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Why luxury firms are often family firms? Family identity, symbolic capital and value creation in luxury-related industries

¿Por qué las compañías del sector del lujo suelen ser empresas familiares?
Identidad familiar, capital simbólico y creación de valor en la industria del lujo



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I. VALUE CREATION IN LUXURY. WHAT IS IT ALL ABOUT?

Luxury is a concept that is commonly found today in management jargon and academic literature. The word is widely used in reference to firms, products, brands and even businesses- such as yachting, private jets, gems and jewels. Often, the luxury tag is affixed to any good or service with some degree of symbolic value -meaning a value for customers that goes beyond functionality -and that is relatively high priced.

Even if wealth is an important driver for luxury consumption; however it is not the engine. Luxury is, in fact, a cultural concept loaded with an individual associated with a personal pleasure and a social meaning (mainly related with a public statement in relation to other products or



EXECUTIVE SUMMARY

Starting from the observation that many luxury players are family business, the article focuses on the different parallels between characteristics of family firms and those of luxury companies, to reach the conclusion that most of the family characteristics are essential to compete in that particular industry, both in terms of competences and values. The unique bundle of resources family firms own implies the potential to provide an advantage over non family firms in luxury-related industries.

RESUMEN DEL ARTÍCULO

A partir de la evidencia empírica que muchas empresas en el sector del lujo son empresas familiares, este artículo se centra en los diferentes paralelismos entre las características de las empresas familiares y aquellas propias de las compañías que operan en el sector del lujo, para llegar a la conclusión que la mayoría de los rasgos distintivos de las familiares son esenciales para competir en esta industria en particular, tanto en términos de competencia como de valores. La fuente de recursos únicos que tiene la empresa familiar supone una potencial ventaja frente a las no familiares, en las industrias relacionadas con el sector del lujo.

services). This duality makes the concept subjective among people and societies. Even if from a customer's perspective luxury is subjective, managers and owners should have a clear vision on how to approach the business. The fundamental differences between a luxury or premium product are in the day to day management. Observing actions and decisions of different firms that claim to compete in a luxury marketplace, we can notice that they interpret the luxury concept within different strategies, adopting also very distant business models. It is possible to identify different approaches - placed in a continuum- to a luxury strategy. They range from a "hard" or "soft" luxury approach (Carcano and Ceppi, 2010) that means the uniqueness of

custom-made or small series offered to a selected, often refined, group of clients; to the so called "mass luxury" approach that refers to the industrialized manufacturing of line of products that are marketed to a wide variety of customers. In this case, we should refer properly to a premium approach to the competitive marketplace.

The two typical luxury strategies (hard and soft) are characterized by the creation of symbolic value throughout the product. A luxury object is durable and may increase its value with time. The symbolic value of a luxury item is based on internal cues (meaning human touch, history and complexity of manufacturing) and on external cues (more in particular, they refer to rarity, exclusiveness and heritage). As the creation of symbolic value is a core competence of a luxury player, we define below more in detail each of the variables identified above.

- Human touch, a proxy of attention to details, has a relevant role both in production and in the relationship with the clients;
- Any luxury brand should have a true and authentic patrimony of history with give consistency to the brand;
- Complexity of manufacturing. The value of a luxury product exists prior to the clients. It has to be produced in a place that is holds some legitimacy and that is consistent with the symbolic capital of the brand. This last one can be also enhance with a production process that speaks of excellence and rarity (Kapferer and Bastien, 2009);
- Rarity – production, distribution or information based - is central in the concept of luxury;
- Luxury items should be exclusive due to their role of social stratification;

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- Lastly, the heritage of the brand – one of the most relevant component of symbolic capital - should be cultivated with attention

From the one hand, the hard luxury strategy is product/service focused. The symbolic value is mainly based on internal product cues. The firms that compete with this approach tend to internalize the tangible resources, like manufacturing, and they leverage on intangible resources that are product-based. They invest consistently in research and development, product sophistication - from a technical perspective and not only from an aesthetical one – and in training of their craftsmen. Some of the *Haute Horlogerie* players can emblematically represent a hard luxury approach. Their value creation is focused on *métier d'art*, product aesthetics, industry heritage and brand & reputation (Carcano, Ceppi, 2010).

