Emerging Asian Markets and the Growth of the European Luxury Industry, 1960-2010

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The luxury industry is a perfect case to analyze the competitiveness of regions on the global market during the last fifty years: while Europe has maintained and strengthened its advantage as the largest supplier of luxury goods, Asia holds a key position as an outlet and as one of the most important basis for the consumption of luxury goods. Thus, the objective of this paper is to question the relation between Europe and Asia in this industry, and to shed light on the strategies adopted by European luxury companies to keep their advantage in a constantly changing environment.

We take two main sectors of the European luxury industry as examples, the French fashion industry and the Swiss watch industry. Both experienced a major change during the surveyed period and saw their business model shift from independent family-owned firms to global multinational enterprises (MNEs), like Moët Hennessy Louis Vuitton Group (LVMH, founded 1987) in France and Swatch Group (founded 1983) in Switzerland, both studied in this paper. As for the so-called "emerging Asian markets" since the 1960s, we consider first Japan (1960s-1990s), then South Korea (since the mid-1980s) and finally China (since 2000). Even if "Asia" was often seen as one single outlet from Europe, these three countries present particular characteristics, especially regarding distribution system and customers habits, which led the European luxury makers to adapt their strategies to each of them.

The argumentation is developed in four parts. Part I tackles the postwar growth of the European luxury industry (1960-1980). It give first attention to the organization of the French fashion and the Swiss watch industries, emphasizing the predominance of small and medium-sized enterprises (SMEs), and their system of production relying on artisanal work. Second, we discuss their brand management and show the absence of "global brands" (brands which identity, design and price is unified throughout the world), due to the fact that the small size of these firms made it necessary to work with partners in their outlets and did not allow a control of brands from the headquarters. Third, the use of trade statistics makes clear that both the French fashion and the Swiss watch industries experienced a high-growth during this period and that Asian markets, at that time mainly Japan, became a driving force for their development.

Part II focuses then on the key role of the Japanese market for this industry from the 1960s to the 1990s. It shed light on the strategies adopted by European luxury makers to enter this market. The distribution of European luxury goods was especially taken in charge by department stores, which played a particular role in the diffusion of “new”, “modern” and “exclusive” European products since the interwar years. European enterprises developed specific business relations with Japanese department stores (Mitsukoshi, Takashimaya, Daimaru, etc.), due to their dominant position in this distribution system. The most important strategy adopted at that time by French fashion was licensing agreements, like Christian Dior and Pierre Cardin in the 1960s. Department stores were successful partner to introduce the Parisian upcoming fashion into Japan, because they had a certain upper-middle loyal customers. Japanese customers enjoyed remarkable income growth and wanted Western style products. Besides, through license agreements, European luxury firms contributed largely to the technical progress of the Japanese fashion industry. As for watches, they were distributed in Japan through the traditional domestic distribution system, the subsidiaries opened by Swiss watchmakers being only active on imports.

Part III exposes then the mutation of the European luxury industry since the 1980s. Thus, it experienced then a major shift, characterized by a threefold trend: first, the emergence of MNEs, founded and developed through the takeover of former independent luxury goods manufactures; second, globalization of brands, a new strategy embodied by the worldwide spread of flagship stores; third, democratization of consumption, especially for “new luxury” or “affordable luxury” brands. As a result of this structural change, this industry is one of the most fast-growing sectors since the 1990s.

Finally, part IV will take the issue of the shift from Japan to emerging Asian markets (Korea and China) since the late 1980s. Japanese department stores began to lose their competitiveness due to the decrease of their sales, caused by the downward economic trend, and to the new global brand management of European luxury companies which tended to develop their own stores and gave up license agreements. The competitiveness of these department stores was related to specific socio-economic conditions, such as the high growth of domestic luxury market and European companies without the marketing strategies or the knowledge to control directly their sales in Japan. Moreover the target markets for European luxury MNEs were moving to other Asian emerging markets. South Korea was the first one, since the mid-1980s, around the time of Seoul Olympics. Like in Japan, the Korean luxury market was expanded by duty free shops, mainly used by Japanese tourists, and then by Korean department stores (Lotte, Hyundai, Shinsegae, etc.) for domestic customers. China emerged as the second key basis for growth of luxury business since 2000 and became one of the biggest luxury markets in the world. Even if Japanese department stores opened few subsidiaries in this country, there are secondary players in the distribution of French fashion and Swiss watches in China. The European luxury MNEs have rather developed partnerships with strong Chinese – often Hong Kong based – trading firms which control a wide network of wholesale and retail partners. The distribution strategy adopted for China relies on the opening of numerous flagship stores (single brand store) throughout the country, rather than luxury shopping malls like in the United States or department stores like in Japan and Korea. This is not only the result of the new brand management strategy implemented in the late 1990s (globalization of brands), but also a key way to educate customers to European luxury values, a necessary action in a country newly open to Western culture.

In conclusion, we discuss the roots of the competitive advantages of Europe and Asia in the luxury goods industry in two directions. Firstly, from the perspective of European luxury MNEs, it appears that Asian emerging markets, since the 1960s, played a major role to support their growth. Their success comes mostly from brand management which emphasizes a set of values (European lifestyle, excellence and quality, tradition and craft, etc.) with a high impact toward Asian customers. This is a competitive advantage locally rooted, not transferable and strongly linked to the “Europeaness” of these brands. Secondly, from the perspective of the Asian business partners of European luxury MNEs, we underline the competitiveness of the firms able to act as intermediaries with domestic customers, due to their ability to introduce and diffuse goods embodying European values. But their competitive advantage is often limited to their own domestic market and difficultly exportable.