

FUNDAÇÃO GETULIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

JULIA OLIVEIRA DA PAZ

LUXURY STRATEGY OF PERFUME BRANDS IN EMERGING MARKETS:
An exploratory study of luxury brands in the perfumes sector in Brazil

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Knowledge Field: Luxury Strategy

Advisor: Prof. Dr. Luís Henrique Pereira

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ABSTRACT

In recent years, emerging markets – considered the lead countries of the ‘developing world’ – have been outgrowing developed countries within the scope of the luxury market worldwide. Consequently, these new markets represent a promise, at the same time as a challenge to traditional luxury brands.

According to Atwal and Bryson (2014), a significant increase in the consumer base of emerging markets coupled with the geographic shift in wealth allowed international luxury brands to enter 25 new markets in 2013 such as Brazil, India, Russia and China.

Within this context, one of the challenges of the research will be to focus in one of the most significant emerging markets worldwide – Brazil – to be able to deeply understand the specificities of this market and the implications to the luxury strategy of perfume brands.

In details, this research will also focus on the Brazilian perfumes sector. The main objective is to discuss how international luxury brands of the perfumes sector adapt their strategy given the complexities and specificities of the Brazilian luxury market and its perfumes sector.

As an exploratory qualitative research, this study will analyse luxury brands of perfumes sector and their practices in Brazil from the managerial and strategic perspective. From the theory, the study will present two main perspectives on luxury strategy to, then, give an overview of the perfume sector within the Brazilian market and the specificities of the Brazilian consumer. Finally, the research will focus on the brands’ perspective to discuss how they adapt their strategies to this specific market and sector. For this approach, the methods will be in depth interviews with brands’ executives, complemented with archival research.

By exploring a vague subject within a specific context from a new perspective than usually found in the existing literature, the main contribution of this research will be for managers and leaders of luxury perfume brands to use as a possible guideline of best practices of luxury strategy within this market. In other words, through the managerial and strategic perspective studied for each of the chosen brands, the result of this research will present similarities and divergences between theory and practice in order for these managers and leaders to acknowledge the challenges and specificities to be faced within the Brazilian luxury market and perfumes sector.

KEY WORDS: Perfumes Sector, Brazilian Luxury Market, Luxury Strategy, International Marketing and Marketing Strategy.

RESUMO

Nos últimos anos os mercados emergentes – considerados os principais países do “mundo em desenvolvimento” – têm superado os países desenvolvidos no âmbito do mercado de luxo mundial. Consequentemente, ao mesmo tempo em que representam um importante desafio para marcas de luxo, também oferecem grande potencial.

De acordo com Atwal e Bryson (2014), os mercados emergentes alteraram a perspectiva do cenário mundial para o mercado de luxo uma vez que o aumento da base de consumidores, principalmente dada a ascensão da classe média com rendas mais altas, fez com que marcas internacionais de luxo entrassem em 25 novos mercados em 2013, como Índia, Brasil, China e Rússia.

Sendo assim, um importante desafio desta pesquisa será abordar um dos mercados emergentes mais significativos no cenário mundial – Brasil – de forma a entender a fundo as especificidades deste mercado e, consequentemente, as implicações que estas podem trazer às marcas de perfumes de luxo.

Mais especificamente, a pesquisa focará no setor de perfumes brasileiro. O principal objetivo é discutir como as marcas internacionais de luxo, no setor de perfumes, adaptam suas estratégias dadas as complexidades e especificidades do mercado de luxo brasileiro e seu setor de perfumes.

Na forma de pesquisa qualitativa exploratória, esta dissertação analisará marcas de luxo de perfumes e suas práticas no mercado brasileiro das perspectivas gerencial e estratégica. A análise teórica apresentará duas teorias principais sobre elementos de uma estratégia de luxo e abordará o setor de perfumes do mercado brasileiro e o próprio consumidor brasileiro. Por conseguinte, a pesquisa em si focará na perspectiva das marcas estudadas com objetivo de discutir como elas adaptam suas estratégias a este mercado e setor específicos. Neste contexto, a metodologia terá como principal fonte de informações as entrevistas em profundidade com executivos das marcas, complementada com pesquisa documental.

Através do estudo de um contexto específico e pouco abordado na literatura existente, a contribuição desta pesquisa será de direcionar a líderes e marcas deste setor um guia de melhores práticas da estratégia de luxo, específico para este mercado. Ou seja, a partir da perspectiva gerencial estudada para cada uma das marcas abordadas o resultado da pesquisa apresentará similaridades e divergências entre teoria e prática para que executivos de marcas de luxo internacionais tenham conhecimento dos desafios a serem enfrentados no contexto brasileiro.

PALAVRAS CHAVE: Setor de Perfumes, Mercado Brasileiro de Luxo, Estratégia de Luxo, Marketing Internacional e Estratégia de Marketing.