From the other hand, the soft luxury is a brand-based approach. In this case, firms tend to partially externalize some of the tangible resources they need. They leverage on intangible resources that are firm-based, mainly the brand equity and the brand portfolio. Therefore, their investments are focused more on branding and retailing activities. Ermenegildo Zegna, global leader in menswear, is an emblematic case of a soft luxury approach.

The business model will be different, according to the different luxury strategy. The first approach relies on a single source and stream of revenue. Firms are focalized on their historical core business and they often produce only one product category. Fixed costs, mainly payroll, are the drivers of their cost structure. Instead the soft luxury approach relies on multiple sources of revenue (not only sales but also royalties for example) and a hybrid stream. The cost structure is mainly semi-variable, with real estate and rents- mainly for boutiques and flagship stores - as the primary sources of costs.

2. BEING SUCCESSFUL IN LUXURY

Generally speaking, luxury players, even if well-known brands, are medium-sized companies that are facing a global and demanding segment of clientele.

In the luxury marketplace there is a clear dilemma between economic and symbolic competition (Schwimmer, 1972). The economic side, related to the functional part of the product, is objective, easy to define and measurable. It obeys to the industrial logic of economies of scale and cost reduction. The symbolic side, instead, is individual,

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subjective and therefore difficult to manage. It obeys to the logics of network and increasing profitability. Dominance, in the sense of a return above the average, can be reached and maintained using “strategies of symbolic action” (Harrison, 1995). Some decisions are not taken on the basis of economic rationality, like investing thousands of Euros for a 15 minutes fashion show or millions of Euro for an itinerary exhibition. However, they enhance the firm’s symbolic capital in a context where prestige and reputation are critical. According to Bourdieu (1977) the “exhibition of symbolic capital (that is always very expensive in economic term) makes capital go to capital”. Investments in symbolic capital are also crucial as well as, internally, ensure the human stability and the coherence of teams.

Luxury strategies are influenced by the fundamental dilemma between the symbolic capital (Bourdieu, 1977) - an accumulated patrimony of trust, reputation, value, prestige, as perceived by others - and the economic performances. Managers are, in some cases, tempted to over-focus on one of the two dimensions and neglect the other. This may hurt the symbolic capital or the firm’s existence in the long run.

According to Kapferer and Bastien (2009), growing profitability is the proof of luxury brand’s success. In order to maintain a high profitability over the long term, luxury firms should focused mainly on the core trade and they should extend only in a controlled way. The core trade of a luxury firms should always sufficiently powerful to ensure by itself the company’s long term survival. In many cases the core business – meaning the historical business- still accounts for the great majority of the total turnover. This is the case of Louis Vuitton and Gucci and leather goods, Montblanc and writing instruments and so. The offerings of new products, not related to the main area of expertise and in limited quantities, can be seen more an exercise of symbolic power, a sort of “*tournament of value*” (Appadurai, 1986) to enhance or protect the symbolic positioning of a brand (Carcano, 2011).

Top managers in luxury have to manage growth without diluting the luxury symbolic capital and while resisting at the pressure of stock markets. Luxury players are generally small and medium size company with a global perspective. For some of them, diversification may often be the only way to keep growing with a luxury positioning. Based on a recent research (Carcano, 2011), Compagnie Financière Richemont has outperformed competitors in terms of symbolic, market, economic and financial performances.



3. LONG LASTING AND SUCCESSFUL FAMILIES IN LUXURY BUSINESSES

According to Ward (2005), family firms may dominate certain sectors and this is the case of luxury goods and services. Following the Family Business Network definition, 8 out of 10 of the top luxury brands in 2010 in the Millward Brown survey, are managed or owned by a family (**table 1**).

