

## Design in Luxury Business

by

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*Abstract.* Nowadays, we can see never lasting development of debate about design standards. It is obviously clear, because design as a concept has become one of the most constant element in the term of shaping new product strategy. It is recognized as one of the most important factor of innovation in those companies that are orientated on design thinking, team building and communications' designing. Its role has become reinforced on the luxury market, due to constantly increasing interest of these goods. Firstly, a modern approach to the role of design in the luxury market means a broad project perspective, centered about the analysis and the use of different resources of knowledge, competencies and tools of designing. The main aim of this report is to present luxury goods' market, the analysis of these products' nature and the way of their perception by modern customers. It is also indicated the increasing role of design as a factor in determining customers' decisions.

*Key words:* customers' behaviour, design management, luxury goods, luxury market, product design, innovation.

JEL classification: D12, M11, M31

### 1 Introduction

The luxury market is described as still increasing. It is worth noticing that even the economic crisis has not significantly influenced its situation. Although, economic forecasts remain shaky, forecasts for luxury brands continue to be strong. The increasing rate of luxury market is 7% with the value of 225 billion euro in 2014, according to the consultants from Ernst & Young. These data explain researchers' interest in this issue. In 2013, the value of luxury market was 10,8 billion euro in Poland, which means a 5,9% increase comparing with 2012 (KPMG Report, Rynek dóbr luksusowych w Polsce, 2013). According to Ernst & Young, in 2014, the luxury market is supposed to increase to 7% (Ernst & Young, Luxury & Cosmetics Financial Fact Book).

This momentum is not solely driven by high-net-worth individuals in emerging markets but also by consumers in developed markets who continue to spend on what some may see as "unnecessary" items.

The main aim of this publication, based on literature, is design analysis in the process of creating the luxury goods according to the

customer's opinion and luxury goods' manufacturers.

### 2 The nature of luxury product

In literature, there are three main trends in luxury goods' interpretation, derived from the theory of management, psychology and marketing (de Barnier, 2006). The idea, based on Veblen effect, that luxury goods concern relations between price and demand is the most common.

According to this approach, Veblen goods have a positive sloping demand curve. This means that the greater the price of the product, the greater the demand. It is caused either by the belief that higher price means higher quality, or by the desire for conspicuous consumption (to be seen as buying an expensive, prestigious item). This often happens with luxury products such as Rolex watches, a prime quality wine or Rolls-Royce cars. A decrease in the prices of such goods could make them lose their exclusivity and status. Clients strongly appreciate the fact that the goods they consume are only affordable for a small part of the population (Leibenstein, 1950). The definition mentioned above is real, but it doesn't convey the nature of luxury products. The apparent contradiction between hard economic times and growing luxury expenditure

is what we mean when we refer to the Luxury Paradox. In the earliest days of the recession, consumers reacted as expected. They cut back on major purchases in preference for small luxury treats. But today high-end luxury is growing as people are starting to look farther into the future and are planning their finances for mid to long term. Luxury purchases have shifted towards high-value items that deliver long-term satisfaction. Additionally, luxury consumers are ready to focus on themselves again and are feeling a little less altruistic.

Psychological and social conditions of customer behavior are supposed to be the reason for Luxury Paradox (Breit and Hochman, 1971; Bagwell and Bernheim, 1996; Roy and Xi Zou, 2009; Kemp, 1998). It used to be that a luxury buying experience involved dressing up and going into a high-end boutique to consult with a salesperson on what to buy and enjoying a glass of champagne while it was being carefully wrapped up for you. You'd feel proud to exit the shop with your branded shopping bags and something about spending a lot of money on yourself or a loved one felt good – as though the treat was deserved. This desire is not only a result of individual customer mind. The essential is a social context of this phenomenon. The customer wants to purchase these products that are the objects of desire of many others (Breit and Hichmann, 1971). So, we can say, the more desirable the product is, the more luxurious it becomes and simultaneously the less people can afford to purchase it (van der Veen, 2003).

From psychological point of view, customers' decisions on the luxury market are often irrational. Many authors emphasise the priority of emotional reasons over pragmatism and rational product assessment.

