

Revamping Luxury: Mass Customization Applied to the Luxury Goods Market

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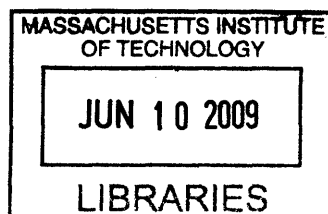
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Submitted to the MIT Sloan School of Management on May 8, 2009 in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

ABSTRACT:

This thesis seeks to understand how the crisis has impacted the definition of luxury goods in the mind of consumers and the implications this has for luxury goods companies. It also aims to present Mass Customization as one solution to this shift in ideals and as means for companies to form deeper connections with consumers thereby creating a more sustainable competitive advantage. The thesis begins by analyzing the impact of the current crisis on luxury consumers, products, marketing and branding, and distribution channels. It then presents Mass Customization as a solution by giving concrete examples of its application at each stage in the value chain with a focus on the apparel and leather goods segments.

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Over the course of the last few months just about every industry has been affected by the economic crisis, but few were hit harder than retail and in particular the luxury goods segment. Although many forecasted that luxury would continue to prosper despite a drop in consumer confidence and availability to credit due to the presumably higher income levels of luxury consumers, no one could predict the shift in consumer ideals that would emerge in the United States. Many continue to debate whether or not this return to the American ideals of hard work and frugality is temporary or whether this shift will require drastic action by companies in order to remain afloat; this thesis supports the latter hypothesis.

This paper seeks to understand how the crisis has impacted the definition of luxury goods in the mind of consumers and the implications this has for luxury goods companies. It also aims to present Mass Customization as one solution to this shift in ideals and as means for companies to form deeper connections with consumers thereby creating a more sustainable competitive advantage. The thesis begins by analyzing the impact of the current crisis on luxury consumers, products, marketing and branding, and distribution channels. It then presents Mass Customization as a solution by giving concrete examples of its application at each stage in the value chain with a focus on the apparel and leather goods segments.

Part 1- The Changing Nature of Luxury

Implications of the Crisis

The current crisis will not only impact the luxury goods market in the short term, it will also have a profound impact on the industry in the long-term thereby redefining the meaning of luxury goods for Americans and ultimately the world. The luxury goods market as we see it today, an amalgam of history, “trading up”, mass production, varying quality, heavy advertising, and flashy branding is no longer sustainable. As companies seek to please shareholders with constant returns they will find that the investment that they have funneled from the creation of their products into creating an image will no longer give them the returns they

are seeking. Companies will have to look to their consumers for the solutions and ultimately make strides towards innovation, quality, and functionality to keep their brands alive. This will make for changes in just about every area of luxury goods management from product design to branding, marketing, distribution, and the purchasing experience. It will call for a change in the definition of “what is a luxury good?” and perhaps a return to older notions of quality, design, customization, and the luxury experience.

Below please find an analysis of the four areas most affected by the current crisis --- consumers, products, branding and marketing, and players/distribution channels--- and their implications for the luxury goods market as we know it today.

Consumers

Consumers and consumer behavior is by far the most important element to consider when looking at the market for luxury goods. Over the past decade, consumption of luxury goods in the US has risen tremendously. This increase in spending is largely due to a consumer spending pattern we currently describe as “trading up.”

“Trading Up,” a term now commonly used when speaking of the American luxury goods market was coined in the 2003 edition of a book by BCG partner and managing director Michael Silverstein and Bath and Body Works CEO Neil Fiske. A top seller, the book has been translated into five languages and won the Berry-AMA award for the Best Marketing Book of 2004. Overall there is general consensus on this study of 23 luxury categories and the subsequent definitions of the “mass affluent,” and the phenomenon of “trading up” to new luxury as the basis of today’s luxury goods market. (Silverstein, 2005) In his analysis Silverstein mentions several reasons for which consumers “trade up,” and why companies can ultimately charge a premium while producing in mass.

The current crisis has reversed many of the elements key to this argument and commonly believed to contribute to American consumer behavior. This will call for an inevitable change in consumption of luxury goods on the American market, requiring a redirection in the strategy of many of today’s luxury goods companies. Furthermore, because of American’s role as

influencers in the luxury market – thanks to Hollywood icons, the transcendence of music culture, and globalization, this change could ripple into other markets as well.

In the 2005 edition of his book *Trading Up: Why Consumers Want Luxury Goods and How Companies Create Them*, Silverstein outlines eight sociodemographic and emotional drivers to explain why American consumers will spend a disproportionate amount of their income on luxury goods. This section will address each element of Silverstein's argument and the picture this paints for companies in light of the changing nature of these elements.

Rising Incomes and Available Wealth

Silverstein argues that the rise of household income by more than 50 % since the 1970's is the baseline factor for increased spending. (Silverstein, 2005) He attributes the unequal distribution of this wealth towards to the "top of the income scale" to an overall increase in the number of people able to purchase luxury. Furthermore, he highlights the fact that this income bracket maintains a large percentage of net worth. These "sharp increases in financial holding...over the past decade" are also a large part of why he feels people are comfortable spending. (Silverstein, 2005)

Over the last few months the stock market has reached record lows and the collapse of the banking system has left many of these same consumers in shambles. Even if Americans have more money on a whole many have lost and the fear for future losses has made spenders cut back. The shock of this collapse has also created a trend towards "stealth wealth." Only two months after the crash of Lehman Brothers, Forbes released an article on the "Ten Ways to Buy Luxury Discreetly" highlighting the sentiment of many consumers who were successful and wanted to consume but felt they couldn't. (Sherman, 2008) Spending in this economy is simply viewed as inconsiderate which has made consumers seek covert means of shopping, seek bargains in order to justify their purchases, or to stop shopping outright.

Being in a higher income bracket is no longer an excuse to spend and has actually become unpopular. Given the election of the new Obama administration, issues of inequality have come to the forefront of American minds, and income redistribution in the form of taxes, pay caps,

and debt to society are all up for debate. Overall the picture of the consumers taking advantage of their new wealth without fear of repercussion or concerns for sustainability seems to have changed in the span of a few months. Given that this argument is the basis for Silverstein's theory and a critical factor in the seven other elements described these new trends of "stealth wealth" and consumption as unpopular can prove detrimental to the idea of trading up specifically with reference to luxury goods.

Reduced Cost of Living and More Discretionary Income

Silverstein's second factor is very similar and highly linked to the first, in this section he discusses the importance of the home to the American consumer and the rising amount of equity due to an increase in purchases of homes over 250,000 dollars in recent years. (Silverstein, 2005) He further states that the home in America is regarded as the "safest long term investment," leading to over fifty percent of consumers taking home equity loans, line of credits, or second mortgages. (Silverstein, 2005) He estimates that the available equity has risen to a staggering amount, about 8 trillion dollars. His conclusion: "home equity has provided the fuel for much New Luxury spending..." (Silverstein, 2005)

The recent explosion of the housing bubble and subsequent collapse of the financial system has major effects on this argument. While most Americans did not lose their home --only 2.5 percent of homes were actually in foreclosures—many, about 10 percent of home owners were struggling to pay their bills and at the verge of losing their homes, and what many consider a vital piece of the American dream. (Forbes, 2009) This will no doubt have an impact on Americans' view of the home as an available line of credit and stable investment ultimately impacting the amount of available disposable income in the US.