Table 1. Ownership of the most successful luxury brands

#	BRAND	FOUNDATION	REVENUES (2010, ML EURO)	OPERATING PROFIT (2010, ML EURO)	BRAND VALUE (2009 \$ ML)	OWNERSHIP
1	Louis Vuitton	1854	7,581 (1+9) ¹	2,555 (1+9)	19,781	Family
2	Hermès	1837	2,400	668	8,467	Family
3	Gucci	1921	2,666	765	7,588	Family
4	Chanel	1909	n.a.	n.a.	5,547	Family
5	Hennessy	1765	1,664 (5+7) ²	453 (5+7)	5,368	Family
6	Rolex	1905	n.a.	n.a.	4,742	Foundation
7	Moet&Chandon	1743	=	=	4,279	Family
8	Cartier	1847	2,688 (3)	742	3,964	Family
9	Fendi	1925	=	=	3,199	Family
10	Tiffany	1837	2,170	258	2,383	Public Company

Source: authors' elaboration on Millward Brown and company annual reports.

(1) It includes LV and Fendi

(2) it includes Hennessy and Moet&Chandon

(3) it includes also VCA

What is the rationale behind it? Why family ownership is so intertwined with luxury business?

On the basis of qualitative studies, we can say that the peculiar features of most of family-owned or managed business fit almost perfectly with the competitive logic of hard and soft luxury approaches. Therefore, we are going to demonstrate that the unique bundle of resources family firms own implies the potential to provide an advantage over non family firms (D’Allura, Minichilli, in press) in luxury-related industries.

Miller and Breton-Miller have developed a model to explain the key factors of a successful family strategy in business. They identify four main priorities or passions which they call “the 4 Cs”: continuity, community, connections and command. Each of these priorities

gives rise to a set of policies and practises. Continuity refers to the keep pursuing the mission and the core competencies needed to achieve it, community is linked with the desire to unite the team, connection refers with the desire to development of durable relationship with business partners and, lastly, command is the freedom to act and decide speedy and to be innovative in running and renewing the firm. The success of a family in business it is not a matter of owning all the four ingredients but of the ability to combine them in an original way. Applying this model to the luxury context, we can appreciate the importance of a family ownership for luxury businesses

• Continuity

The priority of continuity is assured by the following factors that will be analyzed more in details in the following: history, the cultural mission, the accumulation of business core capabilities, the stability of management and the long term perspective.

As far as history, it has been proved that family business tend to exist longer that their counterparts, which are more subject to M&A. Interesting enough, the great majority of hard and soft luxury players have been founded in XVIII or XIX century and since then they have been successful in carving a niche in the luxury marketplace, intertwining the history of the family and the history of the firm. Some of them are still family firms while others have become public companies.

The competitive strategies of family firms are influenced, more than others, by histories and internal memories that may impact their brand value. This peculiarity is a positive reinforcement for a luxury player. There cannot be any hard or soft luxury approach without an authentic history which gives consistency to the brand, internally and in eye of clients, and timelessness to their objects/services. Heritage is a key value driver in the luxury marketplace. Luxury players often base their strategy on legendary icon products (like, for example, the Portuguese fine watch of IWC, the Birkin bag of Hermès and the Meisterstück fountain pen of Montblanc) that are their best sellers since their launch, often happened many decades ago. They can be revisited time to time to keep them in line with the contemporary taste; however their aesthetics and their identifiers should remain the same as they are a critical component of the symbolic capital.

Secondly, family firms may differ from non-family as the controlling family is likely to have an influence over the strategy. As a consequence, the family drags unit its values, norms and traditions into the business. These family values and tradition, associated with the cultural mission of the firm, often represent an additional intangible resource of the symbolic capital for a luxury firm. The core values established by the Marriott family over 80 years ago – the spirit to serve philosophy – is still, nowadays, the guide to the group's growth and one of the pillar of the heritage of the brand.

