# A STUDY ON INNOVATION, SUSTAINABILITY AND COMPETITIVENESS ON LUXURY PRODUCTS

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## ABSTRACT:

*As times change business patterns change. Since the world is going through a slow phase of trade and demand constrained economies, there is a squeeze for luxurious brands to sustain through this phase. The world has fought for equality and inclusive growth, however only when there is inequality to a certain extent, luxury can exist. If inclusivity is into existence, luxury will lose the tag as the product is affordable to all. Thereby this research studies how firms should adapt to changing patterns and still hold the luxury tag and innovation for sustainability.*

***Keywords:*** *Product Innovation, Luxury Innovation Strategy, Innovation and Competitiveness*

## 1. INTRODUCTION

Innovation is the fundamental factor for building the competitiveness of a firm over the rest. Innovations are usually incremental or radical. As Joseph Schumpeter says in his works that innovation is different from invention and that a successful firm (Schumpeter, 1934)focuses on two important factors which are innovations and entrepreneurship. It is important for every firm to create a value for every product which could be termed as "value creation" and it is more important for firms to "value capture" (Pitelis, 2009). As (Vivek, 2017) cites firms which innovate are the only firms which are able to sustain over their rivals. It could be a firm or a nation and they have to possess the competitive advantage to be better than their rivals and when the carry characteristics to be better than their rivals, they invest more on innovation and sustain the competitive advantage. As (Barney, 1991) cites every firm needs to possess four important characters to create a sustainable competitive advantage and those are

1) Value

2) Rareness

3) Inability to be imitated

4) Inability to be substituted

Value: A product has to create a value which has to be for the consumer to feel happy utilising. To create a value it is important for the firm to deliver the product with the highest quality better than its competitors and at the price that the consumer feels it is worth the value and utility. The value of the product is incrementally innovated constantly better than the rivals and to be best in the market.

Rareness: The product has to hold its monopoly or create a positive network externality to be in the market. For eg: Google has a created a positive network externality that every mobile or laptop manufacturer has to have a tie up for its services. This helps in google achieve the dominance and be a monopoly. Even though rareness is not possible to be sustained as there would be new rivals to diffuse the technologies, a firm can prolong it with the help of patents and other possibilities.

Inability to be imitated: Firms when they create possibilities for the inability to be imitated are able to prolong their business dominance. Inability to be imitated is possible during the time when the firm has a sophisticated technology, skilled workmen, raw materials and resources and legal policies preventing imitation. However imitation is bound to happen in most cases and technologies get diffused in the market with time.

Inability to be substituted: A product alternative is bound to eat into the profits and bound to collapse the entire market. Thereby the product should be created with such an ability to be absolutely rare, wanted and an inability to be substituted.

Innovation is structurally classified into five parts (Karol, 2013)

- A New product launch of an already known product (Product Innovation)
- Applying new methods of production or product sales that has not been introduced in the industry (Process Innovation)
- Opening of a new market or a segment that has not been previously been represented by the industry.
- Acquiring of new sources of supply of raw materials or semi-finished goods.
- A new industry structure such as creation or destruction of a monopoly position (Disruptive innovation)

Ideas of invention and innovation are not the most important things for an economic development but it is on the implementation. As soon as a new idea is invented and innovated, what matters in a macro economic investment is the diffusion in the market. As soon as an idea is innovated by a firm, other firms realise the potential in the market and they try to imitate and diffuse it in the economy thereby expanding the market. This leads to the benefits in the economic development. This is possible only when the leadership is strong in executing the innovation in the market. In macroeconomic conditions implementation of the discoveries, transformation of ideas into existence for a economic value benefitting the society and diffusion are more important than just invention and ideas. Successful firms are distinguished based on their sustainable development reliant on their ability to learn and develop innovative solutions (Taps, Brunø, & Nielsen, 2013).

## 2. LUXURY PRODUCTS AND INNOVATION:

Since the world is going through a global economic crisis, the pressure is extremely high on firms to sustain the market presence. Apart from the global economic crisis, there are other challenges such as demand constrained economies, high competitiveness from low cost manufacturing/ production destinations etc.

Luxuries are possible to exist only in systems when there is inequality and that leads to demand being higher. Since the world is moving towards equality and an with the UN promoting the Millennium Development Goals with building an inclusive society, there remains a challenge of creating luxuries. This has led to consumption of luxury product by the emerging nations and those products which were just available to a selected few of the income category are now forced to produce in low cost markets and sold at lesser prices in order to increase the market share in order to survive. Times existed when luxurious products were available for a few in order to hold the tag of luxury, however with the downturn of the economy, the disproportionate wealth which was in equal has now moved towards east from west and has become balanced to an extent. Thereby luxury firms are forced to either stay in the category of luxury by keeping the product cost higher than competitors but hold a low market share or shed the tag of luxury and focus on sales. Products such as laptops, smartphones, airlines, luxury hotels etc which were luxury products at a point of time, diffused with low cost products emerging from different nations and since the cost of the products reduced rapidly in order to capture the markets. Though it could be cited as positive network externality as the reason for increase in sales and subsequent reduction in cost with the emergence of low cost manufacturing nations. Similarly, brands which were premium brands have shed the tag and made themselves available to all such as Nike, Michael Kors, Harvard, Apple, Bose etc. The named products are leaders in their respective industries however they have ensured that their products are not only for the selected handful but reaches out to the majority who can afford thereby increasing their market share and holding their premium tag. Thus it could be understood that firms want to hold the luxury tag and yet balance their market share since competitors have increased and the customer also has a variety of choices. The emerging economies are leading the consumption of luxury products with 50% of the world consumption led by China (Atwal & Bryson, 2014). The challenge is that how do luxury brands ensure the quality superiority and the price leadership. The luxury firms target the consumers of high economic strata and therefore they have to sell their value proposition of the product through rational and emotional benefits. If the phenomenon of quality superiority and price leadership have to exist then a product has to be a monopoly in the market or create a model of positive network externality.

