

# HOW TO DEAL WITH LUXURY AND PRESTIGE GOODS IN BUSINESS?

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**Abstract** The luxury goods market is growing constantly, despite the fact that there is no unified definition of the basic terms such as 'luxury' and 'prestige'. This can lead to misunderstandings and wrongly created synonyms. It is for this reason that, from an academic and organisational point of view, there is a distinct need to define the fundamental concepts and their differences in relation to the world of luxury and the luxury market, which is the main goal of this paper. The paper is constructed as a review paper. It begins with a comparison of various authors' views and definitions of 'luxury' and 'luxury goods'. This is followed by defining the terms 'prestige' and 'prestige goods' by reviewing authors' discussions based on this area. The research paper concludes with the design of a model for the future treatment of such goods in business. The term 'luxury' is a wide concept that has evolved over time. To understand the meaning of luxury, it must be understood as a whole. Prestige, meanwhile, goes hand in hand with the luxury goods market. This paper contributes to a better understanding of luxury and prestige goods in academic science, which can be applied for organisational purposes.

**Keywords:**

luxury,  
luxury goods,  
luxurious,  
prestige,  
prestigious

## 1 Introduction

The first mention of the word 'luxury' dates back to Roman times when 'luxus' was defined as excess, extravagance, indulgence (Berthon et. al., 2009; Oxford English Dictionary Addition Series, 1997) as well as debauchery (Featherstone, 2016). The wide extent of what luxury represents is proving a problem for scholars in creating a unified definition (Brun & Castelli, 2013). Ko et. al. (2019) mention that *'The American Marketing Association dictionary terms do not contain a definition of luxury.'* Even though defining luxury is challenging, authors agree that it must be treated as a multifaceted concept (Brun & Castelli, 2013), because it relates to something that is more than just 'material' (Berthon et. al., 2009). Luxury is a concept that is both ambivalent and complex (Kapferer, 1998). There are four main categories of luxury goods: fashion, perfumes and cosmetics, drinks (wine and spirits), and jewellery. These categories were recently expanded to include cars, hotels, etc. (Amatulli & Guido, 2011; Jackson, 2004; Chevalier & Mazzalovo, 2008). When reviewing the literature on luxury, the word 'prestige' is often encountered. Light (2020) points out that these are different concepts that are often mistaken for synonyms. Ciornea et. al. (2011) agree that luxury and prestige have different meanings.

Therefore, in this paper the authors have examined the question of how to form more uniform treatment of this group of goods in business on the basis of various known definitions of luxury and prestige goods.

There are many different interpretations that can lead to all types of confusion when delving deeper into the matter. For example, how can the market share and size of luxury and prestige goods be determined when calculations and analyses depend solely on authors' subjective views? Based on this recognition, the authors of this paper came to the conclusion that there are different assessments of the size of the luxury market. Shen et. al (2020) (as cited in McKinsey, 2019) stated that the size of the luxury market in 2019 was worth approximately EUR 1.3 trillion (worldwide and overall), whereas for the same year Fortune Business Insights (2019) stated that the size of the luxury market was USD 316 billion (EUR 290 billion). It is for this reason that the authors of this paper recognised the need for a more stable factor to measure the size of the luxury market. Therefore, research was carried out on the Top 100 companies operating on the luxury good market that are recognised by Deloitte. The aggregate net luxury sale of goods of the Top 100 companies was: EUR 196.73 billion in 2013/14; EUR 203.89 billion in 2014/15; EUR 194.71 billion in 2015/16;

EUR 199.3 billion in 2016/17; EUR 226.85 billion in 2017/18; EUR 258 billion in 2019; EUR 231.45 billion 2020 (Deloitte, 2015; Deloitte, 2016; Deloitte, 2017; Deloitte, 2018; Deloitte, 2019; Deloitte, 2020; Deloitte, 2021).

Despite the COVID-19 pandemic, in 2020 the luxury market still recorded the second highest sales of luxury goods since 2013/14. Furthermore, forecasts for the luxury goods market are promising, ranging all the way from a compound annual growth rate (CAGR) of 3% (2020-2025, TechNavio, 2021) to a 3.72% CAGR (2022-2027, Statista, 2022).