Third, in family businesses, the patrimony of resources - according to family business scholars, mainly intangible- and competences (technical, industrial and commercial) is strongly influenced by the family ownership. Family firms tend to be characterized by a specific area of expertise in which they do concentrate the great majority of their assets (Corbetta, 2010). This focalization may influence positively a luxury strategy. In fact, firms operating in luxury marketplace are recognized and often associated with a well identified business core competencies, often associated with the product, that are accumulated along the years. Let's take the example of Bottega Veneta. As other luxury players, they have invested in an internal training center to train the future craftsmen who will be able to create the "*intrecciato*", their core manufacturing expertise and the brand identifier.

Lastly, family owners have the patience necessary to create value in the long run, sometime also sacrificing economic results in the short term. In luxury, time is absolutely crucial. It takes time to create a brand or a reputation in the luxury marketplace. As reported in DeBeers annual report "It will take at least 10 years to consolidate in the competitive world of top-end jewelers such as Tiffany, Graff and Harry Winston". A family ownership represents a positive and strong competitive driver. Furthermore, family shareholders seek not only return on invested financial assets but also maximum return on social, cultural and symbolic assets. The search of symbolic and cultural assets by family members is therefore more than functional with the required exhibition of symbolic capital in the luxury field. Furthermore, growing in luxury, while keeping the necessary exclusivity, is a true challenge. The growth strategy should better follow a "bonsai system" (Carcano, Ceppi, 2010). Only family business can have the patience to go through it.



• Community

Community priority is associated with strong professional values and a team culture. In luxury, designers, artisans and managers should work together, respecting each other, to protect and enhance the symbolic capital without any individualist approach to personal results.

Analyzing the leadership of the most relevant luxury groups, we can see how the feature of a passionately committed leadership typical of a family firm have is well represented. Interestingly, the strategic business decisions are influenced by their leaders, often part of the controlling family: Bernard Arnault, financier, has given rise to a pole in many diverse businesses which has its pivot in the brand Louis Vuitton. Bulgari family, jewelers for generations, has instead focused on the world of jewelry that still represents their most relevant business. Mr. Hayek, consultant, developed an integrated group, focused in watch-making, with a broad portfolio of brands, and finally Johan Rupert has created around Cartier a group of brands active in jewelry and watches, with a limited diversification in other businesses. These leaders seem to drive their group on the basis of their cultural orientation and education that can actually influence the choices of managing a portfolio of businesses and brands (Carcano, Ceppi, 2010).

• Connections

Connections are related to reputation and trustworthiness, to stable relationship with suppliers, franchisees, customers and to the social commitment for the territory.

First, trust, reputation and brands are key elements of value creation in luxury. They can be positively reinforced when the brand name is associated with the founder/s own surname. We can mention Patek Philippe set up by Antoni Patek and Adrien Philippe, Cartier founded by Louis-François Cartier, and Louis Vuitton named after the founder, Louis Vuitton.

Preserving the symbolic capital should be the foundation for all strategic decisions in luxury business. Bourdieu (1977) argues that the accumulation of symbolic capital is just as “rational” as the accumulation of economic capital. It is build over time with costly investments in terms of wealth and energy. Actions that portray symbolic capital enhance the actor’s “credit of renown”. In a luxury marketplace, where there are subtle functional or technological differences

among product offerings, the firm's symbolic capital plays a crucial role in the differentiation strategy. Feeling the presence of a family throughout an organization – in the products, in the communications or in the approach to customers and suppliers- can be an important part of symbolic capital in luxury-related industries where human touch is a critical value creation driver.

Family businesses are influenced by the family native roots and they have a unique social commitment for their native territory. A luxury product is always rooted in a culture and it is expression of a territory. We can mention, as an example, the Ferrari and the Modena area or BMW and Germany. Therefore, a family owned luxury firm may have a further advantage, being associated as brand and as family with a territory. This is the case of Salvatore Ferragamo and Florence and Loro Piana and Biella, just to mentioned few.

Successful family firms develop close associations with the communities where they are located. A luxury brand has to stay true to its roots and be produced in a place that holds some legitimacy for it, like for chocolates in Belgium or for champagne in France. The development of stable network of suppliers in a specific territory is a strategic choice of many luxury players, like Benetti shipyard and its network of suppliers spread around Viareggio.

