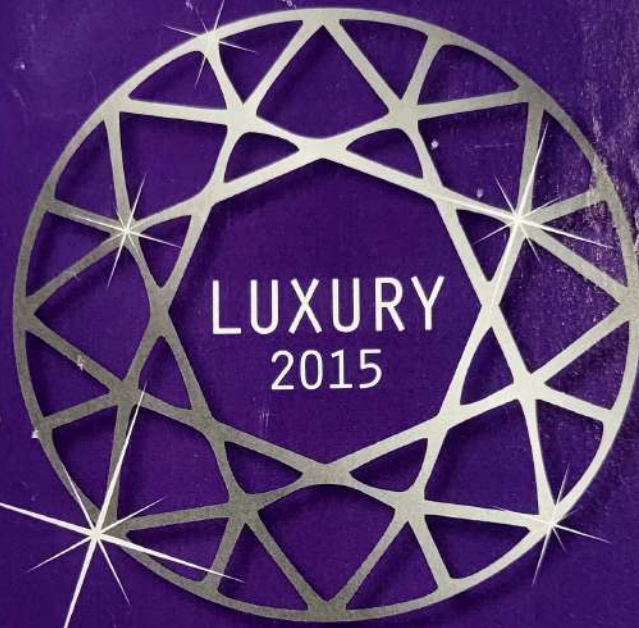


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LUX REDUX: Six Drivers of Growth

EMERGING OUT OF THE SHADOWS OF A SLOWDOWN, THE LUXURY MARKET
IS A BUNDLE OF CONTRADICTIONS TODAY. WE SHINE A TORCHLIGHT
ON THE WAY FORWARD. BY CHITRA NARAYANAN





VIVAN MEHRA

Promoting Conscious Consumption: Arjun Sharma, Chairman, Select Group, says, "Ethical luxury is the way forward. I want to give my family some intergenerational equity - clean air, clean water and clean energy"

longer an indicator of luxury, says Arun Marc D'Silva, India head of watch brand Frederique Constant, says: "It's how the brand is perceived, how the brand reaches out to society, and how it demonstrates its commitment to social obligations." Of course, being socially conscious is largely a western movement and is taking time to percolate into India, but several brands have already made the leap. Read more about how they are faring on page 50.

One Size No Longer Fits All

Luxury brands that so far had to deal with a fairly homogenised group of customers are suddenly finding that they have to innovate and segment far more. The assumptions that luxury could only be afforded by a slightly older profile wanting timeless elegance are getting shattered. A decade ago, the luxury consumer base was made up of just two classes - there was old money which went in for classy elegance and there was new money generated from trade that went for flashy opulence. Today, there is far more segmentation in the profile of the luxe customer. A lot of millennials are now becoming consumers of luxury and their tastes are quite different, besides which they are aware, shrewd consumers. They are open to experimentation and, unlike the older set, who were once-an-Armani-loyalist-always-one, don't mind switching brands. Also, people, young and

THE ECONOMICS OF LUXURY

Luxury in social theory denotes status. But what does it denote in economics?

The conceptual answer has been known for a long time: luxury goods are those for which demand increases as price increases. For normal goods, it is the other way around.

The first systematic attempt to explain this odd behaviour was made by an American economist called Thorstein Veblen in 1899.

He said the utility that people derive from luxury goods, also called Veblen goods, is indirect. Its usefulness lies not in its use but in what it conveys about the possessor. Such goods are also, therefore, called positional goods.

A related concept that was developed later is called the Veblen Effect. This is the buyer's belief that higher prices denote higher quality, even though cheaper substitutes are just as good. Apple and Android phones, single malts and blended scotch, Tissot and Rolex watches, etc., are examples of this.

Veblen also said praying was a luxury good because it led to nothing which was socially or economically useful. Only the rich could afford it as the poor had to earn their keep by working instead of praying.

Exactly the same thing can be said about sports also. Contests between persons and teams produce nothing of economic value. At a more general level, this is true of the entire entertainment industry.

Not everyone has agreed with Veblen, however. But there have been no serious refutations either - perhaps because such refutation would itself classify as a luxury good of no economic or social value.