Women as New Luxury Earners and Spenders

In the third section of his chapter Silverstein focuses on the importance of the female consumer in the luxury goods channel. Given that most products in luxury industries are targeted towards women he attributes the rise in working females and a 41 percent increase in real median income from 1970 to 2001 as a major factor for women exerting their purchasing power in the

luxury field. (Silverstein, 2005) He also mentions the fact that many more women are single making for an excess of 374 billion dollars each year in disposable income and no responsibilities beyond living expenses and in some cases student loans. (Silverstein, 2005) His final point is that women have a “particular ability to judge the value of goods... and a keen understanding of the complex emotional meanings and social messages contained in them. (Silverstein, 2005) He believes that is not just the increased purchasing power alone, but rather “[women’s] sensitivity coupled with purchasing power and influence” that makes the rise of women in the US an important factor for becoming a luxury consumer. (Silverstein, 2005)

For the most part this logic has not been affected by the current crisis. Silverstein’s last point however brings up a slight concern for luxury players. As companies struggle with decisions to cut cost and try to trim manufacturing through mass processes and hiring cheaper and often less skilled laborers they face the risk of compromising their product. If Silverstein’s view on women’s judgment is in fact correct luxury goods companies must make these decision with great heed because this same discerning quality that makes female consumer interested in luxury goods could work to the detriment of companies if these consumers feel that the product’s quality has been altered. Companies will have to consider ways to minimize cost while ensuring quality. Moreover it would seem that those able to achieve a higher level of design or quality that play to women’s sensibilities would put themselves at a competitive advantage.

A Changing Family Structure & A Longer Dating Period and High Rates of Divorce

The next two factors discussed by Silverstein are family structure and the changing nature of dating and divorce. Silverstein attributes longer periods of dating and more divorcees as an additional element of increased spending due to the tendency of these individual (daters & divorcees) to spend a decent amount of money investing in their personal image and brand. With regards to families he mentions the increase in families with no children and families with two incomes as reasons for increased discretionary spending. These two factors have not been affected thus far by the current crisis.

Education, Sophistication and Worldliness

Silverstein's seventh point deals with the increase in education and global awareness among Americans. He believes that a larger proportion of the educated population in higher income brackets leads to more luxury consumers. He states that spending in luxury is not justified by disposable income alone but rather a willingness to learn about products, leading to consumers craving higher quality goods and to an increase in travel which exposes consumers to more foreign products and experiences, the type that often command a premium in the US market.

These two trends while advantageous to luxury firms in the short term create an alarming trend for in the long term if companies want to continue to grow in the way many of their shareholders are used to. An increase in consumer research and information means that customers are often up to date on the actions of brands as they relate to the products they are consuming. This translates to a responsibility to uphold a certain level of quality and consider social repercussions to maintain consumer loyalty. This responsibility is what is often sacrificed by companies in an effort to reduce costs. Firms now find themselves having to consider consumers reaction when making decision.

The increase in traveling is also a risk to companies. Luxury Goods companies now find themselves facing global competition for consumers. If travel influences a customer's want for certain products it also serves to hone their sensibilities to what is or is not "authentic" this makes for a yet another important element for companies to consider and another restriction in the potential solutions available to company in crisis in the current economy. If consumers feel that a product is not worth purchasing here, they can simply purchase it elsewhere. Finally, the increased frequency and habit of travelling itself adds another element of competition. As the trends of "stealth wealth" consumers seek socially acceptable ways to spend their money, many have opted for buying experiences rather than material positions. Experiential travel is gaining popularity among the luxury consumer and risks to jeopardize firms' ability to bank on luxury consumers. (Silverstein, 2005)

Cultural Permission to Spend

Silverstein's final point is perhaps the strongest argument for why consumers trade up to luxury goods. He states:

“Even an increase in wealth, the influence of women, and greater sophistication might not have produced the emotionally driven new luxury consumer because one very powerful inhibiting factor still stood in the way: guilt. Americans have always valued hard work and looked askance at overconsumption...” (Silverstein, 2005)

According to him the change that really made the luxury consumer of today began in the 1960's with a new emphasis on “looking after number one,” and building “self esteeming.” For Silverstein's American consumers are not consumers at heart but rather encouraged to and even given “permission” to consume through media, social acceptance, and of course marketing messages. (Silverstein, 2005)

One of the two main influencers he touches on are Oprah and Martha Stewart both of these women have create multi-million dollar companies, and feature women as their main audience. Oprah in particular is known to even push products that she deems as complimentary to her mantra of “Live Your Best Life.” (Silverstein, 2005) Oprah's picks—books of the weeks or featured products-- are always instant best sellers. One of the top earning women in the US and consistently rated as the one of the powerful women, Oprah herself is a consumer of luxury goods. Her scarlet soled Christian Louboutin shoes are seen on a daily basis by her consumers; While Oprah can afford these hand crafted beauties, many of her consumers have to trade up to pay the 700 dollar price tag Louboutin charges for a simple black pump.

The fact that Silverstein's argument hinges on this one point, cultural acceptance of consumption, is a critical factor in the argument for a change in the fate of luxury goods. Not only does the trend of “stealth wealth” seem to confirm Silverstein's notion that deep down American consumers are not really “consumption machines,” it seems to suggest a return to pre sixty norms. Furthermore, many of the habits towards saving were initially a result of American's reactions to having lived through the depression. The shock we are facing today seems to have revived these feelings in the heart of the American people. While many saying that this change in consumer mentality is a passing fad, what is perhaps a most important indicator of the importance of this change is the role of influencers. Just as Oprah and talk show host alike wielded power in the 60's the Obama's have stolen the hearts of the nation today.

On the night of his acceptance speech and later at his inauguration Barack Obama invoked the notion of hard work and a return to American values. Since then he has followed through on this theme through various and continued attempts a redistributing of wealth, potential pay caps, and a takeover of AIG and regulations of financial institutions. While American's may agree or disagree on his policies what has ultimately surfaced is an appreciation for the inequality in America, for the amount of loss in recent times by all Americans, and for the amount of people still struggling. This does not bode well for luxury goods companies as they currently function because with this raising awareness comes guilt. This guilt will ultimately lead to cutting back on spending or looking for ways to justify purchases. The companies that are able to create value for their customers through quality, experience, and product innovation will on the other hand profit from this change.

