CHAPTER I

INTRODUCTION

In this chapter, the researcher would like to explain the general background of the current problem, research questions, the purpose for the research, research benefits, limitations, and an outline review.

1.1 General Background

According to Saviolo (2009) Luxury brand is considered as "coherent system of excellence" (Gallo, 2016) which means that luxury brand promotes exclusivity, have well known brand, high levels of brand awareness and perceived quality and enjoys customer loyalty (Prendergast, 2000). Luxury product depends on how consumer's positions the value of a brand that is relevant to their individual's desire or preference (Nadine Hennigs, 2012). Some studies had proven that luxury had gives consumers "highest experience and symbolic image" such as social prestige and recognition in the society (Bastien, 2009). In fact, symbolic image in the society motivates consumer's buying decision in order to gain social prestige and self esteem (Zaichkowsky, 2000). Brand name is the most visible aspect that gives consumers social prestige owning luxury items (Okonkwo, 2007, pp. 107-110) or the brand logo itself could also engage consumers with the brand (Mazzalovo, 2008, p. 90).

Desire or preference for luxury brands came from the symbolic brand image that brands can offer to its customers through media, social networks and word of mouth (Pierre Valette-Florence, 2016). To increase the preference in luxury, there

are key dimensions of brand image that shows contribution towards brand preference. First, luxury brands first choose their target customers and see where the customer belongs to in the social class. The customer's "reflected image" is the key for brands to create inspirational values, symbolically connect the people with its status and the goal is to elevate the customers. Second, luxury offers something different by giving uniqueness, exclusivity, high taste, history, originality in designs and creativity. Lastly it's the power that luxury brands bring where they can set the market trends driving the world's tastes and class all over the world. Those are the three dimensions of brand image that contribute towards brand preference.

Perceived quality is an exceptional beauty that embodies tradition and heritage within a luxury product. Luxury offers the highest quality in their craftsmanship with using rare materials made by hand, promoting exclusivity by limiting the products that it's not for everybody and there are only several pieces made with expensive prices, highest service performance especially for its exclusive clients and having a touch of history for every products made such as the brand's tradition and heritage. Luxury redefines what quality means (Pierre Valette-Florence, 2016).

Luxury brands retained on three things for pricing as the typical policies in luxury market, first is being expensive, second is to have limited and rare products and last is to develop in order to expand its customer base (Pierre Valette-Florence, 2016). Perceived prices are measured and built from the intangible measures such as the history, tradition, heritage, country of origin and the

association with famous clients of each product made. So prices are expensive not only because of the rare and premium materials that are used but also the intangible measures. It is also a price to pay in order to gain social recognition and prestige in the society. Finally prices are high enough to show wealth and status in the society in order to make followers unable to follow.

Today, most of the world known luxury fashion brands are owned by huge retail giants such as LVMH (Moët Hennessy Louis Vuitton) and Kering (Paton, 2017). LVMH group is owned by Bernald Arnault, one of the top 5 billionaires in the world according to Forbes ranking in 2018 (Dolan, 2018). LVMH brand is known to have great perceived values and image from its customers (Pierre Valette-Florence, 2016). LVMH owns world known retail luxury fashion brands such as Louis Vuitton a designer fashion brand that had been established since 1854 from France, another French designer brand Christian Dior which established since 1905, Prada, Fendi, Marc Jacobs, Céline, Kenzo, Berluti, Givenchy, Hermes, and more (LVMH 2017 Annual Report: Passionate About Creativity, 2017).. While the Kering group owns Italian designer brand Gucci which established since 1921, Botegga Veneta, 1936 French brand Yves Saint Laurent, British Alexander McQueen, Balenciaga and more (Kering Financial Document 2017, 2017). The brands that had been mentioned above extend its lines from clothing, handbags, shoes, leather goods, jewelries and more.