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INTRODUCTION

The main challenge of this research is to understand the managerial perspective on the luxury brands' strategy. Therefore, once it requires a deep level of information about the market and brands involved in the research and, due to the high complexity of these data, it is possible to notice a gap in this field of study specifically for the luxury market:

“... several scholars from a wide range of business areas have published research papers in branding and marketing mainly linked to consumer behavioural science and corporate and consumer-based brand equity. Other research works have been in the areas of the intricacies of luxury management linked to branding, marketing and client relationship management. For a long time, however, research in luxury as a managerial science remained sparse in all exploratory, empirical, conceptual and strategic marketing aspects.” (Okonkwo, 2009).

The choice of Brazil as the emerging market to be researched is, mainly, to allow a deeper and broader access to information and data required for the analysis – once the researcher is based in Brazil – as well as to explore a big and diversified market in which luxury strategy is still a little explored issue within the existing literature specifically from the managerial perspective. As a further motivation, and source of knowledge, the researcher has a previous experience in working for a big group of luxury brands in the perfume sector in Brazil.

Objective

The main objective of this research is to explore the specificities of the market and understand, within this context, how the luxury brands adapt their strategies to the perfumes sector.

In details, the core of the study aims at international luxury brands of imported perfumes acting in the Brazilian market – more specifically the perfumes sector – to understand in depth how they shape their strategy to adapt to the specific challenges of an emerging market.

Even further, as an emerging country where the luxury market is still in development, Brazil offers important challenges, at the same time as opportunities for luxury brands of the perfumes sector. Therefore, the objective is to explore the existing theory around this overall subject and confront it to the practices in the reality of existing brands in this market to denote similarities and divergences between theory and practice.

Specific Objectives

From the main objective, a few specific objectives emerge. First, to provide a global overview of the luxury market by identifying main players and growth drivers and a specific analysis of the specificities of the Brazilian luxury market within the context of the perfumes sector.

The second specific objective is to focus on a few chosen luxury brands to discuss from a practical and managerial perspective how they adapt their strategies to the Brazilian market specificities to be able to compare the luxury strategy in practice to the in depth analysis of the luxury strategy as in theory, its elements and recommendations.

At last, the final objective is to confront theory and practice to identify similarities and divergences between the two and the main drivers of the practical adaptations to the Brazilian market and perfumes sector.

All in all, this study aims at structuring a guideline as a contribution to managers of luxury brands of the perfumes sector who need to understand the specificities of the sector, the expectation of consumers and the best practices already in place.

Research Question

As a research topic, the focus will be on the luxury strategy of perfume brands in emerging markets. More specifically, this research aims at contributing to the existing literature by focusing the analysis on the managerial perspective on shaping the strategy to adapt it to this specific market and consumers.

Having defined all main aspects of the research, it is possible to reach the following research question: how international luxury brands, of the perfumes sector, adapt their strategy given the complexity and specificities of the Brazilian luxury market and perfumes sector?

Therefore, in order to answer to this question, this research will focus in two main aspects to be detailed in relation to the context of the Brazilian market: luxury concept and luxury strategy. First, it is fundamental to deeply understand the concept of luxury, in order to clarify what makes a brand or a product recognizable as luxurious. Secondly, it is important to understand the luxury strategy in theory and in practice and how it is shaped and influenced by the Brazilian context.

In that sense, these two dependant dimensions – luxury concept and strategy –, after being detailed as separate concepts and contextualized within the market and sector of this research, are

of most importance to understand how the brands may find an adequate strategy to the context of Brazil's luxury market and consumers.

Therefore, in order to answer to the research question this study will be structured as following. The first chapter – Literature Review – will initially discuss the concept of luxury and luxury strategy as in theory mainly focusing and Kapferer and Bastien (2012) and Keller (2009) theories to further discuss the specificities of Brazil as an emerging country within the context of its luxury market and perfumes sector. The second chapter of Methodology will present the methods used to collect data and develop the analysis of the research, which as an exploratory and qualitative research will focus on in depth interviews with four executives of luxury perfume brands currently playing within the Brazilian market. The studied brands are all part of Louis Vuitton & Moët Hennessy Group – LVMH –, which is a French group of international luxury brands and in Brazil, the Perfumes and Cosmetics division comprises seven separate brands – two mainly approached in this research are Dior and Acqua di Parma. The third and fourth chapters will present all results from the in depth interviews with each executive to discuss and analyse these results in comparison to the previously studied theories. These two chapters will be structured by dividing the results and analysis in the four main elements of the marketing mix – product, promotion and communication, price and distribution – as to facilitate the presentation of each guideline as the contribution to the managers and leaders used to follow up on this language in practice. Finally, the last chapter of Conclusions and limitations will close the study with the main contributions and challenges of this specific research as a whole.