Perhaps more influential in the world of fashion than President Obama and one of the most influential fashion icons of today is First Lady Michelle Obama. Dubbed the "First Lady of Fashion" by the associated press, Michelle's choices on the campaign trail became instant hits in fashion world. Similar to Oprah, she wields a great amount of influence when it comes to the purchases of American women. Her dress choice for the inauguration was a subject of great debate for weeks before the ceremony. Top Fashion houses around the globe submitted their pieces to the white house in the hopes that Michelle Obama would wear their product in a time of deep lose for most luxury goods producers. Her presence at NY Fashion week was also a subject of discussion, with American watching to see which designer she would choose and ultimately whose clothes they should buy. Michelle Obama weighed in on the cover of Vogue choosing to represent J Crew as her company of choice citing value and quality as her reasons for choosing the designer. This emphasis on values and a rejection of the traditional luxury goods companies by Michelle Obama has greatly affected the currently climate among American consumers. Furthermore the overarching support of Obama's from other influencers like Oprah and a large portion of the American population seems to present itself as a very credible threat to luxury companies unable to justify their price points to consumers.

Overall it would seem that there is a huge shift in consumer mentality and the economic circumstances surrounding the trading up phenomenon. Of eight contributing factors identified by Silverstein only three remain in play, and those cited as the most important underlying factors have all reversed. Given the important role that consumer behavior plays in just about every aspect of the luxury goods industry or any industry for that fact, companies should be asking themselves what strategies to invest in to maintain their current consumer base and continue grow in the future.

Products

By the time the news of stock market's all time low hit, almost all listed luxury goods companies were posting negative returns; the retail industry was suffering overall, having lost over 500,000 jobs in December alone. Institutions the likes of Foot Locker, Ann Taylor, and Zales Jewelers closed hundred of locations and the news broke that Fortunoff and Circuit City would close their doors forever. Even more shocking was the response of luxury retailers, Saks Fifth Avenue had its first ever deep sale of clothes before Christmas, which turned into a luxury fire sale as competitors followed in an attempt to clear inventory and luxury online discount retailing emerged as a viable business model as desperate companies sought new means of dumping stock. Despite their best efforts December's numbers were still mediocre, with most companies failing to achieve the boost they desperately needed from the holiday season. Consumer mentality also took a sharp turn for the worse, with consumer confidence at all time lows, many American's stopped buying or at least stopped purchasing full price. Only a few items managed to retain their MSRP – the apple iPod for one. In terms of companies, two exceptions presented themselves: American Apparel & Zara.

These companies and their products serve as valuable lessons on what consumers' value in times of recession and what is important if luxury hopes to continue to command a premium. American Apparel, Zara, and the iPod highlight the importance of quality, functionality and innovation in design and connection with the consumer. This section will touch on these afore

mentioned attributes as they relate to the future of products given the changing mentality of the luxury consumer.

Quality

The notion of superior quality and workmanship were the basis of luxury goods in the past. Louis Vuitton, Hermes, Chanel, Burberry, all were once known for their premium materials, design, workmanship and above all the quality and durability of the product created. When a purchase was made of a bag or trunk it was a lifelong investment. When a bottle of Chanel No.5 was sprayed the customer was always sure that it contained May roses from only the finest producers in Grasse. (Thomas, 2007)

Although craftsmanship is still an element of today's definition of luxury, it is no longer the central theme of the luxury product or brand. In recent times brands are only minimally associated with the quality of their ingredients or materials. Today it is about what products and more importantly what brands represent to the consumer, an image or lifestyle association often times created in the minds of marketers. This has led to a change in the investment patterns of firms towards an increasing emphasis on advertising and marketing rather than product innovation and design. The product is secondary as companies face pressure to perform in today's market driven society and create value for their shareholders.

In *Deluxe: How Luxury Lost its Luster*. Dana Thomas alludes to this in her final chapter "New Luxury:"

"Today the luxury industry is like Monopoly, The focus is no longer on the art of luxury; it's on the bottom line." (Thomas, 2007)

This negligence of the product creates a problem during recessionary times. Consumers can no longer pinpoint why they are buying a specific item and therefore cannot justify paying a premium. Although not usually a problem for the American consumer during times when normal consumption patterns persist since many purchases are impulse buys, emotional spending, or simply a reaction to "buzz" or popularity created around a certain product, in a

climate when spending has becoming culturally taboo this poses a moral dilemma for many individuals.

When a premium is no longer reflected in the product itself, the only logical rationalization for buying is scarcity or discounted pricing creating a tough situation for luxury brands and retailers which make profits on large volumes and high markups. The desperation of these companies and need to clear unsold inventory ultimately led to the proliferation of discount online retailers such as Gilt.com or Rue La La. Although they sell the same products these retailers do, they evoke the element of scarcity through a flash sale model and offer discount pricing to help assuage the guilt consumers might feel in this current environment.

This path that many luxury goods companies see themselves facing today of producing in mass quantities to ultimately sell off overstock to outlets or online retailers or worse, producing specifically for these retailers is avoidable if companies renew their focus on the quality and craftsmanship of their product and on conveying this message to consumers.

One company that has done an excellent job of maintaining its connection to craftsmanship and quality is Hermès. Hermès epitomizes luxury: it has three signature bags prices range from 7,500 dollars and can go upwards of 100,000 dollars for one bag. Production is by hand, using a special design and process created by Hermès over a century ago, the quantity produced each year is limited and each item is customized. This process has created a long waiting list for the bags and a resale market for owners of the bag that truly make it a lifelong investment. Furthermore because of long waiting list Hermès finds itself somewhat cushioned in times of economic downturns.

By focusing on a small amount of high quality customizable products Hermès has made its brand stand out among others in its field. Furthermore the focus on only a few items simplifies brand messaging and production. Of course Hermès has aspirational items and other brand extensions but even these products remain the highest quality. For example, the Hermes Carré is only made of the finest silk from the only remaining silk producer in Lyon France, Bucol. (Thomas, 2007) Unlike many competitors Hermès continues to purchase from Bucol instead of outsourcing to China, India, or Thailand. This consistency at lower price points (\$200 starting

point instead of \$7,500) maintains the integrity of the brand and makes consumers who can afford a carré feel like they truly own a luxury product. Another benefit to a focus on a limited number of items is instant identification of the brand with its signature designs. This creates a sort of “cultural IP,” because the brand or product is associated with a specific design it becomes almost culturally taboo to own a counterfeit. While this is possible with an item such as the Birkin (Hermès’ most popular bag) because of the focus on a limited design it is not with many products of today’s luxury goods companies because of the new designs.