Shown from Figure 1.1 and Figure 1.2 there's increasing revenue, profit, investment and number of stores in the luxury market, therefore the consumption of luxury products in Asia kept increasing over the year. For LVMH group, the

total revenue had increased consecutively over the years for around 3% from €12,369 million in 2015 to earning €12,775 million in 2016 and increased by 17% from €15,472 million by 2017. In total, LVMH's revenue increased by 20% from 2015 to 2017. The total number of stores also increases by 11% in total from 1,566 in 2015 to 1,769 in 2017 even on 2016 the stores got decreased to 1,508. The profit of the company also increases 28% in total from earning €3,505 million to €4,905 million. So it goes with LVMH's operating investments that increases by around 2% throughout 2017 (LVMH 2017 Annual Report: Passionate About Creativity, 2017). While Kering's report stated that most consumers by nationalities came from Asia by 53% and their annual revenue also increased by 21% from €8,469 million in 2016 to €10,796 million in 2017, its operating income by 33% from €1,936 to €2,911 million and its stores by around 5% total from 1,305 stores to 1,388 stores.
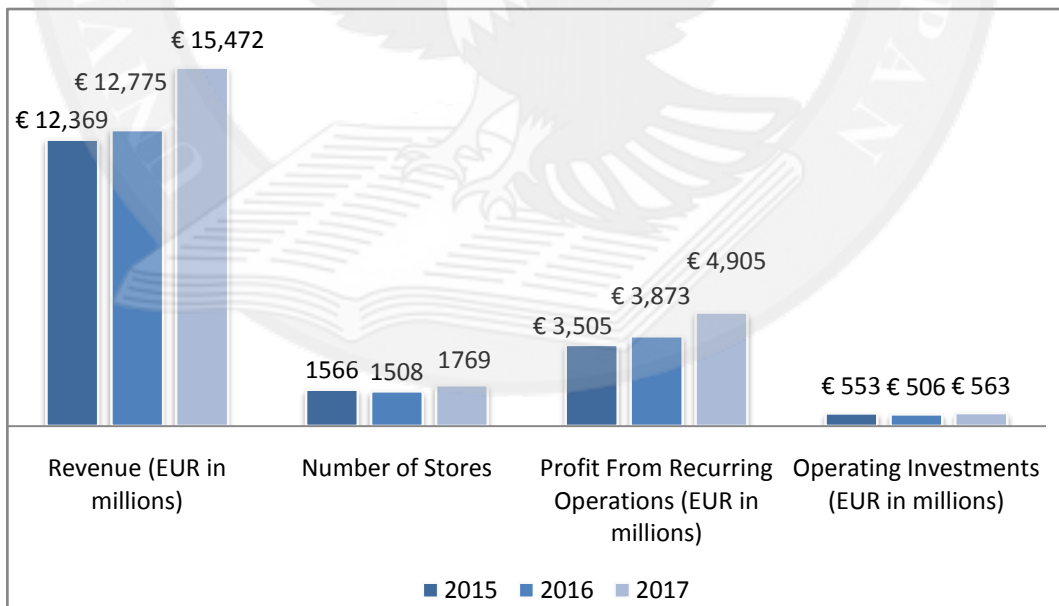

Figure 1.1 LVMH Luxury Fashion 2017 Annual Report in Asia

Source: (LVMH 2017 Annual Report: Passionate About Creativity, 2017)

2017 key figures
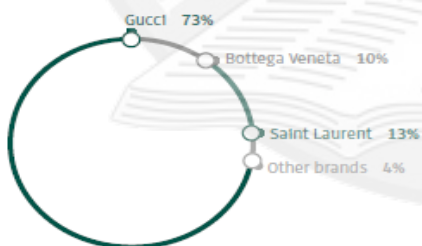
€10,796 million
in revenue

Revenue (in € millions)

2016	8,469
2017	10,796

breakdown of revenue

By region

- 19%
- 34%
- 9%
- 31%
- 7%

Legend:
- Western Europe
- Asia Pacific
- North America
- Japan
- Other countries