## 2 Theoretical framework

### 2.1 Luxury goods

With his Theory of the Leisure Class (1899), as cited in Piccione and Rubinstein (2008), Veblen is considered the founder of the theory of irrational customer behaviour, whereby individuals buy luxury products to impress others and confirm their status by signalling their wealth to others. Luxury can be seen as goods or services that are comprehended as unusual and special. This leads to infrequent purchasing, which distinguishes them from ordinary goods (Walley et. al., 2013; Hansen & Wanke, 2011).

Dubois & Czellar (2002) simply define luxury as *'everything that is more than one needs'*, wherein luxury is linked to *'perceptions of comfort, beauty and a sumptuous lifestyle'*. Based on Kapferer (2010), luxury represents the highest quality and limitless creativity. According to Ng (1987), price is the ultimate factor when it comes to luxury goods, because they *'are valued because they are costly'*. Brun & Castelli (2013) agree that perceived high cost is necessary but at the same time not a sufficient condition. This was proven by Amatulli & Guido (2011), who indicated the attributes linked to luxury goods, while consumers highlighted quality, craftsmanship and visual aspects, such as design and aesthetic value.

Luxury goods contain three important dimensions of instrumental performance by which they are distinguished from ordinary goods. These dimensions are functionalism, experientialism, and symbolic interactionism (Vickers, J. S., & Renand, F., 2003). Furthermore, Dubois et. al. (2001) list six facets to define and structure the concept of luxury. The first is excellent quality, followed by (as

previously mentioned) high price, scarcity and uniqueness, polysensuality and aesthetics, ancestral heritage and personal history, and superfluosity.

## 2.2 Prestige goods

As previously mentioned, the term 'prestige' is often falsely identified as luxury. Trubitt (2003) suggests alternate terms for prestige goods such as 'elite goods', 'status goods', 'primitive valuables' and even 'wealth'. As the author states, these are valued raw materials or manufactured objects that are used to establish and maintain social and political relationships. According to Barkow (1975), prestige forms an important factor in how people augment their social status in relation to other members of their social group. According to Dubois & Czellar (2002), prestige is '*a subjective evaluative judgement about the high social status of people or inanimate objects.*' Emotional reactions are often followed by appraisals, state Bagozzi, et. al. (1999) (as cited in Dubois & Czellar, 2002). Lee et. al. (2019) support the statement that people purchase prestige goods with the intention of differentiating their social class from that of others. Hayden (1998) agrees that people use prestige goods to demonstrate their wealth, success and power. As the author says, it is about the purpose for solving either a social problem or accomplishing a social task (e.g. attracting the opposite sex, allies, labour or even bonding members of social groups) by displaying success. Lee et. al. (2019) list prestige as including conspicuous values, uniqueness, social and emotional values, and quality value. Adams (2011) made an interesting statement that a wide range of products in use are not prestigious (even luxurious ones) because they are no longer unique.

The benefits gained from being prestigious could, over time, lead to an evolving desire for prestige and also to behaviour oriented to seeking it out (Aimée, 2008). One of the starting points could be '*informants refer to feelings of liking, awe and admiration toward prestigious people or objects.*' (Dubois & Czellar 2002). The authors of this paper thus came to the conclusion that, as a people, we have a tendency towards finding and establishing a position that will meet our needs for recognition and compliments in a particular social group.

### 3 How to consider LUXURY and PRESTIGE goods in business

In both theory and practice there is a need to have a simpler and clearer definition of luxury and prestige goods. This would provide a better understanding of the terms, wherein differentiating between luxury and prestige can positively affect an organisation's business results on the luxury goods market. Organisations are currently facing challenges in terms of how to treat luxury and prestige goods more efficiently in their businesses. It is for this reason that the authors of this paper developed a model based on previous definitions of luxury and prestige for the needs of business. The model shows that a product (e.g. cognac) can be both luxurious and prestigious at the same time.