If more luxury goods companies today could show this type of focus on design and quality of their product rather than emphasizing quick growth through brand extensions many would not be in the position they find themselves in today. Furthermore it seems that the brands face more challenges ahead due to this off – price business model they have created and now support through excess inventory. Originally, brands sold excess to out of the way Outlets where consumer “in the know” would drive 40 minutes out of town to buy discounted items. Today however this business model has evolved to online through companies like Gilt.com and RueLaLa. While these companies have capitalized on new luxury consumers through the idea of scarcity and exclusivity--- they feature flash sales and membership by invitation only --- these sites are not exclusive at all, these sites have thousands of members joining each day, and with aggressive expansion plans, VC funding, and quick growth mentality they are opening more and more locations every day, meaning that deeply discounted items will be available globally. Moreover, items are not actually scarce, many of these site feature wait lists which allow companies to produce for users who missed a product during the actual sale.

The issue with these sites is similar to that of many outlets: quality control. This problem is twofold. The success of the outlet business model has prompted companies to sometimes produce goods specifically for outlet retailers, which often times equates to substandard materials and at times substandard manufacturing. As the success of the online incarnation of these outlet retailers becomes concrete companies have gradually started to produce items to sell for these companies as well. If this continues to work companies will presumably go the same route as they do for physical outlet stores and start to change product in an effort to

make larger margins and to continue to differentiate from their store. This means that consumers buying Dior from the outlet will not have the same Dior quality, causing a fundamental change in the way the user views the products and the brand.

Even if brands do not go this route, there is another element of quality that proves extremely detrimental to brands, the quality of the sale and post sale experience. Many users do not just purchase luxury for the product but rather for the experience. If users have lost both the product quality and the experience they consider “the luxury experience” --- hands on attention, any element of customization, or post sale packaging or service – customers will stop considering the brand as luxury.

Finally, the last challenge with online retailing is a question of product placement. These companies sell a variety of different products and brands and for most, multiple flash sales occur at the same time. What this means for companies is that they could find themselves on a sale right next to their main competitor allowing users to directly compare the product, or even worse, they could find themselves next to an advertisement or another product that take away from the luxury image associated with the brand. Having your lingerie selling next to McDonald’s ad or a high end breast pump might not be the image or environment your products are best sold in. In order to succeed in this setting, your product would need to differentiate itself and carry a clear value proposition. Since most luxury products do not in their current state, managers put their brands in harm’s way by leaving them at the mercy of these retailers. It is therefore up to companies to assess whether or not this is a smart route to go. There are other issues with this model, not directly related to product discussed further in the channels section of this document.

There is one final reason why the emphasis on quality is important regardless of the channel you use to sell your products and that is competition. Hermès is famous for saying that they are not in competition with LVMH. Even though both are top French fashion brands, Hermès is correct. There is an association with history and above all a certain level of quality and craftsmanship that sets Hermès apart from the rest of luxury brands today. The main reason however for this emphasis on quality and history is not competition from the other luxury

brands --- since this advantage will inevitably disappear the moment other companies fall back to their heritage—it is competition from counterfeits. The more a product is sold for what it represents rather than what it is the more consumers' face the challenge of understanding why it is worth the premium and the more the purchase becomes for prestige rather than for the artistic nature of the goods.

In today's society this presents a problem. Once, low level companies in China, Chinese counterfeiters are now large scale productions which generate grade A fakes, indistinguishable from the real thing by most. These fakes are then sold through various networks including Chinatown gangs, and "purse party ladies."

In her book Dana Thomas spends time investigating "purse parties," a fairly recent trend emerging around counterfeits, this poses a problem for luxury companies because it shows a certain level of acceptance of counterfeits among groups of consumers:

"Like teenagers gathering at a friend's upper-middle class home to buy a couple of joints with their allowance or babysitting money, suburban women converge in well appointed living rooms for wine, hors d'oeuvres, gossip, and fake Vuitton or Gucci handbags. The women hosting these fetes will make a killing—they double their investment – and never declare to IRS." (Thomas, 2007)

The world of counterfeits becomes increasingly dangerous for luxury goods as consumers search to justify their purchases and as a mentality towards value continues to propagate these actions. As counterfeits become more popular and people don't have to justify purchasing them to their inner circle (because they are purchasing too), these products could symbolize value in the minds of consumers. Furthermore, if the quality is similar to that of the actual product and users no longer associate the luxury experience with their purchase because of the proliferation of online channels they have no reason to buy it in store or even directly from the manufacturer; directly from China works just as well.

So what does this mean for many of today's brands that make their margins off selling high volume aspiration products for the mass?

These companies will still be able to sell these products and market through aspirational extensions of their main line; however improved design and an increase emphasis on the quality of the product and craftsmanship will have to be at the forefront of marketing and the consumers psyche. This is the only way these brands will be able to compete with counterfeits due to their lack of control on the current shopping models, and a lack of innovation in design or true differentiation associated with many entry level products. This will prove challenging in today's society whether the natural tendency has been to compromise the product in an effort to cut costs.

In his book trading up Michael Silverstein describes what he believes are three levels of the "ladders of benefits" luxury goods products:

"First it must have technical differences in design, technology or both... subsumed within this level is an assumption of quality... second those technical differences must contribute to superior functional performance. Finally benefits must combine with brand values and company ethos to engage the consumer emotionally" (Silverstein, 2005)

In here we do see a mention of quality as essential, what seems paramount however if a focus on design and functionality.

Design and Functionality

The importance of design and functionality in products has also been highlighted in this recessionary market. The two products that really stand at the forefront of this are the apple iPod and the iPhone. While not directly a luxury goods or apparel/ accessory category, consumer electronics have now ventured into the world of fashion making them a useful comparison.

The apple iPod has been able to maintain its selling price throughout the crisis. This is in part due to constant reinvention and innovation of the product and its design. A high level of functionality was achieved in the first model and since then the iPod has stood the test of time,

by constantly making upgrades mainly cosmetic ones, in the size, color, and shape to make it more functional.

What is perhaps even more interesting about the iPod's success is not just its ability to continue to sell, but also the fact that it has managed to differentiate itself from the remainder of the mp3 market through its design. Although, there were initial copies, it is rare to see an iPod knock off. This is due to the fact that through innovation and the creation of the "click wheel" now found on almost all mp3s as a selection tool, the iPod managed to gain "cultural ip" with the American consumer.

The iPhone's story is very similar to the iPod but highlights the importance of functionality. The iPhone's touch screen set a new standard in functionality in cell phones just as the iPod did with its click wheel and while this element has been copied by competitors such as the Samsung Instinct, what the iPhone did next was to change the focus from design to a new element of functionality: applications.

Applications are the epitome of functionality and innovation. Applications, created by developers and in many instances iPhone users can be something as simple as a function that allows you to watch videos on your phone or as complicated as the taxi function or the upcoming RueLaLa function that allow you to find a taxi in any location around the world or actually allow you to shop online. Since functions are designed by independent developers Apple allows for innovation from a variety of sources. Furthermore, it cuts costs and allows the consumers to decide which applications are most applicable to them. It is a true test bed and exercise in listening to the customer. Applications also allow users to customize their iPhone which ultimately increases the quality of the product in the eyes of the consumer and allows it to command a premium price on the market.