€2,911 million
in recurring operating income

Recurring operating income (in € millions)

2016	1,936
2017	2,911

Breakdown of recurring operating income by brand

- Gucci 73%
- Bottega Veneta 10%
- Saint Laurent 13%
- Other brands 4%

1,388
directly operated stores

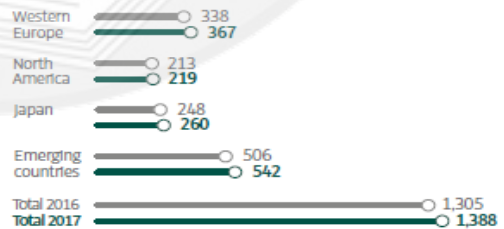|		
Western Europe	338	367
North America	213	219
Japan	248	260
Emerging countries	506	542
Total 2016		1,305
Total 2017		1,388

Figure 1.2 Kering Luxury Fashion 2017 Annual Report

Source: (Kering Financial Document 2017, 2017)

With expensive prices that are marked in luxury products therefore only limited amount of consumers are able to afford luxury and that is the middle to upper class. In Indonesia there are only 5% of middle class and up from the total population who can afford to enjoy luxury items. Even in most countries the population shifts to middle class increases, majority of the population still stays at either economically vulnerable or economically secure levels.
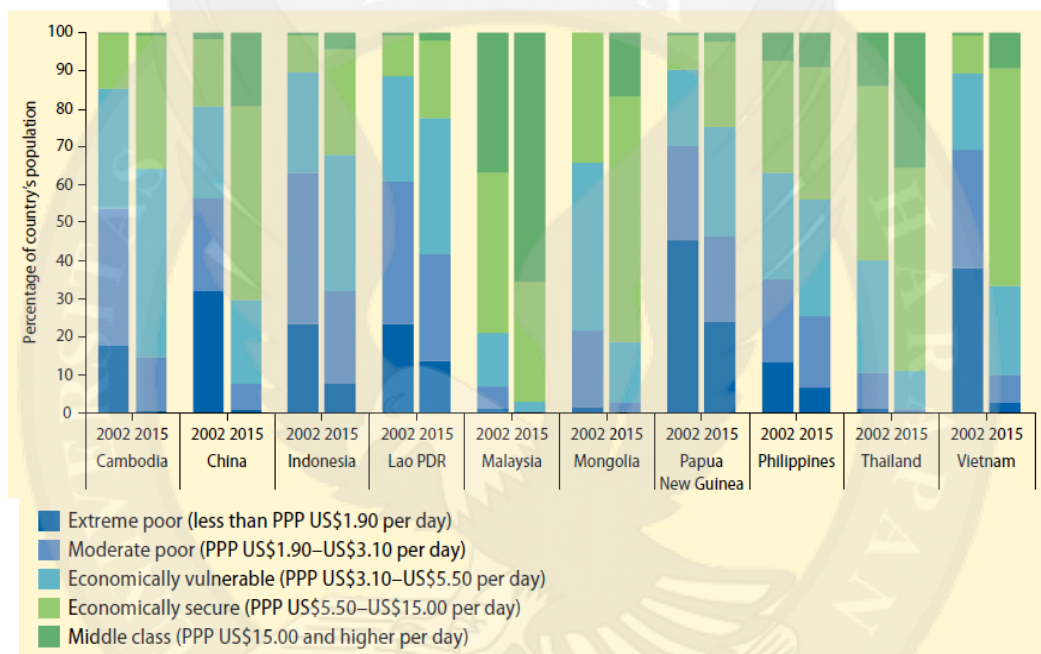

Figure 1.3 Population Distribution by Economic Class and Country from 2002-2015

Source: (Riding the Wave an East Asian Miracle for the 21st Century, 2017)