LITERATURE REVIEW

To be able to reach the overall objective and answer to the underlying research question, it is necessary to begin by identifying and exploring the concepts and existing theories directly related to the topic of this research. Thus, this literature review will first explore the concept of luxury itself to, then, present the definitions of luxury strategy and its components based on two main theories – The Ten Characteristics of Luxury Brands (Keller, 2009) and The Luxury Strategy Antilaws (Kapferer & Bastien, 2012). Finally, it will address the concept of emerging market by studying the luxury market of Brazil, more specifically focusing on the perfumes sector.

The concept of Luxury

As a concept, luxury exists since a long time and although it has been extensively discussed in the existing literature by different authors (Kapferer, 2008; Ghosh & Varshney, 2013; Okonkwo, 2009; Kapferer & Bastien, 2012; etc.) it is still a challenge to restrict it to one unique definition.

Dubois et al (2001) address this complexity of the concept by arguing that luxury is so context specific that even one single person might have conflicting opinions about its definition. Also in a personal perspective, Ghosh and Varshney (2013) discuss that the perception of luxury is directly affected by culture, country and individual variables. Still according to these authors, in the popular sense, the word luxury relates to indulging in self-pleasure and to something other than a necessity.

Complementing this previous understanding of the concept, Okonkwo (2009) also discusses that luxury is defined within the socio-psychology scope as a result of its connection to a – personal or collective – culture, lifestyle and state of being.

Even further, Kapferer and Bastien (2012) reinforce the literary confusion with the concept of luxury and attempt to clarify it by differentiating six perspectives of luxury. First, “*luxury*” as a pure concept, the absolute luxury, which recreates the social stratification through inaccessibility and possessions – the lifestyle of the rich. Second, the relativity perception of “*a luxury*” linked to the irrationality of an excess for pure pleasure and desire – for whom in relation to what. Third, the authors define the personal perspective of luxury – “*my luxury*” – usually experiential and intimate, rare and emotional. Fourth, luxury as a sector characterized by the companies that compose it; fifth, luxury as a market in a wider sense which does not differentiate luxury, fashion and premium; and lastly, luxury as a strategy in the sense of a specific business model – to be

discussed on the following section of this paper (Kapferer & Bastien, 2012).

Among all the approaches and perspectives found in the exiting literature, the priority here is to understand the luxury concept in a managerial perspective towards brands and their strategies. Therefore, for the brands perception, luxury is linked to a recognizable style, high awareness, strong identity, emotional and symbolic associations that evoke uniqueness and exclusivity through products of high quality, controlled distribution and premium pricing (Okonkwo, 2009). Even further, luxury brands are considered as exclusive and expensive, thus their brand image of prestige can only be maintained through limited accessibility in geographical and socio-demographical terms (Kitchen, McColl & Truong, 2009).

Indeed, also in this managerial and strategic perspective, there are various definitions towards a luxury strategy that will be discussed further in this research after delineating the luxury market and its trends.

The Luxury Market

As discussed previously, the luxury market has been booming since the early 1990s for two main reasons: first, improved economic factors creating a favourable environment including higher disposable income, a growing wealthy class in emerging countries and an increasing work rate among women. Second, the consumption of luxury goods has increasingly reached lower classes of society in most countries (Kitchen, McColl & Truong, 2009).

Other factors boosting this growth of the luxury market are also consequences of the globalization such as wealth-creation opportunities, new market segments, digital communications, international travel and culture convergence. In addition, the expansion of the consumers base and the lowering of entry barriers to the industry consequently resulted in the rise in offerings and competition overall across the market (Okonkwo, 2009).

Between 2010 and 2013 the global luxury market recorded a 28% growth registering sales of 547 billion euros in 2013 (ECCIA, 2014). Within this market, the luxury industry was officially categorized by ECCIA – European Cultural Creative Industries Alliance – in fifteen different sectors: (1) Watches & Jewelry, (2) Fashion, (3) Perfumes & Cosmetics, (4) Accessories, (5) Leather Goods, (6) Gastronomy, (7) Furniture & Furnishing, (9) Design Household Equipment, (10) Cars, (11) Yachts, (12) Wines & Spirits, (13) Hotels and Leisure Experience, (14) Retail and Auction Houses, and (15) Publishing. Among all sectors of the global luxury market Deloitte (2015) ranked the 100 top

luxury goods companies – see Table 1 for the figures of the Top 10.

Table 1 – figures for the top 10 luxury goods companies (2011-2013)