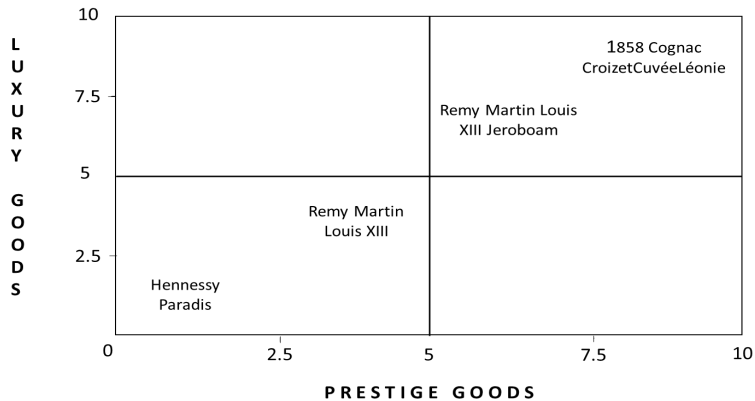
The model provides organisations or individuals with an answer to the question of whether a product is: luxurious, prestigious, or luxurious and prestigious at the same time, and what level of luxury and prestige a particular product contains.

**Table 1: Identifying levels of luxury and prestige**

Level of luxury	Level of prestige
Is the product superfluous?	Am I establishing and maintaining a social relationship with this product?
Is the product considered unusual?	Would society connect the product to people of high(est) status?
Does the product signalise wealth?	Would society consider me wealthy if I had this product?
Is the product of the highest quality?	Would society recognise the superior quality of this product?
Does the product demonstrate exceptional creativity?	Does having this product reflect success?
Is the product unique and not mass produced?	Would society value this product as unique?
Is craftsmanship part of the product?	Does having this product demonstrate power?
Do I get a perception of beauty when looking at the product?	Is this product conspicuous?
Does this product portray a sumptuous lifestyle?	Can this product trigger emotional value?
How much does the product cost?	This product is not widely available.

To determinate levels of luxury and prestige based on the table above, the respondents were asked to answer each question (and the one statement) with a 'Yes' or 'No'. 'Yes' represents 1 point, while 'No' represent 0 points. The points collected were then inserted into a matrix. The results determinate the levels of luxury and prestige of a particular product.

\*The question of ‘How much does the product cost?’ is divided into four categories: Under EUR 1,000 (0.25 points), between EUR 1,000 and EUR 5,000 (0.50points), between EUR 5,000 and EUR 50,000 (0.75points), EUR 50,000 and above (1 point).



**Figure 1: Matrix for defining levels of luxury and prestige**

Source: own.

### 3.1 Interpretation of results

The matrix shows luxury goods on the vertical axis and prestige goods on the horizontal axis. Each term was divided into four categories, where 0 represents the lowest point (not at all luxurious or prestigious), and 10 represents the highest level of luxury and prestige. The categories are defined in the table below.

Ratio	Luxury goods	Prestige goods
0-2.5	Accessible luxury	The product is prestigious
2.6-5	High luxury	The product has a high level of prestige
5.1-7.5	Very high luxury	The product has a very high level of prestige
7.6-10	Ultra-luxury	The product is ultra-prestigious

## 4 Conclusion

The authors of this study find that the concept of luxury has changed and become wider over time. Due to its complexity, it is impossible to come up with a unified definition of luxury. The reason for this is simple. Luxury is more of a concept than a term, therefore it should be treated as such. The authors discovered that there are two sides to luxury – (1) individual, and (2) goods or services that are out of the ordinary (goods and services must contain price). Prestige, meanwhile, is more of a stable term, which has not changed over time, and which is not impossible to define. Existing definitions were built on the same fundamentals. While materialistic value is required to accomplish luxury, it is not required to accomplish prestige. Prestige as such can be completely unrelated to luxury, which proves that they are not synonyms.

The model developed for this study can be used in two ways: (1) individuals can compare their own expectations of a product with what the product represents. The model allows individuals to confirm if their expectations match the reality. (2) Organisations are competing in the markets of luxury and prestige goods like in any other. The model could help them to stay focused on the chosen level of luxury and prestige of a product, thus reducing the risk of under-pricing or overpricing the product.

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