In Asia, most countries such as Taiwan, South Korea and Japan their basic consumption had decreased by half in order to purchase luxury items and in Indonesia there are 90 million people who are an attractive part of the consumer group that will join the consuming group by 2030 (Rohit Razdan, 2013). With China leading the world market (Smith, 2017), its influence for the economy

could affect other countries such as Indonesia especially in terms Trade Wars that's happening with the US. Indonesia's current condition today could leads to another financial crisis where the rupiah currency got decreased for 7.8% affected by trade wars and emerging market crisis from Turkey, Indonesia's current account deficits could worsen if China's currency devaluates (Salna, 2018). Despite the current condition in Asia with Trade Wars and currency devaluations, the purchasing power in Asia especially for luxury goods kept increasing over the years, as seen through the luxury brands annual report shown as Figure 1.1.
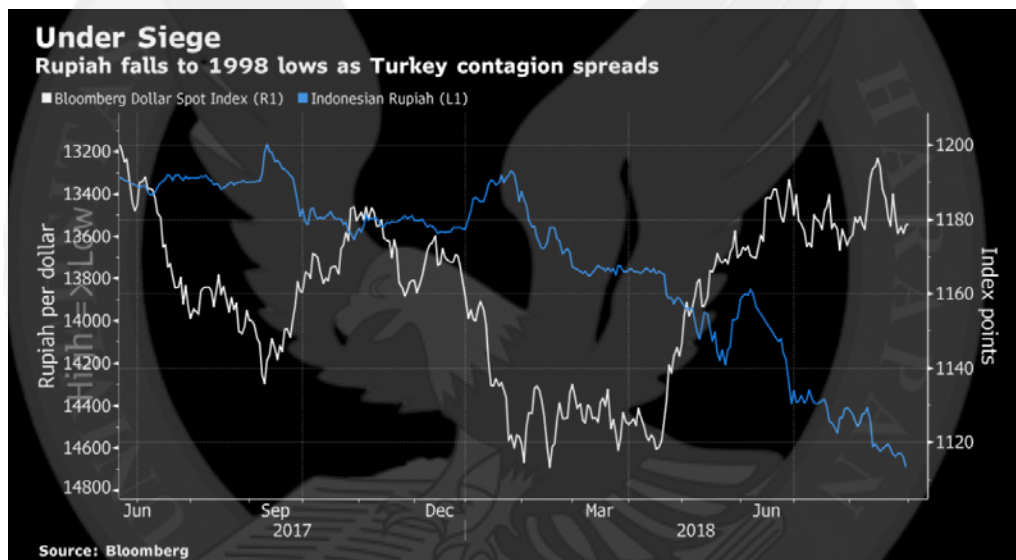

Figure 1.4 Comparison between Rupiah's Currency to US Dollar

Source: https://www.bloomberg.com/news/articles/2018-08-31/rupiah-falls-to-asian-crisis-low-as-emerging-market-pain-spreads

Research shows that not only the social class or income that affects luxury consumption but also the age of the consumers, the target audience of luxury items today are people who are younger than 40 years old that knows the value of prestige, self image and identity and seek for exclusivity compared to older generations (Dr. R. Srinivasan, 2014). Therefore, this research conducts only to

generation that has the biggest population of 80 million people (Flor Madrigal Moreno, 2017) and that is millennial. Members of millennial generations aged around 18-34 years old (Wisenbilt, 2015, pp. 57-58) or those born around the year 1980-2000s. Millennial have different characteristic traits than other generations (Flor Madrigal Moreno, 2017). Millennial values strong brands as a form of self-expression because they are raised at a time when almost everything is marked or labelled and therefore feel more comfortable with strong brands, rely more on the opinions of their friends compared to traditional marketing, continually watch their peers and their friends' social networks to keep up with the latest trends to be able to fit in with the society, wants the image and status of luxury brands to help them define their identity and gain recognition, millennial consumers are more aware of their purchasing power and are likely to spend their money as fast as they earn it, they consider innovations as important, and focus more on style and quality rather than price to buy clothing, watches, handbags, jewelleries and more.