Luxury Goods Sales Rank FY 2013	Company name	Country of Origin	FY13 luxury goods sales (US\$mil)	FY13 total revenue (US\$mil)	FY13 luxury goods sales growth*	FY13 net profit margin**	FY13 return on assets*	FY11-13 luxury goods sales CAGR****
1	LVMH Moët Hennessey - Louis Vuitton SA	France	21.761	38.717	0,0%	13,5%	7,1%	8,7%
2	Compagnie Financiere Richemont SA	Switzerland	13.429	14.275	4,2%	19,4%	13,0%	8,9%
3	The Estée Lauder Companies Inc.	United States	10.969	10.969	7,7%	11,0%	15,4%	6,3%
4	Chow Tai Fook Jewellery Group Ltd.	Hong Kong	9.979	9.979	34,8%	9,6%	12,1%	17,0%
5	Luxottica Group SA	Italy	9.713	9.713	3,2%	7,5%	6,8%	8,4%
6	The Swatch Group Ltd.	Switzerland	8.822	9.128	8,8%	22,0%	16,6%	9,9%
7	Kering SA	France	8.594	12.948	4,2%	0,4%	0,2%	14,7%
8	L'Oréal Luxe	France	7.791	7.791	5,3%	14,7%	19,6%	10,5%
9	Ralph Lauren Corporation	United States	7.450	7.450	7,3%	10,4%	12,7%	4,2%
10	PVH Corp.	United States	6.200	8.186	42,0%	1,8%	1,2%	22,7%
Top 10			104.707	129.157				
Top 100			214.231	247.624				
Top 10 - Economic concentration			48,9%	29,5%				

* Top 10 and Top 100 sales growth figures are sales-weighted, currency-adjusted composites
**Top 10 and Top 100 figures are sales-weighted composites
*** Compound annual growth rate

Source: Adapted from the Global Powers of Luxury Goods 2015 (Deloitte, 2015)

In a traditional view, luxury was meant for the “happy-few”, but with the growth of the industry, luxury is no longer restricted to the elite class of the society and the concept of mass-luxury is getting popular (Ghosh & Varshney, 2013). This change in perception is driving the shift of a ‘top-down’ relationship to a ‘bottom-up’ affiliation between luxury brands and the client, in which the last one gains even more importance and power by the emergence of new luxury markets such as BRIC countries plus Middle East and Mexico (Okonkwo, 2009).

Within this context, the luxury market is undergoing a democratization phenomenon – not only including members of the wealthiest social class, but also modest classes – such that the emergence of new luxury brands, has blurred the line delimiting traditional luxury brands from other brands (Kitchen, McColl & Truong, 2009).

Indeed, for Kapferer and Bastien (2012), the democratization is not only the main driver of luxury, but also the reason for the success of this market. In details, the authors explain that this phenomenon allows an exponentially growing consumer base to have access to luxury at the same time as the luxury itself becomes the driver of the social stratification within this market. However, they also highlight that among the opportunities of democratizing luxury there is a major risk of

vulgarization to be avoided by each brand implementing the luxury strategy.

Amidst risks and opportunities, the democratization of the luxury market emerged when brands started launching a widening range of offers less expensive than traditional luxury goods but still with a well-confined exclusivity in terms of both accessibility and price (Kitchen, McColl & Truong, 2009) – to reach to the growing consumer base allowed by democratization. In other words, new luxury brands adopted an innovative positioning that Kitchen, McColl and Truong (2009) identified as *masstige* strategy, which combines differentiation from middle-range brands by maintaining a perceived prestige close to the traditional brands to a broad appeal of reasonable price premiums in order to target the wider base of middle or lower-class consumers not reached by traditional brands. However, the authors still argue that the critical success factor of *masstige* brands lies in the equilibrium between prestige differentiation and reasonable price premium, in the sense that, to remain in the luxury market, these price premiums still need to ensure limited accessibility for the mass market, so middle class consumers should have access to the brand only on an occasional basis.

Despite the emergence of the *masstige* strategy as a new positioning for new luxury brands to be able to reach to the lower classes of new consumers, it is important to understand the theory behind the traditional luxury strategy once the main focus of the analysis of this research will be on traditional luxury brands. Therefore, the following section will present the main elements of the luxury strategy discussed by different authors.

Luxury Strategy

The paradox of luxury brands regards to the trade-off between exclusivity and accessibility. At the same time as luxury brands must be recognised as out of the ordinary and aspirational, they also need to achieve sales growth and deliver profitability – which generally demands expansion in the customer base (Keller, 2009).

Consequently, increasing sales by becoming more affordable means less exclusivity and thus curtails the luxury image – vulgarization risk discussed by Kapferer and Bastien (2012). In contrast, what Gosh and Varshney (2013) discuss is that because exclusivity is something that is perceived by the consumers, once a luxury brand is able to maintain the perception of the consumer towards the brand exclusivity, production and sales may be expanded and increased without affecting the brand's luxury positioning.

Moreover, Gosh and Varshney (2013) identify four dimensions they consider unanimous among researchers overall: (1) premium quality, (2) aesthetics, (3) expensiveness and (4) history. After analysing each of the dimensions, in their Integrated Conceptual Framework of Luxury Goods Consumption, the authors point out six dimensions to define a luxury product or brand: (1) perceived premium quality, (2) aesthetics, (3) expensiveness, (4) history, (5) perceived utility and (6) perceived uniqueness or exclusivity.