A great retail example of quality, functionality, and design combined is American Apparel. While most retailers and were hitting negative double digits in the first quarter of this year. American Apparel was able to sneak out with 3% growth. The reasons behind this are similar to the iPod phenomenon. American Apparel focuses itself on the quality of the material it uses. This quality and functionality of materials are their main pitch to consumers and which allow them to

charge a premium even if the products are ultimately basics. Another element key to American Apparel's success is that it is a specialty consumer with a specific focus on a particular set of designs and materials, and a knack for listening to the consumer.

Listening to the Consumer

The final element of products that is by far the most important and often times the most neglected by the designer driven luxury and fashion industries can also be seen in the example of American Apparel, and has been recreated by Zara, H & M and other "fast fashion" companies who have also weathered the storm this past recession. This is the idea of listening to the customer thereby creating a relationship with them and enhancing your products in the process.

American Apparel does this through their website. By taking reviews from customers all over the world, users are able to help each other choose sizes, critic colors, and designs. In many instances when enough users ask for another color choice American Apparel produces it. American Apparel also features online only products; this can ultimately allow them to test certain products.

Zara has also found a way to use customers as a test bed through extremely efficient. One of the few survivors like American Apparel Zara has been able to fuel its growth and sales through advanced operations. Zara can realize a product from start to finish in only 15 weeks. This allows them to capitalize on trends and innovative product designs quickly and efficiently. Furthermore, because of this shorted cycle they can use their customers as a test bed for new products, by releasing a limited number in one store and testing out consumer response and pulling a failing product of the shelf as soon as they see the issue. While this creates more work in the design stage them it saves them from having too much excess inventory and keeps clients coming in the store to see what's new.

Branding & Marketing

Branding has come to play a much larger role in companies in recent times as the product has taken a backseat to the image and marketing. In recent years companies have positioned

themselves around flashy advertising and branding with company logos at the forefront of designs and patterns.

Hollywood stars have also taken up a new role in branding. Although always a central component in validating the image of the brands, stars now take on an active role in marketing brands. Furthermore, stars can now be considered a brand of their own; many realize their own lines or collaborate directly with companies. Subsequently a whole industry has been created around Hollywood where an actor or musician's stylist will work directly with brands to guarantee that an actress will wear a specific dress or carry a specific bag in exchange for a large sum. These efforts have proved costly for companies, with stars making hundreds of thousands of dollars off one appearance in a certain frock.

Although the crisis does not seem to affect this phenomenon because the use of fashion icons has been a part of this industry since its inception some potential changes can be envisioned. For one, given the fact that companies need to cut cost the expenditures on buying celebrity endorsement will go down. Furthermore, the overall positioning of the brands will change requiring a drastic difference in branding and marketing strategies. Faced with increasingly informed and discerning customers companies will have to fall back on their history and craftsmanship in order to allow customers to justify their purchases. In order to be successful companies will have to focus on quality, elegance, workmanship and perhaps innovation in design or materials. This will require a change in the overall marketing and branding sphere.

In the same regard, the shopping experience will play more and more of a key role in the brand positioning of a product. Pre and post sales and the shopping environment will be a key element in the shopping experiences and ways in which brands will create more of a sense of connection and loyalty with their consumers. In an age of online reviews and educated customers seeking ratings and information, those who do not invest in creating a user experience around luxury to support their brand or a quality product will lose out and will lose credibility as a brand. In order to do this companies will also have to start invest in technology in order to offer the best quality experience.

Finally the online world will become more important in branding and marketing as customers continue to enter the online channel. This will force the customer service aspect to become increasingly important as companies start losing control over touch points with their customers. Furthermore the online channel will present several free marketing options for companies if they take advantage and capitalize on them including viral marketing, product placement, and web 2.0 applications. This will also present more opportunities for companies to gain understanding on customer needs and tailor their products to suit these demands.

The online channel presents another opportunity for marketing to customers because of the nature of the space. Given the amount of time people spend on line, the amount of information and education you can give them on a product is almost unlimited.

In the luxury industry the online channel is for the most part untapped potential for customers to really refine and define their brand for consumers. While luxury car firms have managed to come up with innovative campaigns and publicity through viral marketing – BMW films for instance--many apparel related firms do not even have e commerce sites of their own thereby, losing a vital consumer touch point. Currently, only retailers have this relationship with the consumer and it is not exploited at the level it could be because retailers have no say in the design process. Perhaps the most successful way in which luxury brands have connected with consumers is through online discount retailers such as Gilt and RueLaLa. These retailers have played in the element of scarcity. As companies start to reach out to consumers on their own sites this emphasis on scarcity and uniqueness will persist as consumers seek more unique products and design that will warrant a premium. Limited editions and customized products can help fill the needs of these consumers.

Players/Channels

In the current economy several players have emerged on top as the big guns are tanking, many of these examples were mentioned previously. Below I will go over these in detail focusing on

the potential issues they can ultimately become for the luxury goods industry. What issues does this present? What opportunities are presented?

Fast Fashion

Fast Fashion companies like Zara and H & M have truly emerged as winners in this current economy. Their ability to respond quickly to consumer demand through advanced operations and reduce design and production times have saved them from the inventory issues of luxury goods companies.

Opportunities:

These companies and their success in today's market confirm the need for a connection with consumers to better understand demand. It also pinpoints a weakness in the luxury model, the lack of more precise models to predict and react to consumer opinion or response to an item and the outright lack of connection to the end consumer. Recently models to involve the consumer more in the initial design process (customizable cards from H&M, Threadless) have developed in a way to predict consumer demand. Additionally, using small volumes as test beds is also an option.

Threats:

Fast fashion poses a serious threat as well to luxury. As customers start to question their willingness to pay for luxury goods they will start to trade up and down within categories, perhaps opting to buy one expensive accessory rather than the whole outfit. Fast fashion provides them with the designs they love for a fraction of the price. Furthermore given these companies' ability to adapt to customer and demand and the amount of new production runs each year, they always have the latest designs available.

Some of them, H & M for example, even partner with the same designers as the top luxury goods companies. H & M recently partnered with Karl Lagerfeld to produce a limited line of clothes. Lagerfeld currently designs for Chanel. What this means is that "designer clothes" no

longer equal luxury. This is a huge shift in mentality, and will require that luxury proves itself through innovation and ultimately through producing a better product.

A threat even more difficult for fashion is companies like Forever 21 that are continuing to surface. Forever 21 simply copies top designs at lightning speed and offers them at a fraction of the cost, often times under 20 \$. While currently there is nothing companies can do to prevent counterfeit, they can seek to achieve “cultural ip” through their designs.