Luxury products are purchased not only to fulfil the customer need. It is complied by common products, available in average market prices. They should give purchasers a pleasure (Hirschman, 1982; McCracken, 1986; Belk, 1988). Some authors like Y.J. Roy and Xi Zou Chua claim, utility is not so important, or even insignificant as hedonistic feelings (Roy and Chua, 2009; Kemp, 1998). This approach is a

challenge to luxury producers, because according to this fact, the luxury good should give a pleasure and be a desire, that can be purchased only by a very few people.

Additional handicap is the relativity of concept of luxury brands and luxury products. There are many factors of perceiving of the luxury. Recognition of the product as luxury depends on the customer's income, economic development of his country, his culture and his individual feature of character.

Polish customer defines luxury product as „each brand-name good, recognized as luxury with specification (uniqueness, high price etc.), that gives a luxury nature” (KPMG Report, Rynek dóbr luksusowych w Polsce, 2012). Many researches, carried in the last few years in Poland e.g. ARC Market and Opinion, Millward Brown SMG/KRC, KPMG show a big diversity between luxury and luxury product perception. Some of the Poles find typical mass products to luxury brands. On the other hand, there are many brands that belong to luxury market, due to their prestige and international recognisability, frequently being built for years.

Their creators have given these kind of distinctive to the products that let customer assign them explicitly to the group of luxury goods.

Looking at deliberations on this topic, it is worth saying that despite the ambiguity of the definition of luxury product, there are some features that are associated with luxury and simultaneously cause that the customer can pay high price for that product. One of these features is design.

### **3 The role of design in luxury product strategy**

Design is the essential feature of luxury products and one of the most important elements of luxury product strategy.

There are many definitions of design. In the broadest terms, design is an “activity that gives form and order to life arrangements” (Potter and Roy, 1980). But before making a decision about one authoritative definition, its worth looking at the etymology of the word “design”.

It derives from the Latin “designare”, which is translated both as “to designate” and “to draw”. In English, the word “design” has a dual meaning. Depending on the context, it means “a plan, project, intention, process” or “a sketch, model, motive, decor, visual composition, style”. In the sense of intention, design implies as objective and a process.

An etymological analysis of the word leads to the following:

DESIGN = INTENTION + DRAWING.

The International Council Societies of Industrial Design (ICSID), the organization which brings together professional associations of designers offers the definition: “Design is a creative activity whose aim is to establish the multifaceted qualities of objects, processes, services and their system in whole life cycles. Therefore, design is the central factor of innovative humanization of technologies and the crucial factor of cultural and economic exchange”.

Design is supposed to discover and assess the structural, organizational, functional, expressive and economic relationship with a task of (Borja de Mozota, 2003):

- enhancing global sustainability and environmental protection (global ethics);
- giving benefits and freedom to the entire human community (social ethics);
- supporting cultural diversity despite the globalization of the world;
- giving products, services and systems, those forms that are expressive semiotics of and coherent with aesthetics, their proper complexity.

The advantage of design is to involve a wide spectrum of professionals in which products, services, graphics, interiors and architecture take part. It avoids the meaning of design only as perspective of the output (aesthetics and appearance).

To the article’s needs the best definition, which brings the field of design closer to industry and the market is that “industrial design is a professional service of creating and developing concepts and specifications that optimize the function, value, and appearance of products and

systems for the mutual benefit of both user and manufacturer” (Industrial Designers Society of America IDSA. <http://www.idsa.org/summer-2012-innovation-full-issue>) or a definition, adapted by Gorb, that shows the key categories of design (Gorb, 1990):

- Product category – design can add value to a product beyond the manufacturing process and in the end it can generate gross margin, performance and profitability. The design management depends on the nature of the industry and the product in question, but the essential is to use e.g. product innovation, range or development and quality.
- Environmental category – in this field, design management is mainly concerned with how, and what the company invests in tangible assets. These tangible assets include factories, offices, shops and any equipment within.
- Information category – it plays a valuable role in how corporation conveys its mission and vision to its key audience. Information design is usually supplied through the marketing function of a business, sometimes it might include the design of advertising, sales promotion and PR materials (design is addressed then for external audience) and design for managers, employees and owners (design is then addressed for internal audience).
- Corporate identity category – is closely linked to corporate strategy and shapes all aspects of these three categories of design, mentioned above. Similarly to all quantitative methods, its benefits are difficult to assess, but there are implied measures of success in the increase of share prices of those corporations that have introduced strong identity programmes.