In accordance to the previous authors, also in order to define luxury products, Allèrés (2000) presents four other dimensions. The cultural dimension regards to the creator of the products or brand and the history of the creator himself or of the creation of the product. The social dimension, in the sense of the aspiration of the individual to become part of a specific group or, on the contrary, differentiate himself from others. The functional dimension considers the utility or the perceived utility of the product, its relevance and use. Lastly, the symbolic dimension as the result achieved by each individual after using the product, which could be either a narcissistic result from consuming the product or a hedonistic result.

Within the complexity of the concept and, thus, of defining and differentiating a luxury product and luxury brand it is also complicated to define a luxury strategy, which, as Kapferer and Bastien (2012) discuss, should be considered as a specific business model. Therefore, each dimension or characteristic of a luxury product or brand help in guiding the strategy of a luxury brand, as it is true for ‘The Ten Characteristics of Luxury Brands’ presented by Keller (2009).

In this context and as it was previously outlined, two main approaches towards luxury strategy will be discussed in further details as they relate more specifically to the objective of this research of understanding the theoretical elements of a traditional luxury strategy. First, Keller’s ten characteristics of luxury brands will be described in details and further related to the analysis of the research. Second, Kapferer and Bastien (2012) business model of a luxury strategy will be presented here to also further contribute to the analysis.

Luxury Strategy – The Ten Characteristics of Luxury Brands

The first perspective to be addressed here is the one from Keller (2009) where he listed ten defining characteristics of luxury brands. As a strategic and tactical guideline to a brands' luxury strategy, the author argues that it is essential for marketers of the luxury market to be constantly aware of all fundamental changes undergoing this industry whether they are technological changes, consumer cultural changes or even globalisation. In this sense, the author highlights within the ten characteristics approach how the competitive advantages of luxury brands actually come from their image and the value they truly deliver.

According to Keller (2009), the ten defining characteristics of luxury brands are:

- (1) Maintaining a premium image for luxury brands is crucial and controlling that image is a priority. This first characteristic regards to the fact that each luxury brand should strategically manage its premium image to be strong, consistent, cohesive and globally relevant – not only because it is the first justification of a luxury price – also because this image will be translated into the brand's prestige.
- (2) Luxury branding typically involves the creation of many intangible brand associations and an aspirational image. In other words, it is strategic for the brand to transfer its meaning, history, heritage and symbolic value to their consumers as a way to incite the word of mouth and interpersonal influences around the status and achievement that will turn out to be aspirations and motivations for new prospects.
- (3) All aspects of the marketing program for luxury brands must be aligned to ensure quality products and services plus pleasurable purchase and consumption experiences. In details, luxury consumers have high expectations that brands must always meet or succeed, thus, it is essential for the brand to deliver flawless value in every aspect of the purchase and consumption experience.
- (4) Brand elements besides brand names – logos, symbols, packaging, signage and so on – can be important drivers of brand equity for luxury brands. This characteristic is strategic once any brand element is extremely important to signal the quality and reinforce the prestige image to all consumers and their network.
- (5) Secondary associations from linked personalities, events, countries and other entities can be important drivers of brand equity for luxury brands. In this case, the positive image of third

parties associated to the luxury brand help to reinforce the latter's own image directly or indirectly.

- (6) Luxury brands must carefully control distribution via a selective channel strategy. As a crucial element of the luxury strategy, distribution should be highly selective and controlled to guarantee exclusivity and prestige of the brand – reason why online sales are much challenging in luxury.
- (7) Luxury brands must employ a premium pricing strategy with strong quality cues and few discounts and mark downs. Also a crucial and strategic element, because luxury brands must create and deliver strong and high value, any form of discount or mark down should be selectively used not to send a bad signal towards the worth of the brand.
- (8) Brand architecture for luxury brands must be managed very carefully. This characteristic explores the challenge previously mentioned of the equilibrium between exclusivity and prestige versus expanding revenues and profitability – trade off between exclusivity and accessibility – in the way each luxury brand chooses to apply its brand elements to its products and services.
- (9) Competition for luxury brands must be defined broadly as they often compete with other luxury brands from other categories for discretionary consumer dollars. In other words, luxury brands competition goes beyond a specific category or market, thus brands must recognise any discretionary consumption considered by their consumers.
- (10) Luxury brands must legally protect all trademarks and aggressively combat counterfeits. This last characteristic regards to an important element of the luxury strategy, which is to be alert at all times for the risks of counterfeiting and to proactively enforce infractions and illegalities.

All these ten characteristics together are considered to be the basic foundation of a luxury strategy and a guideline for practices that luxury brands should follow, although the author recognizes that further details may vary according to each brand or category.

Following his ten characteristics approach, Keller (2009) also discusses the most important trade-offs considered as the main challenges luxury brands face in designing their strategy. The top three trade-offs he points out are: exclusivity versus accessibility, as for maintaining an aspirational image but expanding the customer base to reach sales and profits; classic versus contemporary image, in the sense of promoting its history and heritage but still recruiting younger

customers; and acquisition versus retention, regarding the best allocation of resources towards current versus prospecting customers.

