The devil wears Prada... and Chanel...and Calvin Klein.

Uncovering the patterns of luxury brand competition.

Sarah Patrick

110079788

Supervisors

Professor Jenni Romaniuk

Professor Byron Sharp

Dr Virginia Beal

A thesis submitted for the degree of Masters by Research (Marketing)

Thesis submission: February 2017

University of South Australia | Ehrenberg-Bass Institute for Marketing Science

ABSTRACT

Luxury Brand Competition

A brand's survival ultimately rests on its ability to sell products. With other brands vying for a share of consumer spending, brands must be strategic about how they compete. Empirical research can help by uncovering regularities in buying behaviour and providing norms to guide decision-making.

Empirical studies in mass markets have revealed a lot about underlying patterns of competition. However competition in luxury markets has received comparatively less empirical attention. Various luxury theorists have shown interest in this area but there are differing opinions among experts about how brands compete. For example, some theorists suggest brands compete based on their 'level' of luxury or luxury tier (e.g. De Barnier, Falcy, & Valette-Florence, 2012; Silverstein & Fiske, 2003). Others argue luxury buyers may be classified based on the qualities they seek and therefore different brands are thought to appeal to these customer types (e.g. De Barnier et al., 2012; Kapferer, 1998). There are also theoretical reasons for suspecting the law-like patterns of competition in mass markets may not apply to luxury goods (e.g. Keller, 2009; Sicard, 2013).

The two studies conducted in this thesis empirically test some widely held beliefs about luxury brand competition using a framework of established empirical generalisations. Study One examines whether luxury brands compete by appealing to distinct segments of consumers. Study Two empirically tests whether brand size influences competition and if particular luxury brands compete differently based on their luxury tier, functional differences or ownership by the same luxury conglomerate.

Objective of Thesis

This research examines how luxury brands compete. Specifically, it explores whether luxury brands compete in separate silos where segments of customers are drawn to each brand's unique offering. This thesis tests whether directly competing brands attract customer bases with distinct demographic profiles and motives for buying the category. The research documents the degree to which brands' customer bases overlap. High overlap would indicate brands do not compete by servicing specific segments of customers.

Data

This thesis examines competition between more than 250 different brands, spanning four luxury categories: 1) fashion and accessories, 2) makeup and skincare, 3) watches and jewellery, and 4) luxury spirits. This thesis uses data collected in 2014 and 2015 by *Affluential*, a panel database representative of the top 25 percent of income earners in the countries tested. The data looks exclusively at *current* luxury brand *ownership* - encompassing brands bought for oneself and received as gifts. The 2014 dataset is comprised of samples from six countries (US, China, Singapore, Hong Kong, Indonesia and Taiwan) with a total sample exceeding 1600 respondents. The 2015 dataset is comprised of over 1200 participants from four countries (US, China, Singapore and Hong Kong). Rather than analyse as a single dataset, this research uses these different conditions to explore the generalisability of patterns of competition.

Main Findings

Study One: Brand Owner Profiles

Across four luxury categories in six countries, two consecutive years and over 200 brands, demographic owner profiles of directly competing brands are generally similar. Depending on the category, 81-95 percent of demographic profiles are within 10 percentage points (PP) of the average profile and overall a mean absolute deviation (MAD) of 5 PP from the average profile is found.

- Most differences in demographic profiles are explained by gender

  - On average 28 percent of deviations in demographic profiles (across both years and categories) are explained by gender compared to an average of 11 percent each for age and income)
  - Overall MADs for gender range from 5-9 PP depending on the category (compared to 4-6 PP for age and 4-5 PP for income)

Demographic differences between brand owner profiles observed in this study are slightly higher than deviations reported in past research. For example, a study of user profiles in 42 product categories (including chocolate bars, credit cards, private health insurance and package holidays in the UK), reported competing brands' demographic user profiles differ by an average of 3 PP (Kennedy, Ehrenberg, & Long, 2000).

