may secure the value and image of the luxury products, so the customers feel the safeness when they purchase the products. We also assumed that this is the reason that the luxury products never or rarely cut down the prices because this may harm the value and image of the luxury products. In the financial crisis, some suggest that the luxury products have to lower the prices, but we do not think this is a good strategy. The value and image as discussed earlier may be lost if the prices decrease in the financial crisis, because after the financial crisis, the customers may not perceive the value of the luxury products in the special way as they did before the financial crisis, and it is hard to recover the value which once was lost.

In luxury business, when a predictable price is higher than the actual price, the value is created (Kapferer, 2009), and as mentioned earlier the customers will continue to purchase as long as they see the values, even in a financial crisis (Fellowed, 2008). Based on the interviews, we interpret that the products need to have a intangible value and the value can be in form of handcraft, heritage, history, emotional belongings and quality. If the customers accept and perceive the value, then the price can be set beyond the actual value. Consequently these propositions may be supported.

Table 4.6 Quotations correlated to proposition 6 (a, b)

Proposition 6 (a): The aim of a long-term relationship is to facilitate the communication with the customers in the luxury business.	
Proposition 6 (b): Having a long-term relationship with the customers may have positive impact on the sales of luxury products in the financial crisis.	
Position	Response motivated by quotation
Autoropa MM	S “Customer relationship is very important.”
ABCD SR&PM	S “We have very loyal customers”
Hulk O	S “There are many loyal customers”

Note: Based on Grönroos, C (2007). *Service Management and Marketing: Customer Management in Service Competition*, 3th ed. England: John Wiley & Sons Ltd. & Matzler, K. Kr äuter, G, S & Bidmon, S (2008). “Risk aversion and brand loyalty: the mediating role of brand trust and brand affect.” *Journal of product & brand management* 17/3 2008 pp 154-162.

Be having a good long-term relationship with the customers, companies can better serve the customers and loyal customers are very profitable. (Grönroos, 2007)
 These propositions are based on this statement in order to find out the significance of this customer relationship.

By having a long-term relationship with the brand and the product provider is very important for consumers, especially when it comes to luxury products. For instance luxury clothes (Matzler, Kr äuter & Bidmon, 2008). Grönroos (2007) also confirms that loyal customers are not so price-sensitive and they are more profitable than other customers.

We assumed that obtaining a long-term relationship with the customers may facilitate the communication process since these customers often have a certain requirements and need a certain level of service. It may also be profitable of strategic perspective the the main focus lays on these customers because their networks may be the potential customers.

According to the respondents, a long-term relationship with customers is important and all three companies have many loyal customers (Table 4.6). This can be connected back to proposition four which discussed the significance of wealthy

clients. Since there is a small amount of customers who purchase the luxury products, it is of great priority to have a long-term relationship with them. It was mentioned earlier that the sales have not been affected at all in the financial crisis, and it is assumed that these customers stand for the largest share since there is no statistics available. This can be explained that the long-term relationship creates a safeness and comfort for the customer and they can always trust the company. The communication of dream and desire as brand values can also be more effective since the relationship is created. As a result these propositions may be interpreted as supported.

Table 4.7 Quotations correlated to proposition 7

Proposition 7: The luxury business may gain positive and social acceptance in the markets by incorporating green marketing into its marketing strategy.	
Position	Response motivated by quotation
Autoropa MM	N “Luxury cars are not driven as family cars”
ABCD SR&PM	N “Ecological products are not demanded of customers”
Hulk O	N “Our products are not harmful to the environment”

Note: Based on Wilson, W. S (2009). “*Why sustainable luxury will sustain luxury*” The luxury business magazine. May/June 2009
 Available at: <http://www.luxe-mag.com/en/front-page/>. & Kapferer, No ë – J & Bastien, V (2009). *The luxury strategy: break the rules of marketing to build luxury brands*. London: Kogan Page.