The work of (Doyle & Moore, 2017) cite that luxury brands of US and British are subjected to five main dimensions though mainly applicable to retail luxury products.

1) Entrepreneurial Luxury
2) Technology Transfer
3) Multi Channel, digital
4) Casual Luxury
5) Product Specialisation and Accessible luxury

Entrepreneurial Luxury pertains to individual entrepreneurs who create brands on individual collections such as exclusive clubs for men or women in terms of fashion good etc. such as Calvin Klein, Burberry, Louis Philippe etc.

Technology Transfer Luxury could be stated as when craftmanship for producing or creating is transferred from generations to generations to maintain and create the luxury[1].

Multi Channel, Digital is cited when the e- commerce based digital technology takes over from the traditional style of experiencing the product. Firms ensure to increase the luxury service through the digital platform to make the consumer experience the brands and the product.

Casual Luxury is termed for sports and athletic products. Since premium exists in every industry and product, there is a luxury created in the same. Casual luxury is applicable to products which are used with a sports touch such as sports collection of Ferrari, Rolex watches with Federer or Nike Golf for Tiger Woods. Etc.

Product Specialisation and Accessible Luxury is applicable when certain brands focus only on producing a certain product and constantly improvise with collections in the same products such as Satya Paul for Ties collections, Davidoff Perfumes, Imperial Leather Body Washes etc.

## 3. CHALLENGES IN MAINTAINING THE QUALITY SUPERIORITY:

- A premium luxury brand is expected to maintain its quality superiority such as Rolls Royce, Rolex, Hublot, Louis Vuitton etc. They carry the asset of quality superiority and inherited brand value which makes them carry the responsibility of ensuring the quality to the expectations. Thereby this is possible only with strong innovation both incremental and radical.
- Even though premium products are seen in the market as leaders and delivering radical technologies, the rivals offer similar product produced with low quality resources and cost advantageous. This leads to opening of the market, however in terms of volumes, the low cost sellers are at advantage.

[1]https://archeorient.hypotheses.org/3696

- Luxury Products have to be customer centric[2] more than the other factors such as design, craftmanship and customer service. There is an important link between product performance and customer service which builds the trust for the consumer.
- Rising cost of raw materials, labour wages are a few factors that affect the product superiority.
- Firms fail to innovate if the products launched fail to get back the return on investment and thereby do not move to the new technologies which affect the sustainability and performance of the firm in the long run.
- Certain firms fail because they do not adapt to the changes of times and hold on to the traditional formats. Luxury firms should also learn to adapt to disruptive changes and customer moods depending on generations. For Eg: A luxury firm like Rado watches should also build technologies of smartwatches[3].

## 4. CHALLENGES FOR LUXURY PRODUCTS DUE TO COST ADVANTAGES:

- The emerging markets have created the advantage of low cost advantage products which is a big challenge as they have the advantage of catering to the mass segments. This creates challenges for luxury products and in order to compete with the low cost products, the luxury products also outsource production to bring the costs down. However this would also diminish the brand value.
- Firms that do shed the luxury tags have the balance between the tag and sales production which makes them very difficult. In times when the world is having a global economic crisis and with demand constraints the luxury firms have to pass through bad phases. In order to overcome this most luxury firms prefer to offer products at discounted prices during particular seasons. Firms also offer in service instead of direct discounts such as extending the period of customer service with an added cost[4].
- The other big challenge that luxury makes face are the e- commerce though applicable to selected products and luxury products still do not wish to go aggressive on e- commerce in order to make the customers feel the ambience of the product from their outlets. They believe that luxury products carry the value when it is displayed. For Eg: Bose which wants its products to be experience by its consumers have closed down many outlets in North America, Europe, Australia and Japan[5]. Since consumers prefer online purchases due to various reasons from cost saving to time, the outlets are more expensive to be maintained in terms of financial costs, labour costs, maintenance costs and environmental costs such as utilisation of energy

[2]https://jingdaily.com/the-danger-for-luxury-brands-that-fail-at-storytelling/
[3]https://www.theverge.com/2020/2/5/21125565/apple-watch-sales-2019-swiss-watch-market-estimates-outsold
[4]https://hbr.org/1983/07/quality-is-more-than-making-a-good-product
[5]https://www.theverge.com/2020/1/15/21067715/bose-shutting-down-retail-stores-layoffs-north-america-europe-japan-australia

etc. So luxury firms unless it is not required should build strategic ways of changing to the buyer preference. Though it cannot be applied to all luxury category products, the firms should also understand that luxury firms have to be flexible to consumer patters and the age, preference of shoppers.

- Though process innovations help, luxury firms should never decrease the quality of products in order to compete. Investments on innovative processes may have influences on products (Giacosa, 2014).

## 5. CONCLUSIONS:

Luxuries could be defined as a concept which varies from countries to countries based on the purchasing power, demand and the product quality. A brand which is an ordinary brand in a developed market will seem a luxurious product in an emerging market. Thereby firms have a thing line of difference between keeping the brand luxury prone with few customers and small market share or to expand with a larger market share and available to many. However when a luxury is available to many, it dilutes the tag of luxury but the competition and weak demand and the need for sustainability forces luxury brands to evolve and re-position themselves. The firms are therefore forced to distinguish between holding the tag and pulling consumers or pushing the luxurious products to capture the market and still stay dominant amongst competitors in changing times and business patterns.

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