Outlets

Outlets have evolved in the past several years to include both luxury Outlets, like Wrentham in Massachusetts where brands can have their own space, and the more popular online outlet or online off price retailers. This growth has been fueled by an increase in available inventory to sell and a growing disconnection between luxury consumers and companies.

Opportunities:

Outlets have now evolved to allow companies to have their own individual spaces and control over the shopping experience. This means that brands can still connect with consumers on a more personal level and control the retail domain. This could allow for more consumer touch points and for ways to gather information on consumers within these spaces.

Threats:

With the increase of online outlet establishments and awareness about outlets in general, it becomes difficult to differentiate a brand’s product with a deeply discounted outlet product and to explain why there is a price difference. This discrepancy between actual price companies are willing to sell at and the MSRP, will be highly visible to consumers on a daily basis through multiple sites and could prove difficult for future sales in this climate.

Online Channels

The luxury goods industry has been particularly slow when it comes to adopting the online channel. Most luxury goods companies today still do not even own their own website, but rather sell their products primarily through online retailers. The importance of online as a channel in luxury goods is becoming growing with the emergence of new e commerce platforms for luxury consumers.

Opportunities:

The emergence of online portals and the online channel has given companies who have been slow on their feet an opportunity to reach out to new consumer segments and capitalize on the power of this channel through viral marketing, online sales, and the ability to connect with consumers in a cost effective way.

Threats:

Outsourcing online sales of products to other retailers and to off price retailers is not the best option for luxury goods companies. Below please find several reasons why:

Loss of Control of User Experience

Because companies do not run these sites, maintain them, or design them for the most part, it means that they have no control over the user experience.

Loyalty

Since customers relate their experience to most retailers rather than the brand, brands lose a vital touch point with the consumer and ultimately lose loyalty.

Contact with the Consumer

Companies lose useful information that could be gained from regular interactions with the consumer.

Lost Cost Savings

While the initial cost of creating an e commerce site would ultimately be expensive, the long term investment would be worth it because brand would not have to share with retailers for products sold directly through its site and would gain many of the benefits listed above.

Ultimately it would seem as if the fashion industry and the Definition of Luxury as we know it today is changing. Perhaps it was inevitable to a certain degree given the change in consumer purchasing habits, the increase use of the online channel, and just plain evolution but what is clear is that due to the recent shock this change seems more precipitous and if companies seek to maintain or gain a competitive advantage they must seek new ways to connect and learn from their customers and to differentiate and clearly quantify their value propositions. One way that presents itself as a promising solution is Mass Customization.

Part 2 - Mass Customization applied to Luxury Goods

Mass Customization and It's Benefits

While there are many differing opinions on how to describe what exactly mass customization is, most would agree that its main benefit is the idea of being able to increase customization and variety in production without necessarily increasing costs. Thereby giving companies a more concrete way to connect with consumers and better understand their needs. At the least this would give companies some sort strategic advantage and in the best cases a competitive advantage.

In Customerization: the next revolution in Mass Customization several benefits of Mass Customization listed including some that are directly applicable to the luxury goods industries and the problems they are facing today :

- Willingness to pay a premium price for customization
- Increase in ability to meet consumer's needs
- Reduction/Elimination of Inventory
- Opportunities for better value added service

- Stimulates Continuous Innovation

(Wind & Rangaswamy, 2000)

In particular, the elements of increased customer satisfaction and also willingness to pay a premium for this added variety are most interesting for luxury. These two elements --- the ability to justify a premium, and connect with consumers --- are the two issues current plaguing the luxury goods industry and why mass customization would be an excellent tool to apply to current business practices.

In the Four Faces of Mass Customization James H Gilmore and Joseph Pine II describe four different types of Mass Customization:

Collaborative Customization:

“Customizers conduct a dialogue with individual consumers to ... identify the precise offering that fulfills those needs.” (Gilmore & Pine, 1988)

Adaptive Customization :

Customizers offer ... a product that is designed so users can alter it themselves.”
(Gilmore & Pine, 1988)

Cosmetic Customization:

“Customizers present a standard product differently to different customers.” (Gilmore & Pine, 1988)

Transparent Customization:

“Customizers provide consumers unique goods or services without letting them know...”
(Gilmore & Pine, 1988)

Below please find a brief rationale as to why mass customization is particularly appropriate for the luxury goods market, and ways in which mass customization can be applied at each stage in the value chain:

Customization and its history and place in Luxury

Customization has always played a vital role in the luxury model, particularly in apparel. The ultimately luxury item by far is the haute couture dress. This dress, made to measure in France, is put simply, a designer's initial design modified to the consumer's specification and made to their exact size with only the finest materials.

Although today, most luxury consumers cannot afford haute couture, as price ranges can be in the 20,000 dollar plus area. Originally many companies followed this pattern. American retailers featured customization as the main element in their business model. Saks Fifth Avenue first started as a store where American women would go and choose Parisian designs that would be copied in their size by the retailer especially for them. It wasn't until recently that luxury evolved to what it has today, where someone can go into a high end retailer and simply pull a 6,000 dollar dress off the shelf. Below are two excerpts from *Deluxe: How Luxury Lost its Luster* which serve to contrast the difference in the luxury shopping experience:

Then--

“ You chose the clothes you liked often during a fashion show or personal viewing, retired to a spacious comfortable dressing room, tried on garments leisurely, and had the seamstress on hand to do whatever retouching was necessary.... Department store sales women were counselors and confidantes... they knew what suited you and they advised you accordingly.” (Thomas, 2007)

Now--

“Usually there are only a few pieces of clothing and only in small sizes. This is where the slim sales assistants come in, they scurry into the back store room for ten, fifteen, twenty minutes to find your size... if it doesn't please you they

scurry off again for another ten or twenty minutes and so on... This, in the minds of luxury executives is attentive, specialized service.” (Thomas, 2007)

According to Thomas the luxury industry has lost its luster because it has lost elements of customization, craftsmanship and quality material, and most importantly the luxury experience a consumer once expected.

While these three notions seem to remain in luxury goods for top consumers, most mainstream individuals will never get this type of treatment. However, those able to spend on a 8,000 plus on Hermès bag and wait two years, will be able to experience this level of service. If we think of it from a production standpoint, a signature bag such as a Birkin from this designer is a fully customized product. Users can pick from certain bag materials--- two types of leather, two types of crocodile, ostrich, or lizard, --- variations in the metal quality, and several colors. Each bag is made by hand, and special request require extra time and money but are of course possible. Ultimately these processes takes much longer than the creation of a Gucci purse cut by water jets in their factory in Italy, however consumers are willing to wait and pay a larger premium for this service. Furthermore since there is a preset limitation to the amount of combinations one can choose. Hermès can still buy in mass, can still have a standard production process, and can still produce on a large scale as long as they have the proper manpower. Hermès is therefore a mass customizer.