Through the characteristics explained about millennial, millennial are considered as targeted potential market for luxury brands. Reports made by Bain also stated that luxury brands are shifting its targeted generation to millennial where they've forecast that millennial will bring potential growth in luxury fashion market for years ahead (Claudia D'Arpizio, 2017), 40% millennial customers in luxury market by 2025 to be exact (Levato, 2017). Forbes stated that luxury brands are reshaping the luxury markets by leading the millennial way (Solomon, 2017). Luxury brands make innovations by making newer designs that's more futuristic and aesthetic, new price segments and others that will appeal

its new targeted potential market and provide values that are important to millennial generation such as the self-expression they need in the society.

Based on the information observed above, despite the any issues happening in the luxury market, luxury brands are still leading in the world market of luxury fashion industry. The conduct of this research is to identify the factors of preference in international luxury fashion brands especially to millennial generation in Jakarta area.

1.2   Research Questions

Based on the background that has been formulated, luxury products are expensive and there are only limited customers who are able to afford them as shown from Figure 1.3. Although the economic condition today is rough with facing Trade Wars and currency devaluations shown from Figure 1.4 that could hinder customers from consuming luxury products, the consumption of luxury kept increasing over the years shown in Figure 1.1 and 1.2. It is important to find out the reason why those economic problems didn't affect the customers in consuming expensive luxury products. Therefore, these questions came to mind to better improve the research:

1. Does brand image have positive impact towards brand preference of LVMH brands?

2. Does perceived quality have positive impact towards brand preference of LVMH brands?

3. Does perceived price have positive impact towards brand preference of LVMH brands?

1.3 Purpose of the Research

Purposes of this research are:

1. To prove there is positive impact between brand image and brand preference of LVMH brands.

2. To prove there is positive impact between perceived quality and brand preference of LVMH brands.

3. To prove there is positive impact between perceived price and brand preference of LVMH brands.

1.4 Research Benefits

The main purpose of this research aids as partial fulfilment of bachelor degree for International Business concentration. This research also seeks solutions for problems that are present in luxury fashion brands such as the contradictions between preference of luxury consumption and world's condition. Other than that, most importantly this research aims to bring positive impact and benefits for both the companies and consumers especially younger generations, Millennial.

1.5 Research Limitations

Although literature review helps the researcher to have a better understanding about the factors of brand preference in luxury fashion brands, there are several limitations that are inevitable. The variables that are used in this research are limited to four variables where there are three independent variables and one dependent variable. Limitations on the scope of research due to cost and time spent are limited, therefore focusing only on famous luxury fashion brands

such as from Moët Hennessy Louis Vuitton (LVMH) group, the research will be conducted only to millennial generations in Jakarta.

1.6   Chapter Outline

To provide detailed description, this thesis consists of 5 chapters for the research:

CHAPTER I: INTRODUCTION

This chapter provides a brief introduction about the content of the research. Chapter I consists of background, research questions, purpose of research, research benefits, research limitations and outline.

CHAPTER II: LITERATURE REVIEW

This chapter describes the base foundation of theories that are used to support this research. Theories are used to enable the researcher to test hypothesis and problem solving. Chapter II consists of theoretical review, Definition of Variables, Literature Review, Conceptual Framework and Research Model.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discuss about the conceptual and operational definition of research variables that are used for this research, data collection, sampling design, validity and reliability testing and data analysis.

CHAPTER IV: RESULT AND DISCUSSIONS

This chapter consists of findings and discussion obtained from the research through data collection from a quantitative method.

CHAPTER V: CONCLUSIONS AND RECOMMENDATION

This chapter provides conclusions from the results that had been obtained through the previous chapters. Recommendations also consist in this chapter to help future researchers.