It is suggested by Wilson (2009) and Kapferer (2009) that a strategy of taking social responsibility is a good point for luxury business to obtain the acceptance of the customers and the markets. This proposition gives the opportunity to the respondents freely discuss this issue.

According to all the respondents the environmental issues are not of priority because the luxury products are not used as much as other products, and the materials of the luxury products are not harmful for the environment. There is also a lack of interest from the customers (Table 4.7). This may be explained that the quantity of the luxury products and that the customers base are very small as mentioned earlier. This means that the amount of luxury is not enough to harm the

environment comparing with other unlimited mass-products. For instance, the respondents pointed that the luxury cars are not driven as much as other cars and the production and transportation of watches do not require that much natural resources.

Based on the statements of the respondents and our interpretations, it is concluded that the environmental issue is of low interest of the companies because the products are not classified as harmful to the environment. Besides, there is also a low interest from the customers' side. This is assumed that the customers are looking after the unique characteristics of luxury when purchasing the products and therefore the environmental consideration is excluded. This also means that the customers do not have high expectations on the luxury business environmentally. The customers may have higher environmental concerns when they purchase other products.

Even though the environmental issue have weak influence in this case, we still assume that this may be a important issue for the luxury business in the future. The main argument is that the social responsibility is a vital issue for many companies and the next generation of customers of luxury products are predicted as the younger customers which have a higher concern about the social responsibility. As a result the proposition is interpreted as neither supported nor negative which means that the environmental issue is not desirable in the marketing strategy of the luxury business.

4.4 Summary of the analysis

Autoropa sold 70 new Ferrari cars in Sweden during 2008 and the sales for 2009 of Ferrari and Maserati do not appear to decline. The financial crisis seems not have significant impact on the company. It can be argued that the customers' willingness to purchase these luxury cars is still high because the intangible values of the cars and the individual belongings are the main factors as before. This is also confirmed of the respondent. The reason of communicating to the customers through shows and meetings is that buying a car is a big decision involving substantial amount of money especially in the luxury car business, so the personal meeting or event may

reinforce the customer relationship which facilitates the purchasing decisions of the customers. Therefore, it is important to show and let potential customers feel and test-drive the car in order to create a dream which later will lead to a sale.

The financial crisis does not seem to have any strong effect on ABCD either, because most of their customers are loyal customers which enable them to develop a closer relationship with their customers, and in return they can offer better and faster service in order to create a personal belonging and desire of the customers. The word of mouth is sometimes used in order to communicate the values further to other customers. ABCD lends also occasionally out their clothes to magazines that are doing photo shots which enables them to market themselves in magazines to create dreams without any costs. ABCD's customer base consists of wealthy individuals that can afford the prices of the well known high fashion clothes and they know exactly what they want.

One issue which has been influenced as a result of the financial crisis has been mentioned in the interview. It has become cheaper for Danish customers to shop in Sweden because the Danish crown has risen in contrast to the Swedish crown. This has actually been favorable for ABCD in Malmoe which has increased their sales in 2009. This is essentially more a currency issue than a financial crisis issue.

The financial crisis has not influenced Huke at all, because the brand is the most important factor and helps the tradition and handcraft of watch making to survive. It is essential that Huke handles the agreement with their suppliers in a good way in order to obtain a good relationship with the important suppliers. Huke is focused on the customers who feel that design, quality and handcraftship are important when it comes to watches. The customers who have the appreciation for the watches may also be wealthy customers since these watches are expensive.

The company has many loyal customers and according to Huke (2009), for the customers, buying at Huke has become a tradition in a family, because the parents bought watches and their children also keep the tradition by buying their watches there. Furthermore, Huke offers their customers the possibility to repair their watches in the store which increases the added value for the customer.

Price is considered to be the same everywhere in the luxury watch industry and therefore it is not affected of the financial crisis. Huke sets their prices according to the agreement with their suppliers. However the watch business is a stable business and people will always buy watches dispute the economic climate.