As consumer education increase and consumers become more and more conservative with their spending habits they will look towards “investment pieces” such as this one, very high end products due to the quality of materials and ability to customize or buy what suits you best and what will continue to do something for the long run. Companies who implement mass customization techniques are therefore in a prime position to capitalize on this. Furthermore this return to customization will help evoke a sense of true luxury in consumers, make it easier to revive the luxury experience in store, and help consumers justify paying high premiums for these goods.

Mass Customization as a way to recreate Luxury in the current Market Setting

Mass Customization present many ways to revamp the luxury goods market at each stage of its value chain from Design to Sales and Post Sales. In this section we will look at each stage in the creation or sales process and delve into the potential ways in which mass customization can be applied and the resulting benefits.

Design

The design stage of the process is at the heart of the luxury brand and one of the areas that is most difficult for companies but that lends itself most freely to mass customization. Most luxury goods companies currently find themselves at the mercy of one head designer or several designers that produce a product, in many instances with no consumer feedback, and then release it with the market based on gut instinct and pure hope. While this strategy can lead to great successes it can also lead to great failures, and most often to mediocre products sold through heavy branding and advertizing.

The problems created with this model are the lack of connection with the end consumer and ultimately the lack of functionality and design that can ensue both in the initial design and in the reworking of the design to meet standard manufacturing processes. The following are ways in which different types of mass customization can be applied to this stage of the process:

Collaborative Customization:

Collaborative Customization is perhaps most applicable in this part of the process and can serve three main purposes:

1. To hone in on focused designs that consumers will continue to buy over and over again in a pre set variety or with customizable options
2. To tailor designs to consumer tastes and functionality

3. To completely customize an individual product for each consumer

Honing in on focused timeless designs that variety or customizable options

In this application of collaborative customization, the goal would be to create a product that consumers will continue to buy for the long run. In this instance designers would have to work with consumers and get constant feedback over to time to hone in on a few designs that consumers can then customize. Ultimately, the company would start with a base design or concept then modify it until they create a set of focused offerings for consumers.

A good example of the potential result of this type of customization is Apple iPod and iPhone. Both are part of product lines that feature multiple iterations of the same product with a different focus on functionality in each iteration and with customizable options such as color, Memory Size, Etc. Both the iPod and iPhone were concocted with an emphasis on innovation through functionality. The user can choose between which functionality fits them most iPod shuffle- nano – or iPhone (iPod and phone combined) and then customize their choice with colors or applications.

Just as consumer input was the source of innovation and continues to be in both of these options one could imagine just about any companies using consumer input and data to create products such as these, with a high level of functionality for specific types of customers, and a range of customization through colors or material choices. Furthermore the internet can serve as a great means of collecting this data and testing new potential products. By offering multiple iterations of a product online and tracking which functionality or design interests consumers the most companies can come up with a clearer view of importance to customers. Another means of doing this would be similar to fast fashion, by releasing products into the market and actually testing their popularity with consumers. Companies would just have to focus on consumers' reactions to particular or similar designs.

Tailoring designs to consumer tastes and functionality

In this instance the focus of collaborative customization would be on a more short term basis. Rather than getting clear design input from consumers, or collecting this input over the long term to create a recurring collection, the focus would be tailoring a pre created design for the short term.

In this instance one could envision making cosmetic changes to the design before the release of the product to sell to certain groups of consumers. For example, Gucci could work with US based consumer groups to create a bag more tailored towards the American housewives' daily routine which might include a lot more commuting than a European housewife and therefore a certain functionality Europeans might not use. This could ultimately lead to long term innovation, but it would not be the key focus of the study.

Complete customization of an individual product for a particular consumer

The final way in which this method of customization can be used in the design process would be to focus on an individual consumer. The classic example of this is creating jeans to fit an individual consumer. Presumably, if a company can get this right and use technology to store the consumer's information, this can serve for future purchases and modifications and could serve to incite consumer to come back time and time again.

Adaptive customization

Adaptive customization in the design process would focus on designing products that consumers can change after the purchase.

One great example of this is the Victoria Secrets 100 ways bras. This bras features multiple eyelets and straps that allow consumers to wear the bra in several ways depending on the dress or top they are wearing. This functionality is also often seen today in pants and jackets that often feature components that can zip off.

While this is less present in the luxury goods products, presumably because of the price of the material, one can envision this type of functionality applied for bags or ready to wear. It would

require firms to first study the consumer to understand how they are using the product followed by testing to gauge reaction to the increased functionality.

Transparent Customization

This type of customization requires firms to come up with unique innovations in service or the products without the consumers' knowledge. This type of customization requires a deep understanding of customer needs. One way in which companies could understand these is through monitoring the ways in which consumers actually use a product and their daily habits in order to come up with innovative designs to help user create the functionality they need.

One example of an innovation could be a system already present on bags so that users could hang their bag on a table without it having to touch the ground. While this is now available for luxury bag carriers as a separate component, perhaps having a patented design included in a bag could be a draw for consumers.

Cosmetic customization

While this is similar to collaborative customization where the ultimate goal is to offer the user a standard set of products with different options for customization the customer is not involved in the design process, only in the selection process and in many instances the product itself does not actually change from any functional point of view. The most common change sited is packaging, because of varying needs of consumers in retail spaces. In fashion and luxury similar cosmetic changes can be made.

Two potential examples could be giving the consumer a choice of jean length at the purchase point or a choice of inlet color for a shoe or bag purchase.

Jean Length:

In order to give consumers a customized fit, companies could plan to produce jeans with a few inches of extra material during the design phase in order to allow the legs to be cut and hemmed store by retailers. This would provide consumers with a customized pair of jeans with

minimal effort and no real change to the product design. This is already a feature used in many jean companies in India, but has yet to be implemented in the US.

Shoe colors:

Shoes, bags and leather goods, often feature inlets of certain colors or materials to allow the object to be matched with multiple ensembles. Just as they did with the Jeans, companies could choose to design a product which required the insert to be placed in at the point of purchase depending on the consumer's choice. Ultimately with time, in a similar fashion to Hermès, a certain amount of popular colors and materials would emerge to create a long term offering if the design of the product itself is attractive to consumers.

Creation/Manufacturing

While this thesis does not actually focus on the manufacturing applications of mass customization, this is perhaps where we see the greatest affect currently taking place in fashion today through the Fast Fashion companies previously discussed in Part 1. These companies are able to use real time store data to understand consumer purchasing habits and ultimately come up with a particular offering for each store, effectively responding to demand. Furthermore because of shortened design and production cycles, they can also release a new product within 15 week cycles, more than 3 times the speed of most luxury companies. This increases their ability to react to consumer preference information.