Competing brands' customer bases have similar motives for buying luxury brands (based on nine different motivations for buying luxury brands). Depending on the category, 94–97 percent of motive profiles are within 10 PP of the average profile.

- Brands rarely attract customer bases with unique motivations for buying luxury goods (overall MADs range from 2-7PP depending on the category)

While differences between brands' customer motive profiles are small, they are more pronounced than findings from similar studies in mass markets. For example, Kennedy and Ehrenberg (2001a) report 1 percent of cases deviate ≥10 PP from the average profile (this thesis reports levels of 3-6 percent).

Study Two: Duplication of Purchase

Across more than 50 brands in two luxury categories, each in four countries, predictable customer sharing in line with brand size is the norm; with larger brands drawing more from the customer bases of smaller brands (Agostini, 1961; Goodhardt & Ehrenberg, 1969).

- 92 percent of competing fashion/accessories brands share customers in line with brand size (based on over 1380 cases)
- 91 percent of competing makeup/skincare brands share customers in accordance with brand size (based on over 330 cases)

These findings are consistent with the Duplication of Purchase law (DoP law) of customer sharing between competing brands documented in mass markets (e.g. Bass, 1974; Ehrenberg, Uncles, & Goodhardt, 2004; Uncles & Ellis, 1989). The findings also support empirical evidence of brands sharing customers in line with size in luxury fashion and Champagne competition (Romaniuk & Sharp, 2016) and prestige skincare brand competition (Romaniuk & Winchester, 2007). Consistent with past DoP empirical research, the present findings show some cases of functionally different brands competing less intensely with one another (e.g. sweetened vs. unsweetened breakfast cereal brands as noted by Hammond, Ehrenberg, and Goodhardt (1996).

Studies One and Two come together to show (in the categories tested), brands mainly compete in line with size in a fairly unsegmented luxury market. Some brands appeal more than average to males or females, and certain brands compete less directly based on differences in their product ranges etc. However luxury brands rarely compete in separate silos by attracting distinct customer bases.

Implications and Contributions

This thesis extends the scope of brand user profile and duplication of purchase research to include luxury brand competition in multiple new product categories. The findings challenge popular themes in luxury theory about brand segmentation and competition. This research contributes to existing scientific knowledge by demonstrating the luxury category is not a boundary condition to the patterns of brand competition observed in mass markets.

The research has two major implications for luxury brand marketing. First, directly competing brands generally have similar customer bases. This means in the categories tested, brands rarely attract customer bases with unique motives for buying luxury or distinct demographic profiles (though certain brands do appeal more to males or females). Second, luxury brands compete primarily on the basis of size. For brand managers, this research reveals norms for luxury brand competition. This information can improve strategic decision-making such as deciding whether to enter a new product category, and help brands set realistic expectations in novel settings (e.g. entering new markets, in response to acquisition by a luxury brand conglomerate etc.).

Limitations and Future Research

One of the main challenges associated with luxury brand research is securing representative samples of brand owners, particularly for cross-brand ownership. To maintain the representativeness of the samples and reliability of the results, some smaller (often more expensive/exclusive) luxury brands are omitted from the analysis. Another data-related limitation is the use of combined product categories (e.g. the makeup/skincare category includes makeup, fragrance, skincare and nail polish brand ownership). More defined categories would enable clearer comparisons between brands.

There are opportunities to further test the generalisability of this research with more product categories and different countries or regions (e.g. Europe). Future inquiry could build on the present research to test whether the Double Jeopardy pattern (McPhee, 1963) applies to luxury brand ownership. This research would test another established empirical generalisation in the luxury market and concurrently examine loyalty to luxury brands - another area of interest among luxury theorists (e.g. Kapferer & Bastien, 2009a; Nueno & Quelch, 1998). Future research could also examine competition between luxury and non-luxury brands, building on evidence of luxury/prestige submarkets within the general market (e.g. Colombo, Ehrenberg, & Sabavala, 2000; Romaniuk & Winchester, 2007). Such research could examine whether luxury and non-luxury brands compete directly, and if so, whether this is more prevalent in certain product categories and price tiers.