Since the financial crisis in this case may not have influenced these companies in the luxury business because the sales of the luxury products have increased or at least been constant, and it is confirmed by the respondents that the marketing strategies have positive impact on the customers’ purchasing behavior, decision etc, so a renewed luxury marketing strategy model is created.

4. 5 The renewed luxury marketing strategy model

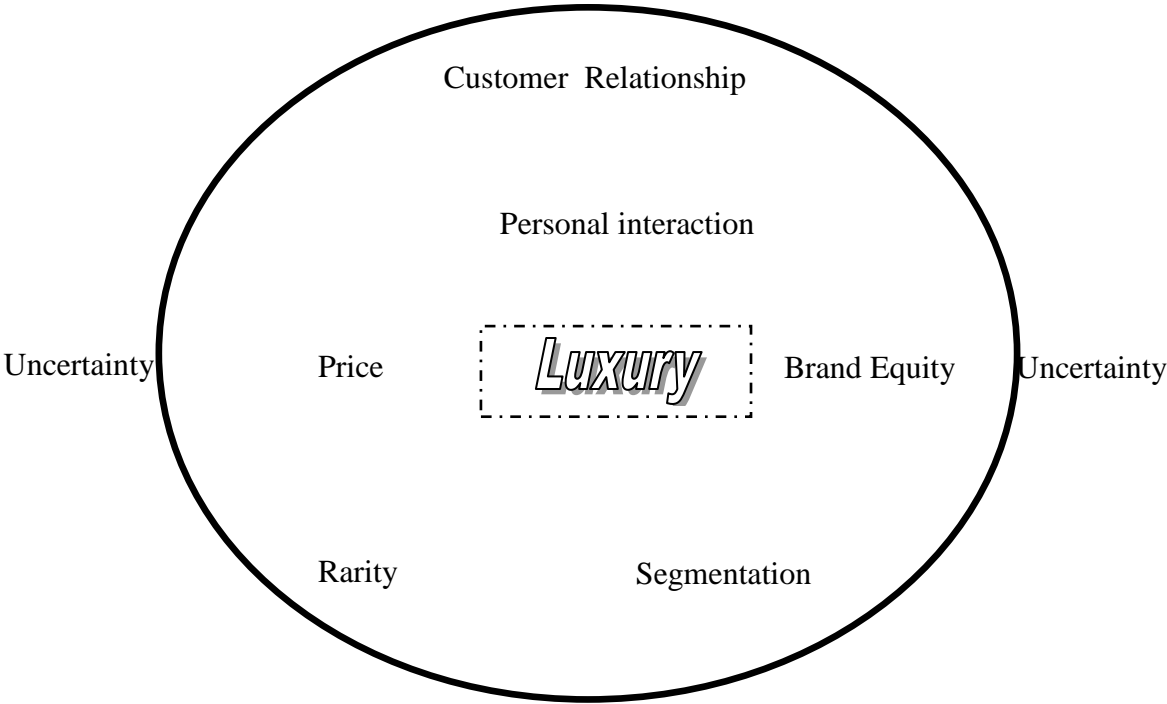


Figure 4.1 “The renewed luxury marketing strategy model” reshaped from the first one in chapter two. (Figure 2.5)

After interviewing the respondents and interpreting the answers, a renewed luxury marketing strategy model is created. Six of the previous seven marketing strategies still remain and one is departed because there is not enough empirical support for it. A closer explanation will be presented in the empirical findings.

4.6 Empirical findings

The renewed luxury marketing strategy model is a summary of the empirical findings generated of the thesis. Six marketing strategies surrounding the luxury business have been remained, and they are empirically tested and measured. Overall the luxury business may not have been influenced of the financial crisis, and the future prospect seems very positive according to the respondents. Here below the marketing strategies are furthermore explained as a short summary about why the luxury business could stand sustainable in the financial crisis.

Brand is the most important factor for the luxury products since it provides the special value and intangibility which are not comparable. It also connects the emotional feeling and brand awareness to the customers. For instance, driving a Ferrari road car is not only a feeling of the engineering excellence but, most of all, the brand in term of experience, tradition and emotion which are perceived of the customers. It is priceless and it is not an optional extra.