Understanding the context, in which design operates helps all design managers to identify opportunities for innovative projects and enterprises. It also helps other decision-makers understand how their projects support their goals. Design is a type of process that has four basic characteristics. In the field of marketing there are

Kotler's 4Ps, in design there are the 4Cs (Walsh *et al*, 1992):

- creativity - design means the creation of something that has not existed before;
- complexity - design involves decisions on large number of parameters;
- compromise - design requires a balance between different, sometimes conflicting requirements;
- choice - design requires making choices between many possible solutions to a problem at all levels – from basic concept to the smallest detail.
- Undoubtedly, designers are futurists, who suggest how the world might be. So, it means the design process is experimental. Holt (Holt, 1990) identifies three types of design processes:
  - the analytical design process – there are little uncertainty about the alternatives and the outcome is only a modification of something existing;
  - the multiplying design process, which occurs in medium-risk projects such a radical improvements and adopted innovations (mentioned below);
  - the visionary design process, in which the problem can't be defined precisely and is vague at best.

In Poland interest in design has increased with the market economy and the beginnings of globalisation have begun. The term derives from the art and architecture, but it has become popular with functional art, with a big emphasis among luxury goods.

The source of this state can be found in the evolution of the term, which has been changed in the industrialization era, connected with making product for the masses. Designers were going to design uniqueness, so they didn't want to join design with mass products on purpose. Design seemed to be associated with something better, more sublime, more interesting and unique, so luxury.

Nowadays, designers, under producers' pressure, try to combine design with utility, but the people's first thought is to combine design with luxury, not with functionality, that seems to be

rational, due to the fact that mass products' destination is to fulfil a practical function.

Design, having a broad influence on different aspects of marketing management of luxury product, allows for setting producer apart, influencing corporate positioning on the market etc. Let's mention Bang & Olufsen or Apple Inc. According to Design Council research in 2005-2006 with a trial of 1500 British firms, the results showed that fast-growing companies find design as a main source of success.

Thanks to the integrated price leadership, luxury designers, can create more extraordinary, more innovative and more interesting products in aesthetics-wise respect, based on design, than these steering process that refer to mass products. In holistic point of view, we can take not only design into consideration, but (what happens rarely in mass products) design of wrapping, promotional, advertisement conception and other communication tools. A. Ulwick (Ulwick, 2012) claims, manufacturer cannot prepare to getting to know a real customer's wants, so relies on broad generalizations. The purchaser, buying a product, wants to see a consumption result that is often identified with prestige and luxury. Undoubtedly, the most important value is the emotion connected with purchasing a luxury good and not the utility. This approach is confirmed by a luxury good's concept, created by K. Heine. According to the author, the elements which distinguish products from others are: aesthetics, rarity, peculiarity, symbolism, price and quality (Heine, <http://conceptofluxurybrands.com/concept/luxury-brands-definition>). The author stresses the role of symbol dimension of luxury and psychological conditions of customer's decision. Design is a permanent tool, enabling to fulfil sophisticated customer's need on many dimensions.

#### **4 The role of design in luxury market in producers and purchasers' opinion**

Design is not only an essential feature of luxury good from a theoretical point of view. The role of the concept of design management is intensely

stressed by manufacturers and customers of these goods.

In this paragraph, it is worth mentioning these associations that integrate luxury manufacturers in Europe. There are many restrictions for those, who want to join to them, especially connected with design in luxury policy.

The oldest association is Comite Colbert for French luxury brands, established in 1954 in France. It takes care of luxury goods' standards, French culture and art promotion in the international arena. Comite Colbert demands e.g. high price, strong brand, connected with exclusive life style, the highest quality and high-level design ([http://www.comitecolbert.com/les\\_metiers.html#](http://www.comitecolbert.com/les_metiers.html#)) of its members. French luxury design must be in keeping with all demanding French beauty and style canon.

Altagamma Foundation is younger than Comite Colbert. It was established in 1992 in Italy. Altagamma, demands high quality, innovation, prestige and certain standards in design of its Italian manufacturers.

Apart from Comite Colbert and Altagamma, there are British, Spanish and German associations. One of them is British Walpole,

established in 1990, whose main aim is the promotion of British luxury market in the whole world. Walpole demands to fulfil the highest standards in the area of quality, craft, service, innovation, design and style.