Therefore, in order to address these trade-offs, Keller suggests two strategic focuses: brand equity measurement and brand architecture. The author outlines specific measures that managers should closely monitor to guarantee the right strategy is being followed. First, for the brand equity measurement, four main metrics are presented as brand strength and stature, brand imagery, brand feelings and brand expectations. Regarding the first – brand strength and stature – the author stresses that to be a leader in the luxury market the brand must show high levels of differentiation, energy, relevance, esteem and knowledge. As for brand imagery, Keller recommends luxury brands to control and be aware of all tangibles and intangibles aspects of the brand – such as idealised user profiles, strong purchase or usage associations, personality and values recognition (sophistication or competence, for example) and strong history, heritage and experiences association (personal and idiosyncratic). Third, brand feelings, relate to the personal relationship of the luxury brand with the customers and are crucial in terms of the emotional responses regarding the brand's warmth, fun, excitement, security, social approval and self-respect. Finally, brand expectations should be carefully managed once for luxury brands these expectations are very high and will translate in what the customers believe the brand could, should or will do (Keller, 2009).

In addition, following the metrics for the brand equity measurement, the author also discusses brand architecture of luxury brands by offering possible alternatives through which they can maximize growth and profits, for example, vertical extensions, sub-branding or linking brand elements. Although these may be alternative options considered strategic for luxury brands, once they are not necessarily part of the core strategy of these brands, they distance from the underlying focus, thus they will not be addressed here in details.

All the ten characteristics together with the main metrics presented by Keller outline the core foundation and challenges of a luxury strategy. This approach will be part of the base for the analysis and discussion to come later in this research.

Another perspective on luxury strategy to be studied into further details will be the following from Kapferer and Bastien (2012).

Luxury Strategy Antilaws

Kapferer and Bastien (2012) discuss their view on luxury strategy in great depth from understanding the concept of luxury itself and analysing the consumers of luxury brands to explaining each aspect of the luxury strategy, by defining it as the only way for luxury brands to succeed in the luxury market.

More importantly, they argue that “the luxury strategy (...) is a specific original strategy that can be applied in any market” (Kapferer and Bastien, 2012, pg 113).

In these authors perspective, luxury brands require specific management thus traditional marketing is not applicable to luxury. In this context, Kapferer and Bastien (2012) present their theory of the anti-laws of marketing consisting of twenty-four management principles, which delineate the specificities of the luxury strategy. Each anti-law will be briefly discussed to the extent that they will contribute to the further discussion of the luxury brands to be analysed.

- (1) Forget about ‘positioning’, luxury is not comparative. The idea that luxury is superlative implies that the brand should have a timeless, unique and authentic identity which does not adapt, change or depend of a competitor – no need to position or compare, just be.
- (2) Does your product have enough flaws? Flaws as not only the source of charm and authenticity but also emotion – going beyond perfection in order to give the product a personality and character.
- (3) Do not pander to your customers’ wishes. The main message here is that, although luxury brands should also give importance to clients’ wishes and demands, they should never threaten their identity and authenticity and should prioritize keeping their attraction and mystique in the long-term.
- (4) Keep non-enthusiasts out. In other words, differently from traditional marketing, which focuses on extending market penetration to reach sales growth, luxury brands should focus on exclusivity not to dilute their value nor harm the dream.
- (5) Do not respond to rising demand. Also linked to the previous anti-law, this principle also highlights the importance of the exclusivity in the sense that a luxury brand should not be accessible, but should ensure to have more people who aspire its products and dream of buying them than people who can actually buy them.
- (6) Dominate the client. Dominating in the sense of keeping enough distance to preserve the

mystery and to be able to educate and advise the client when applicable.

- (7) Make it difficult for clients to buy. Again regarding to limited distribution and low accessibility, luxury brands should create obstacles – whether financial, cultural, logistical or time – to immediate consumption in order to foster the desire and create the feeling that each consumer earned to buy each luxury product.
- (8) Protect clients from non-clients, the big from the small. For luxury brands it is crucial to create segregation among their clients, differentiate and give privilege to the existing rather than the new.
- (9) The role of advertising is not to sell. It is challenging but essential for luxury brands to focus their advertising on recreating and sustaining the dream as to avoid vulgarization through increased visibility.
- (10) Communicate to those you are not targeting. Communication of luxury brands and products must go beyond brand awareness and create prestige by reinforcing the brand image to non-target consumers, which will turn into aspirational consumers thus reinforcing the value of inaccessibility and respect for those who earn these products.
- (11) The presumed price should always seem higher than the actual price. In order to create attractiveness and increase value of the brand or product, it is essential for luxury brands never to communicate or mention prices so to allow overestimation and appreciation.
- (12) Luxury sets the price, price does not set luxury. Contrary to the supply-based marketing, luxury should set the price not based on the market but on the luxury perception of the client towards each product.
- (13) Raise your prices as time goes on in order to increase demand. The authors explain that in luxury price should only be a detail and never an issue. Therefore, prices are not supposed to be reasonable – once luxury is not comparative – but should foster rarity and exclusivity of both the product and brand.
- (14) Keep raising the average price of the product range. Restratisfying and restoring the gap is of most importance for luxury brands to maintain the meritocracy among their clients and value.
- (15) Do not sell. Consumers should be attracted rather than should luxury brands chase them – basic principle that the luxury strategy opposes a volume strategy.
- (16) Keep stars out of your advertising. It is extremely risky for luxury brands to associate with

celebrities mainly because it could destroy the dream by bringing the product to the reality of an ordinary mortal and making the product secondary as a mere accessory of that star's life.