The importance of customer relationship has been pointed out several times during the interviews. All the respondents think or indicate that a long-term relationship is crucial, since most of the customers are loyal customers and a closer interaction, safeness, commitment and interest from the sales person and companies are required in order to give the service to the customers.

A high price for a luxury brand or product is reasonable since the extra emotional, personal and other intangible values are inestimable. The customers also accept the price in form of the values. This is a common strategy of positioning luxury and it can only be achieved if the products and brands contain the luxury characteristics which were mentioned in chapter 2.

From a micro economic perspective, a small quantity of luxury products available on the market may be strongly connected to the price level. This is the concept of luxury of being exclusive and rare which were discussed earlier, and in the same time, it excludes most the customers away.

It is stated by the respondents that there is a small amount of customers who buy luxury brands or products because they can afford it. The characteristics of the customers are that they are relatively wealthier than the middle class and there often have the interest and appreciation for the luxury products.

Green marketing is excluded in this model because the luxury products are not so harmful to the environment as other mass-products, and the interest of the customers is simply too low in order to pay more attention to the environmental issues in the luxury business.

The uncertainty is still remained because there is always uncertainty in the world.

To conclude in the financial crisis, it is hard to catch the attention of customers to purchase. Many are awaited for the future consumption. The companies have to get closer to the customers and contain a relationship with them. Quality in the same time gets more important, because the customers may demand more classic products as a long-term and sustainable investment. The more exclusive products may survive because the customers will invest in timeless products.

Companies in the luxury business could utilize this crisis more to convince customers to open their pockets. One important issue is the personal interaction. The seller should play a vital role and the stores have to find a way to release the purchasing-spirit. The winners are the companies which manage to create the desire and dream for the customers in a level where the myth about the luxury products is established among the customers.

4.7 Empirical critique

The empirical findings are based on the interviews with three companies which are responsible for more than ten luxury brands in different categories. The sample rate may seem to low since only three interviews were conducted. Nevertheless the findings were interpreted and analyzed as valid. All the respondents shared more or less the same opinion that the financial crisis does not have any affect on the luxury business. Since the respondents allowed us to make their namns public, it is assumed that the answers of them are reliable. As the result has come to this

opinion, the purpose of the thesis may have been fulfilled. We are also aware that the generalisability is low because of the low sample rate and the location where the empirics were conducted. It would be preferable if the sample rate was higher. It is still possible to generalize the outcomes in the Malmoe region since the city is relatively small and the limited size of the luxury business.

Chapter 5

Conclusion

In this final chapter, the conclusion as well as the implication of the thesis are presented. Several suggestions for the future research are highlighted and the entire thesis is shortly summarized.

5.1 Thesis conclusion

In the beginning of the thesis, the characteristics of luxury have been discussed, and several marketing strategies also have been presented and highlighted. This is the starting point to conduct the purpose of the thesis. All the marketing strategies such as brand equity, customer relationship and price etc are the precondition to develop a model called, “the luxury marketing strategy model” in order to conceptualize the meaning of the luxury business in connection to the financial crisis. Several propositions are developed based on the theoretical reviews and the model in order to test the influences of the marketing strategies on the luxury business in the financial crisis. All the theoretical reviews and propositions construct the structure of the thesis. The propositions were tested by interviewing three companies in the southern part of Sweden.

The conclusion of the thesis is that, we cannot see any particular financial impact on the luxury business based on the three interviewed companies. These marketing strategies mentioned in the thesis are important to help us to come to the conclusion. Six marketing strategies such as brand, personal interaction, rarity, price, customer relationship and segmentation interact and influence each other, but they all also together influence the purchasing behavior, purchasing decision and the sales of the luxury products which in its turn influence the financial result on the luxury business. For instance, in this case the rarity is a precondition to have a high price which may positively influence the customers’ purchasing decision which later may have positive impact in the financial crisis. These marketing strategies cannot not be separated because each or single marketing strategy itself

may not have any impact since all the marketing strategies in this case have to be interacted.