The German Meisterkreis, established in 2011, is the most restrictive organisation, supporting luxury market (<http://meisterkreis-germany.com/en/members/admissions-criteria>). Meisterkreis, similarly to those, mentioned above, point out design as one of the most important area in shaping the luxury products in national market.

To confirm the thesis about the role of design in luxury strategy, the newest results of scientific research in luxury market should be mentioned. According to research from 2013, more than a half of luxury goods' customers have turned their attention to appearance, aesthetic and design when they purchase luxury goods. Most of the respondents have represented Polish divisions of international concerns, official distributors, independent retailers and Polish luxury brands' owners. On the figure 1, there is a completed list of these factors that are mentioned by respondents during luxury good choice.

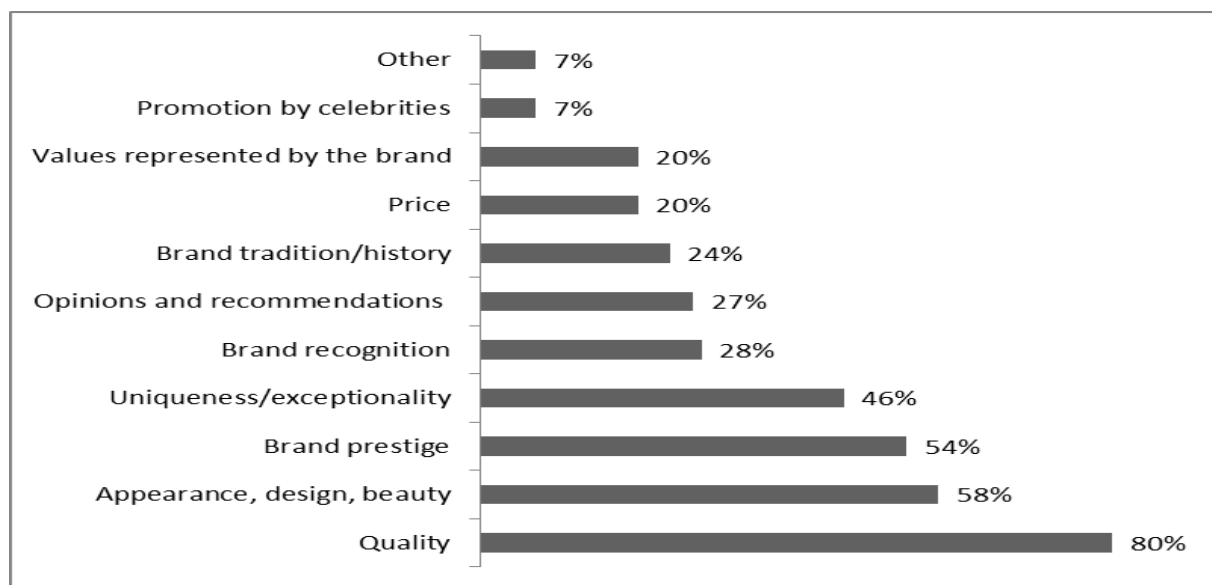


Figure 1. A list of factors chosen during the luxury goods' purchasing  
Source: KPMG Report, Rynek dóbr luksusowych w Polsce, Edition 2013, p. 23.

Design as a feature of luxury good is supposed to be more important than prestige, recognisability or even brand opinion for Polish customer. A

difference between luxury and mass products is broadly stressed. The only one feature more important than design is the quality of the



product. But, what is worth noticing, this customer opinion is more rational than emotional. A similar opinion can be seen on the German market – more than 60% of German purchasers „being surrounded by beautiful things” is the main reason for buying luxury products (Roland Berger, Luxury Study 2012).

We can find the role of design in the present luxury market monitoring some practitioners e.g. luxury goods’ managers, brand managers, design managers and others. R. Arora points out unique design among utility, quality, craft, precision, technology and innovation (Arora, 2013).

Summarising we can find design as a part of business, based on cool calculation and customer’s world, based on emotions. Thanks to this connection, the creation of totally new value and new quality that allows to build new corporate position has become real process.

## 5 Conclusions

Design is one of the most important factors, used to build market position of XXI century companies. It can be crucial when we think about business success or failure on the market. Products, that are extravagant or weird are old-fashioned now. Design comes into a new era. Now, it is definitely not only an information tool or blatant brand’s name, but subtle transmitter, connecting authenticity, security, utility and beauty even on today’s demanding luxury market.

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