- (17) Cultivate closeness to the arts for initiates. Luxury in its high correlation to art should be a promoter of arts and trendsetter rather than follower, thus, brands in the luxury market should remain close of unpopular or non-popular arts as most likely emerging arts.
- (18) Do not relocate your factories. The main purpose of this anti-law regards to the fact that luxury strategy is inversely related to the principle of cost reduction and, even more importantly, the fact that the origin of the brand is of most importance and the luxury is embedded in a culture or country of origin – the dream must be nourished and authenticity is key.
- (19) Do not hire consultants. The authors set this principle as they argue that consultants may reduce the luxury uniqueness and erode the specificities that differentiate the products and brand. In addition, although luxury brands should listen to their clients, they are not led by them and consultants act to fulfil needs rather than create the dream.
- (20) Do not test. Similar to the previous principle, testing is a way of responding to consumers' needs or solving their problems, while luxury is supposed to be a taste educator and should shape the consumers' preferences through its legitimacy.
- (21) Do not look for consensus. Luxury strategy is not about the majority but really the differentiation and exclusivity.
- (22) Do not look after group synergies. As the pricing power is one of the strongest assets of the luxury strategy, group synergies provide a risk of unifying and killing the dream around that specific luxury brand.
- (23) Do not look for cost reduction. The luxury strategy is founded on creating value, however this creation must come from added value and never cost reduction.
- (24) Just sell marginally on the internet. Finally, the last principle discusses distribution again, and, although the authors recognize exceptions, they state that internet sales opposes to all core principles of luxury once it allows accessibility, instantaneity, availability, price reductions, among other mass initiatives.

Through all the twenty-four principles of the luxury management, Kapferer and Bastien (2012) outline the luxury strategy and its most important components as they strongly oppose to each initiative of a traditional marketing strategy – any other than luxury.

Altogether, the anti-laws outlined by the authors cover each element of the marketing mix within the context of the luxury strategy – product or service, pricing, distribution and communication or promotion.

However, despite the uniqueness of the luxury strategy as the authors present, they also recognize that specific product categories may demand adaptations to this strategy. Furthermore, they suggest specific luxury business models for specific cases and, among them, they explain that perfumes alone have a different business model adapted to the luxury context.

As the sector of perfumes is the core focus of this research, the suggested business model will be presented in details in the following item of this paper.

The Perfumes Business Model

According to Kapferer and Bastien (2012) perfumes are a highly important and specific product category within the luxury market. The two main singularities of these products regard to the personal and close relationship each consumer establishes with each fragrance and to the unique possibility – as a luxury product – to be sold at accessible prices, which already contradicts the pricing principles of the true luxury strategy.

The authors first discuss the perfume sector overall by describing its “three strong, original and structuring characteristics” (Kapferer & Bastien, 2012, pp 312), which fundamentally shape the luxury business model for perfumes. First, in terms of communication, in the perfumes sector, luxury brands may even use mass communication – as another exception to the principles – however, they should never mention the smell. There are no right words to describe a scent unless common known descriptions are used – in general for deodorants and air fresheners far from the luxury market – that would certainly destroy the dream by killing the crucial originality of a luxury product. In this sense, the first structuring characteristic regards to the fact that communication should essentially promote the brand’s image once a scent alone does not make luxury.

Secondly, Kapferer and Bastien (2012) also characterize the perfume sector by recognizing these products as absolutely unique within the luxury market due to its main specificity of being both timeless and rapidly emptied. In other words, regarding to distribution, the strategy of

perfumes comes closer to the traditional marketing one once it requires regular purchase.

Finally, in identifying the peculiarities of the sector, the authors argue that the economics of the perfume business is also very specific. Due to high investments in maintaining the brand and the dream – through communication, for example – plus the high costs of launching a perfume, perfume luxury brands survive on low profitability. Despite the high level of investments required in this sector, the pressure from mass distribution also pushes profitability down and forces luxury brands to either control their distribution or maintain its originality to the most.

Within this context, Kapferer and Bastien (2012) define the only business model for luxury perfumes as one where they are combined with haute couture. In details, this business model is based on the premise that the dream of luxury perfumes, its true luxury part, is based – not on the scent, despite its wonderful complexity – also on the universe of a great couturier. Therefore, the business model of a luxury perfume translates into introducing a perfume capable of immortalizing the brand's couturier through its unique and new composition – as the only way of reaching long term high financial results.