There is one proposition which is not in accordance with the outcome after the empirical part of interviews. This forced us to change the previous luxury marketing strategy and reshaped it into another model with some adjustments after interpreting the answers and outcomes from the respondents. The empirics explained that the green marketing as a marketing strategy is not needed in the luxury business. Other marketing strategies which are essential and valid for the luxury business are as following: brand equity, personal interaction, rarity, segmentation, price and customer relationship. The findings in the end of this thesis provide renewed perspectives when observing and discussing about the luxury business.

The financial crisis in connection to the subject has been discussed with the respondents and the result based on that shows that the financial crisis has not influenced the luxury business. This may indicate the strength of the luxury itself and its surrounding marketing strategies. One respondent pointed out the financial crisis is very interested in correlation to luxury business and the financial crisis should be discussed and observed in different level. Maybe this financial crisis is exaggerated and not as that terrible as many people think. The respondent believes that as long as their customers have a job their business will continue to growth.

5.2 Implication

The result of this thesis explains that several marketing strategies are reshaped and identified in order to strengthen the position of luxury business in the financial crisis. Overall the financial crisis may not have influenced the luxury business at all based on these three companies. The main reasons behind it are the characteristics of luxury itself and its unique combination of marketing strategies which have essential impact on the customers' purchasing decisions and behaviors, even in the financial crisis.

The future prospect for the luxury business seems to be sustainable since the financial crisis do not show any negative impact on it and the interest for the luxury brands and products is still increasing. However the future is hard to predict because the uncertainties and obscurities are invisible and they are always there, but the luxury business is looking positively forward to it.

The conclusion based on the theoretical and empirical materials of the thesis, intends to provide a theoretical contribution by presenting the significant of the marketing strategies and the specific nature of luxury in relation to the financial crisis. This is also helpful and of practical contribution for the luxury business to consider the marketing strategies which have been presented as valid and valuable in order to better serve both the companies and the customers. The same marketing strategies may be useful even in the luxury service business since the concept of luxury is the same. Furthermore it may not be valid in other businesses because they have fundamentally different nature and precondition.

5.3 Critical reflections

Since there is limited information and previous researches about this subject. It is preferable to apply a inductive approach because this may give a advanced level of individual interpretations and discussions based on theoretical and empirical reviews.

To structure the thesis from the beginning was hard because there is a scarce of information available. The crucial issue was to properly classify the characteristics of luxury because luxury means different things for different people. Later on, to find other important theories surrounding the luxury is needed in order to have a essential theoretical overview. These theoretical materials were carefully explained to create propositions. The outcomes may be saturated because the interviews indicated the same answer that the financial crisis does not have any impact on the luxury business. The interviews were only conducted in Malmoe region and it means that the generalisability is high in Malmoe, but very low in a broader perspective.

The interviews were conducted on Swedish because we believed that the respondents prefer speaking Swedish. This made us to translate the interview questions from English into Swedish. Since the interview questions are simply designed and written, the chance of misunderstanding may be minimum. The questions were explained when the respondents did not understand the question.

5.4 Future research

This thesis is conducted in a qualitative way which enabled us to study the subject closely. This also ensures the possibility to collect the data needed in order to fulfill the purpose of the thesis. Nevertheless, it is highly desirable to conduct this subject in a quantitative way in order to reach a higher reliability and in order to generalize the results. It may be interesting to see the result from the respondents by a survey.

A renewed luxury marketing strategy model is created in order to explain the marketing strategies which are important for the luxury business. These marketing strategies are connected to the luxury products and brands, and it may be remarkable to study this from a consumption and economic perspective. Another suggestion may be to observe the subject from customers' perspective because they are the customers and their value would be of great priority to consider.