Furthermore, family firms tend to have long term relationship with employees, or at least a group of them. This may lead to the creation of a cohesive group of people who is strongly identified with the firm and the family. Human capital is an important part of the equity of a luxury brand. Successful luxury firms are based on a team of artisans, designers and managers. Usually employees (mainly workers and artisans) spent their entire career in a single company, often called house or *maison*. This long term relationship may be reinforced in case of a family ownership. For example, at Villa d'Este, top luxury hotel based in Cernobbio, on Como Lake, the superior level of the services is closely connected to the quality of staff. The staff turnover, even if with a seasonal contract, is lower than other large hotels in the same category and, particularly in certain key roles; they can count on highly qualified members of personnel with a strong sense of belonging to the "Villa d'Este family".

• **Command**

Lastly, command passion is guaranteed by a quick decision making process, by originality and courage and by continuous innovation.

The above mentioned long term orientation, often, drives the family business to compete with unique and unconventional strategies, carved out in unusual market niches. According to Kapferer and Bastien (2009), it is crucial to breaking the rules of strategy to succeed in luxury, adopting unconventional strategies. And the peak of the pyramid, in all the industries, is by definition a market niche.

Furthermore, creativity is a strong value creation driver in luxury. Often, in family firms operating in a luxury marketplace, a family member is in charge of or is involved also in the creative process. In this case, the generation passage represents a critical step in the firm's evolution as it adds an additional element of complexity on an already delicate process. Using the word of Mr. Karl-Friedrich Scheufele of Chopard "it is not because you are born a Scheufele that you necessarily know how to make watches" (D. Kenyon- Rouvinez – J.L.Ward, 2005).

Often, family owned firms are created around process or product innovations whose peculiar traits are passed down generation to generation. This transmission of knowledge and know-how is a key competitive driver for luxury firms that base their equity and reputation on product identifiers characterized by manufacturing techniques passed down generation to generation of artisans. Gianmaria Buccellati, the Milanese-based jewelry producer, is recognized world-wide for their renaissance style associated with the honeycomb manufacturing technique. The training on the job of new craftsmen can last years (an average of ten for engravers) to reach a skill level sufficiently high to enable them to work independently. In fine watch-making, traditional skills and tools, which have not changed for hundreds of years, are still be used on a daily basis. The know-how of the firm's master watchmakers is passed on to new generations with training on the job.

4. CONCLUSION

In the first part of the article, we have emphasized the importance of symbolic value creation processes to be successful in luxury. We should ask ourselves if ownership and more in particular being a family business can be considered a factor of a firm's symbolic capital in luxury industries. With reference to this point, it is interesting to notice how the family-owned and control firms, operating mainly with a hard luxury approach, are emphasizing in their communications the role of the family. Emblematic is the case of Patek



Philippe, a Swiss-based fine watch producer. Founded in 1839, it is privately owned and has been in the Stern's family since 1932. The "value of a family watch company", as they stated on their web site, "is that their independence gives them control of their philosophy, their practices, their standards and their vision. 10 unique values reflect Mr. Philippe Stern's vision for the company."

Furthermore, we can appreciate how the two luxury strategies presented in the introductory paragraph can almost fit with Miller and Le Breton Miller archetype of successful luxury brands. With the application of their model to luxury business, we have been able to appreciate the special strengths of family ownership in luxury firms and we can conclude that family ownership is a strong component of the symbolic capital of a luxury firm.

To further appreciated the fit among family ownership and luxury business, the hard and soft approaches can be easily translated in the brand builders and craftsmen family business strategies identified by Miller and Breton-Miller on the basis of two key success factor above mentioned. Brand builders pursuit the continuity of the brand investment and the cohesion of the community, while craftsmen pursuit the continuity of *métier d'art* product-based and the cohesion of the community to keep the excellence.

In conclusion, as we have seen, in many cases the features of family business interact positively with a luxury approach. There is a strong fit among their main characteristics as one reinforces positively the other. This justifies the high presence of family firms in a luxury marketplace.

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NOTE

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