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Market positioning and competitiveness: evidence from the French luxury sector

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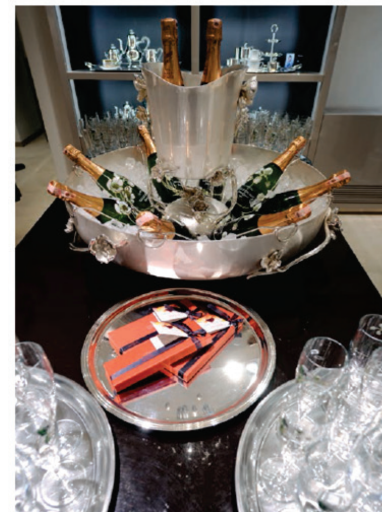
For G-MonD, an executive summary by **Nicholas Bray**

A new class of wealthy consumers in emerging markets is snapping up luxury goods, and European luxury houses are taking full advantage of the boom. While tough competition from emerging countries is hitting many firms in high-wage countries, the luxury market shows how globalization can be a plus for premium products combining high prices with quality and tradition. Drawing on an innovative approach to the analysis of trade statistics, the author shows how European luxury houses have benefited from a "first mover" advantage and offers some thoughts on what is needed for this to be maintained.

The discreet charm of European luxury goods for consumers in emerging markets

Fine wines, fine perfumes, fine china. Smart shoes, beautiful handbags, elegant cutlery. In today's global economy, luxury goods are encountering eager customers among the wealthy new entrepreneurial classes of Asia, Africa and Latin America. For the firms that make such products, many of them based in high-wage countries like France, Italy, Switzerland, and to a lesser extent Germany, the result is a commercial bonanza. It's also a demonstration – if one were needed – that, despite competition from developing countries with lower wage costs, **globalization can be positive for Western firms that combine quality with strong brand recognition and cultural tradition**.



"Globalization is too often perceived just in terms of competition from low-wage economies pushing firms in developed countries to the wall," says PSE trade economist Lionel Fontagné. *"In reality, even in sectors like clothing and footwear which bear the brunt of low-wage competition, things are not so simple. The luxury sector has special characteristics that set it apart."*

Luxury as a driver of "reverse globalization"

To be sure, you don't need to be in luxury goods to export profitably to emerging markets. In high-end products generally, European firms have tended to do well in the face of foreign competition.

But **the luxury sector is a textbook example** of what Fontagné describes as the *"new and unexpected prospects"* opened up by globalization. The success of European luxury houses in emerging markets shows globalization working as it should do, he says, with individual companies using specific competitive advantages to win sales.

In recent years, the concept of *"reverse globalization"* has emerged in the public debate. As emerging economies grow, their citizens are looking for new ways to spend their money. European producers of luxury goods have been able to cash in on the trend. The strengths of Europe's luxury houses, says Fontagné, lie in *"the values of quality and tradition"* encapsulated in their brands. So far, so good. But how can this be measured? And **what are the policy implications for the countries where such firms are based?**

Les Notes du G-MonD

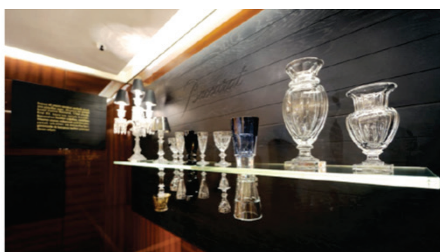
Identifying and measuring exports of luxury goods

To demonstrate the particularities of the luxury goods sector, Fontagné and his colleagues in the G-MonD group at PSE first had to overcome a major hurdle: **the lack of official data on exports of luxury goods**.

Figures from national customs authorities provide a breakdown of products by type but make no distinction between luxury goods and similar products of lower quality and price. To overcome this hurdle, the G-MonD team adopted a two-pronged strategy, drawing both on macro-economic data for trade flows and micro-economic data for exports by individual companies. Crucial to their study was the fact that **many French luxury goods producers are members of a professional body, the Comité Colbert**. That gave them an objective criterion by which to identify luxury goods as a specific trade category.

In order specifically to examine the performance of luxury goods exporters in the context of globalization, Fontagné and his colleagues first began by identifying all of the products sold by companies belonging to the Comité Colbert. They then searched for categories including similar products in publicly available trade figures for 176 countries worldwide.