The last suggestion is to study more companies within the luxury business and different categories of luxury products are also significant. It is also preferable to cover a broader region than Malmoe.

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Ralf Huke, Owner of Urhandel Bernhard Huke, Malmoe, **face-to-face interview** May 28, 2009.

List of Abbreviations

Ibid. Ibidem

et al. et alii

Etc. Et cetera

p. Page

pp. Pages

MM Market manager of Autoropa AB

SR&PM Store responsible and purchasing manager of Mullbeck ABCD AB

O Owner of Urhandel Bernhard Huke

Appendices

Appendix 1:

Interview questions (Swedish)

Öppningsfrågor

1. Berätta lite om företaget och din position.
2. Hur länge har du jobbat i företaget?

Nulägesbeskrivning av finanskris

3. Hur ser försäljningen ut i Sverige och internationellt?
4. Vad tycker du om den nuvarande ekonomiska situationen?
5. Hur har den ekonomiska situationen påverkat er?

Proposition 1: Brand equity in form of legitimacy, intangibility and identity has positive impact on the luxury brands.

6. Hur viktigt är varumärket för ert företag och hur behandlar ni ert varumärke?
7. Vad står ert märke för och vilka betydelser har det för kunder?
8. Hur associerar ni ert varumärke med era kunder?

Proposition 2 (a): The purpose of advertising in form of special meetings and events is not to sell in the luxury business, it is to create desire and a dream.

Proposition 2 (b): The creation of customers' desire and dream may have a positive impact on the customers' purchasing behaviours in a financial crisis.

9. Hur visar ni ert varumärke?
10. Vilka marknadsföringskanaler använder ni er av? Har finanskrisen påverkat ert val av marknadsföring?

Proposition 3 (a): Rarity keeps the concept of luxury immune and alive.

Proposition 3 (b): Sharing the ideal of rarity and quality with the customers may have positive impact on the customers' purchasing decisions in a financial crisis.

11. Vilka kännetecken har ni på era produkter?

12. Vad är kärnvärde i era produkter och hur differentierar ni från andra massproducerade produkter?

Proposition 4 (a): The luxury business must concentrate on a small group of clients.

Proposition 4 (b): This small group of clients may have a positive impact on the profitability of companies in the luxury business in a financial crisis.

13. Vilken/vilka målgrupp har ni och hur ser deras preferenser och behov ut?

14. Hur skapar ni mervärde till kunder utöver produkt?

15. Hur kommunicerar ni era kärnvärde med era kunder?

Proposition 5 (a): Luxury decides the price, price does not decide luxury.

Proposition 5 (b): Communicating the price spirit in term of quality and value to the customers may have positive a impact on the customers' purchasing willingness in a financial crisis.

16. Hur håller ni konkurrensfördel prissätt?

17. Hur har er prissättning på produkter påverkats av finanskrisen?

18. Vad skulle en prissänkning betyda för er märke och era kunder?

Proposition 6 (a): The aim of a long-term relationship is to facilitate the communication with the customers in the luxury business.

Proposition 6 (b): Having a long-term relationship with the customers may have positive a impact on sales of luxury products in a financial crisis.

19. På vilket sätt är kundrelation viktig och hur arbetar ni med relationer med era kunder?

20. Hur värderar ni era lojala kunder och hur behandlar ni dem?

Proposition 7: The luxury business may gain positive and social acceptance in the markets by incorporating green marketing into its marketing strategy.

21. Är etisk uppförande och miljöänkande viktiga för er och hur kommer det påverka er nu och i framtiden?

Övergripande frågor

22. Hur kommer ni att anpassa er marknadsföringsstrategi med tanke på finanskrisen?

23. Hur hanterar ni osäkerheter och oklarheter?

24. Ser ni några möjligheter med finanskrisen?

25. Hur ser framtiden ut för er och hela lyxindustri?

Appendix 2:

Interview questions (English)

Opening questions

1. Tell us about the company and your position.
2. How long have you worked in the company?

Description of financial crisis

3. How does the sale look like in Sweden and internationally?
4. What do you think about the present economic situation?
5. How has the economic situation influenced the company?