Marketing

Collaborative & Adaptive Customization

Because of the collaborative nature of adaptive and collaborative customization processes, new ways of marketing a product will emerge. Depending on how many, and the way in which consumers are involved in the customization process, one could envision a deeper loyalty that remain with the consumer. Additionally, if a consumer has created a custom product in the past, more targeted marketing based on previous customer selections can serve marketing

well. The internet serves to augment this potential as customers get into the habits of ratings and reviews, companies can use this to their advantage to use ratings to sell consumers a product before it is even created. One excellent example of this is Threadless. Threadless has consumers create a T shirt design then bid and vote on a pool of designs created and whether or not they would actually purchase any of these designs. The product is essentially marketed through asking customers to evaluate it, this also creates a group of people who have already committed to buying the products.

Another element of marketing that will change with collaborative and adaptive processes will be a focus on the product. Because of the increased functionality of the products produced, marketing on quality and functionality will be an increasingly attractive option for Luxury Goods companies since through this process they would gain a clearly defined value proposition for the consumer.

Transparent Customization & Cosmetic Customization

These two methods of customization when adapted to marketing in the luxury field would translate to marketing on service and the “luxury experience” rather than on the product itself. In order to do this type of work, many companies would need to pair with their retail chains in order to market these services to consumers. Furthermore, through these types of customization, we can expect an increase in word of mouth marketing because of the increased level of service and satisfaction provided to the consumer.

Sales

Due to the changes in the nature of the products, the nature of the sales process itself will change in many instances. The amount and type of change will be heavily dependent on both the type of customization and the channel the sale is made through.

Retail Channels

Brands who choose to implement cosmetic customization solutions or adaptive solutions will have to work more closely with their distributors or retail space to make sure that consumers are educated on the features and functionalities of their product and to make sure that they are fully equipped to make modifications or even tailor some of the products if cosmetic changes will happen in store.

Customization will not only benefit brands, but also retailers by creating a better user experience and creating loyalty to a certain retail space. Brands will also be able to favor certain retailers by allowing particular customizations to only take place in certain spaces. For example, Louis Vuitton could make it possible to get pants cut to length in only their flagship stores, or could allow this service only at luxury retailers such as Saks and Bergdoffs in an attempt to tailor the experience in those areas.

Online Retail

While Independent Online retail does not have the same physical connection with the consumers in the sales process, it does have a bigger say in what items to purchase and a better means of collecting data. This gives online retailers the ability to offer just about every type of customization available and actually store the data to present valuable information to both consumers and to designers who seek to know more about their spending habits or wants.

Please find an example of this below (fictional):

Customized jeans.com allows the user to pick a certain pair of jeans then decide what length they want (cosmetic), whether or not they want to make it jeans or change the product all together to shorts (collaborative) or add a zipper to allow you to change it yourself (adaptive). They could even add an adaptive function that stores choices for future purchases or that notifies you when your most preferred or common functionalities are available on other products.

Post Sales

Adaptive customization also presents a need for a little more post sales and hands on service since products are customized by the end users. Although this might not be attractive to retailers because of the extra manpower created, this can create loyalty to a certain point of purchase.

Challenges to Mass Customization:

Depending on which type of customization and to what degree companies choose to implement these practice several challenges can arise. Below are a list of potential challenges associated with Mass Customization:

Option Overload

In their enthusiasm for mass customizations companies often times find themselves presenting a plethora of options to consumers who find themselves overwhelmed by the choices.

Data Storage

For many of the types of customization presented a certain amount of data must be gathered and analyzed by companies. Given that this is not a core competence in the luxury goods space. Companies might find this daunting and difficult to organize. Furthermore, because of the lack of online expertise in this market and the fact that many of these companies have just started to experiment in this space collection of the data could also become an ordeal.

Manufacturing/Operations Changes

For the past decade companies have revamped their manufacturing processes in order to reduce costs and increase margins, changing their manufacturing to accommodating increased

variety and perhaps even produce in smaller batches could be a large investment for many of these firms.

Overhaul of Current System

By far the most difficult challenge for many companies and what will most certainly be most difficult for luxury companies is the overhaul of current practices. Many companies by nature resist change and innovation. Given that most luxury goods companies stemmed from family own businesses and continue to be run by families who have anterior motives beyond profit making changes, particularly in the design process, could prove difficult. However given the current state of the business, as well as the role of customization in the history of luxury, this might prove to be an easier transition for these companies.

Mass Customization as an Overall Solution

Despite the challenges presented above, if applied correctly and in a moderated approach, mass customization could present itself as a solution to many of the issues currently plaguing the luxury goods industry.

In Part one of this thesis we identified 4 potential problems areas. Below please find a brief synopsis of how the solutions we discussed relate to and solve many of these problems.

Consumers:

The two main problems that surface in our analysis of consumers was the loss of credit, and a new guilt associated with spending and making luxury purchases at a time of economic downturn. While consumer spending powers are beyond the control of companies, and the influencers of today are no longer available at a price, what companies can do is play to the consumers needs through offering innovative and quality products combined with a luxury

experience. We have seen how customization in the design and sales processes can lead to both of these. Ultimately, this increase in service and functionality will help consumers justify and will warrant the premium paid for these products.

Products:

Through collaborative and adaptive methods consumers can go from producing mass products to customized products produced for the mass. If companies can achieve an increase in the functionality and design of their products they will save on cost of future development, and potentially create sustainable designs with some form of “cultural ip,” thereby differentiating themselves from both competition and counterfeiters.

Branding & Marketing:

Through the use of online channels to perform surveys and collaborative activities with customers, brands will create deeper shared experiences with consumers and as a result increased brand loyalty. Additionally, because the focus will be on making strides on the product and functionality, marketing on these attributes will be a larger focus thanks to clearer value propositions. This should ultimately cut costs on and take pressure off designers to just come up with designs for design sake and flashy branding to produce sales.

Payers/Channels:

If companies can use online channels to their advantage as a means to interface with consumers and collect useful data on purchasing habits, they can turn these channels into a test beds, marketing platforms, and brand builders all in one go. This can serve to gain information to aid in customization, and to allow users to customize products themselves or simply just to maintain a connection with the end user.

Conclusion

Despite the challenges and potential difficulty in implementation mass customization presents an enormous opportunity for companies willing to implement one or more of these processes in the luxury field. While this strategy is not ideal for every company or even industry it is well suited towards the luxury goods market because of brands' heritage and legacy within the field of customization. Mass Customization ultimately presents itself as a way in which these companies can go back to some of their old norms without incurring many of the cost that made them stray from this level of service to begin with. Furthermore, it present itself as a means to rectify many of the problems these companies' face--- increased brand extensions, lack of product innovations, and loss of contact with the consumer. Making these changes in a timely manner are of the utmost importance given the current state of the economy, and will continue to be critical because of a fundamental shift in values in US market. While Mass Customization is by no means the only solution to the problem. It is one way in which companies can revamp their business models and continuously renew themselves to ensure long term competitiveness.

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