Out of a total of more than 5,000 product categories, 416 were identified as corresponding to items produced by Comité Colbert firms. These were then divided into 23 broad product groups, which in turn were sub-divided into eight sectors: tableware, home decoration, clothing, wines and spirits, perfumes, jewellery, bags and shoes, and confectionery. Taking national export returns for each product category, and after excluding outlying price variations, **the research team ended up with data covering 88% of the value of trade in these categories and 96% of the volume**. They then defined the luxury end of the market for each product category as **the top decile in terms of unit values declared for export**. This left them with a segment amounting to less than 5% of the total value of exports in the overall sample base and a mere 0.4% in volume terms. European countries, led by France, Germany, Italy and Switzerland, emerged overwhelmingly as the main exporters of luxury goods, followed by China, Japan and the United States. These figures, however, only gave an overall picture of trade flows, without indicating the performance of individuals companies.



In the next stage of their research, the G-MonD researchers moved to the micro level, **cross-referencing the national trade data with export data for specific companies**. Drawing on the customs declarations of members of the Comité Colbert, they identified what products they exported to which countries. Using those data and parallel data for other French firms exporting similar products at similar prices – which thus qualified them as members of the luxury goods sector as well – the team then analyzed flows of luxury goods to specific markets.

Selling more products at higher prices to more distant destinations

What emerged from their analysis was a striking demonstration of the difference, not only between luxury houses and other firms selling products of a similar type but of lower quality and price, but also between companies belonging to the Comité Colbert and other luxury houses not members of this association. On average, **French luxury houses sold a greater variety of products to a wider range of countries and to more distant destinations than did non-luxury exporters**. Companies belonging to the Comité Colbert drove this differential, with a very high product and destination diversification. Neither distance from markets nor higher prices seemed to limit their ability to sell, offering the promise of favourable prospects as more and more emerging nations integrate into the global economy.

The Comité Colbert

Founded in 1954 by Jean-Jacques Guerlain, a scion of one of France's most prestigious perfume families, and named for Jean-Baptiste Colbert, who as Louis XIV's finance minister played a lead role in the development of French craftsmanship, the Comité Colbert groups 78 French-based companies in sectors ranging from hotels and haute couture to chocolate and champagne. While some of its members are of relatively recent creation, others have pedigrees stretching back to the 18th century and even beyond. They share a commitment to quality and to cultivating the prestige of France's "art of living". The Comité Colbert's publicly stated mission is to promote the image of the French luxury sector abroad.

The twin values of craftmanship and cultural tradition

How do they achieve this? **In Fontagné's view, the answer is two-fold**.

On the one hand, the Comité Colbert both groups some of France's most dynamic luxury houses and is itself extremely active in promoting the sector internationally.

On the other – and therein lies the secret of French luxury goods' attractiveness – these firms draw on a wealth of French cultural tradition based on appreciation of the value of small-scale production, which sets them apart from the broader range of companies exporting high-end, but mass-produced, products.

In the case of European luxury houses generally, explains Fontagné, *"we are closer to the concept of craftsmanship, to the role of history and culture, in short to a range of factors that go beyond the purely economic."*

Thanks to this combination of tradition, know-how and design, European luxury houses have been able to derive strong advantage from economic growth in emerging markets, in a reversal of a trend that has caused so many problems for other European manufacturers. In an environment of soaring demand for luxury goods and brands with a strong image for quality and tradition, says Fontagné, both French luxury houses and Italian and Swiss companies in the sector have benefited from **a first-mover advantage in emerging markets**.

Responding to future challenges

In the countries where they are based, these thriving luxury goods manufacturers thus simultaneously enhance national cultural heritage and support the provision of well-paid jobs. With respect to economic policy considerations, their performance prompts the conclusion that neither government subsidies nor measures to lower labour costs are of much relevance to such firms. Luxury houses, says Fontagné, operate in an environment where high input costs and high wages are as much a given as high prices. So far, none of these factors seem to limit their ability to sell.

In today's cut-throat market environment, nonetheless, nothing can be taken for granted. Chinese companies, in particular, are encroaching on the European luxury sector's markets, drawing on their own traditions of ancient culture and craftsmanship. **How should Europe's luxury sector and European governments respond?** First and foremost, urges Fontagné, by working hard to maintain respect for craftsmanship and tradition and by taking seriously the issue of intellectual property. And in parallel, both at corporate and government level, by doing nothing that can damage such intangible values as reputation and prestige.

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