Proposition 1: Brand equity in form of legitimacy, intangibility and identity has positive impact on the luxury brands.

6. How important is the brand for the company and how do you manage the brand?
7. What does the brand stand for and what does it mean to your customers?
8. How does the brand associate with your customers?

Proposition 2 (a): The purpose of advertising in form of special meetings and events is not to sell in the luxury business, it is to create desire and a dream.

Proposition 2 (b): The creation of customers' desire and dream may have a positive impact on the customers' purchasing behaviours in a financial crisis.

9. How is the brand demonstrated?
10. Which marketing channel do you use? Has the financial crisis influenced the choice of the marketing channel?

Proposition 3 (a): Rarity keeps the concept of luxury immune and alive.

Proposition 3 (b): Sharing the ideal of rarity and quality with the customers may have a positive impact on the customers' purchasing decisions in a financial crisis.

11. Which characteristics do the products obtain?

12. What is the core value of the products and how do they differentiate from other mass-produced products?

Proposition 4 (a): The luxury business must concentrate on a small group of clients.

Proposition 4 (b): This small group of clients may have a positive impact on the profitability of companies in the luxury business in a financial crisis.

13. Which is/are the target group/groups and how do their preferences and needs look like?

14. How is the value created to the customers except the products?

15. How is the core value communicated to the customers?

Proposition 5 (a): Luxury decides the price, price does not decide luxury.

Proposition 5 (b): Communicating the price spirit in term of quality and value to the customers may have a positive impact on the customers' purchasing willingness in a financial crisis.

16. How do you achieve competitiveness from a price-perspective?

17. How has the economic crisis influenced the prices of the products?

18. What would a price cut mean for the brand and the customers?

Proposition 6 (a): The aim of a long-term relationship is to facilitate the communication with the customers in the luxury business.

Proposition 6 (b): Having a long-term relationship with the customers may have a positive impact on sales of luxury products in a financial crisis.

19. In which way is the customer relationship important and how do you arrange the relationship with the customers?

20. How do you value your loyal customers and how do you treat them?

Proposition 7: The luxury business may gain positive and social acceptance in the markets by incorporating green marketing into its marketing strategy.

21. Are ethical behavior and environmental issues important for the company and how will it influence the company now and in the future?

Overview questions

22. How will you adopt the marketing strategy considering the financial crisis?

23. How do you manage uncertainties and obscurities?

24. Do you see any opportunities with the financial crisis?

25. How does the future look like for the company?

Appendix 3:

Summary of propositions

Proposition 1: Brand equity in form of legitimacy, intangibility and identity has positive impact on the luxury brands.

Proposition 2 (a): The purpose of advertising in form of special meetings and events is not to sell in the luxury business, it is to create desire and a dream.

Proposition 2 (b): The creation of customers' desire and dream may have a positive impact on the customers' purchasing behaviours in a financial crisis.

Proposition 3 (a): Rarity keeps the concept of luxury immune and alive.

Proposition 3 (b): Sharing the ideal of rarity and quality with the customers may have a positive impact on the customers' purchasing decisions in a financial crisis.

Proposition 4 (a): The luxury business must concentrate on a small group of clients.

Proposition 4 (b): This small group of clients may have a positive impact on the profitability of companies in the luxury business in a financial crisis.

Proposition 5 (a): Luxury decides the price, price does not decide luxury.

Proposition 5 (b): Communicating the price spirit in term of quality and value to the customers may have a positive impact on the customers' purchasing willingness in a financial crisis.

Proposition 6 (a): The aim of a long-term relationship is to facilitate the communication with the customers in the luxury business.

Proposition 6 (b): Having a long-term relationship with the customers may have a positive impact on sales of luxury products in a financial crisis.

Proposition 7: The luxury business may gain positive and social acceptance in the markets by incorporating green marketing into its marketing strategy.