In terms of the luxury strategy, all researched authors have clear and specific directions in terms of what are the principles, characteristics or even rules to be followed as to be successful as a luxury brand. Based on the latter discussion, the most adaptation to the luxury strategy was the recommendation from Kapferer and Bastien (2012) of a business model adequate to perfumes – but still in alignment with luxury.

Moving on towards the focus of understanding the impacts on the strategy of these perfume luxury brands of doing business in Brazil, the following sections will discuss in greater depth the context of the Brazilian market and its perfumes sector.

Emerging markets: Brazil

The World Bank definition of an emerging market is that of a GDP per-capita income below \$8.000 per year – however, this per capita income also includes underdeveloped countries not relevant for this research – and, in this context, emerging markets account for 80% of the world's population and over 20% of global exports – healthier markets in South America and Southeast Asia. Although there is no universal agreement on what constitutes an emerging market, they may be considered as potentially dynamic and rapidly growing economies (Herstein & Jaffe, 2007).

As a consequence of this rapid growth, retailers in emerging markets face the challenge of keeping up with the demographic changes and the rapid market expansion. In other terms, the base of consumers is constantly growing and average income steadily rising as we may see a significant migration from rural to urban areas – 75% of Brazilian citizens live in cities. Therefore, consumers develop new needs and, probably, greater financial resources at the same time as countries make it easier for them to get and use credit. Brazil is a strong example of this increasing purchasing power of consumers due to easier credit conditions. (D’Andrea, Marcotte & Morrison, 2010).

Another common usual characteristic of these markets regards to institutional weaknesses mainly low level of economic freedom and high level of corruption (Holtbrugge & Baron, 2013). Regarding corruption, it tends to be a major issue in the BRIC countries as the four of them are low ranked among the 168 countries in the Corruption Perceptions Index 2015 – Russia 119th, India 76th, China 83rd and Brazil 76th – with scores ranging between the 3rd and 4th highest levels of corruption in the Transparency International scale (TRANSPARENCY INTERNATIONAL, 2015). Consequently, according to Holtbrugge and Baron (2013), not only the widespread corruption but also underdeveloped legal systems, inexperienced bureaucracies and a lack of reliable business information are big issues faced by foreign firms in these markets

Specifically for Brazil, these firms struggle towards high unemployment rates, corruption scandals, a fractured political system and challenges in tax and social reforms (Holtbrugge & Baron, 2013). Even further, considering the employment scenario, Brazil is globally considered to be one of the most expensive countries to employ workers due to high taxes, inflexible labour laws, mandatory benefits for employees and a powerful trade union sector. As practical examples, the minimum wage combined to substantial ‘hidden’ costs – vacations, bonuses, food and transport allowances plus private healthcare provisions – characterizes this huge cost for employing in Brazil (Latin America Monitor, 2015).

Specifically for the luxury market, in 2011, the BRIC countries already represented 18-22% of the world’s luxury market with a growth rate of 20-30% (Som, 2011) and by 2017 they are expected to account for 52% of the global luxury market (Diniz, 2014). In this context, the long-term opportunities may be distinguished in three factors: continuing new space opportunities – specific urban markets in emerging countries may still reach the “sweet spot” for luxury penetration; faster luxury demand due to GDP growth outpacing developed countries; and, rising tourists flows due to wealth creation (Bernstein Research, 2010).

Considering Brazil, the luxury industry is characterized by the presence of ample natural resources, for example, precious stones that enable businesses such as H Stern to be fully integrated from mines to retail. Regarding fashion, the Brazilian industry is dynamic and capable of producing everything internally, so far highly focused in domestic market. Nevertheless, considering all BRIC countries, there are a billion consumers with huge potential towards luxury goods considering a landscape of challenges, strengths and weaknesses. For challenges, three most important ones may be identified as: education and knowledge about the luxury industry; size and population of these countries – most populated in the world; and, distribution – not many exclusive luxury destinations can still be found, as in developed countries (Som, 2011).

As a conclusion, considering the potential and representativeness of these markets in the global luxury market, emerging market retailers dealing with boosting new middle classes – as in the case of Brazil – have a lot to teach to multinationals about rapid adaptation, flexibility and expecting the unexpected – qualities that constantly help these chains remain competitive (D’Andrea, Marcotte & Morrison, 2010).

The Luxury Market in Brazil

Following the discussion of such an important representativeness of emerging markets in the world’s luxury market, in a report from McKinsey & Company, the author Massimo Mazza reinforces how the worldwide growth of luxury consumption is being led by the BRIC countries having Brazil as the third largest contributor following China and Russia. Even further, the author states that by 2017, 48% of this consumption will come from emerging markets and that Brazil is expected to be ranked worldwide in the top 15 luxury goods markets (McKinsey & CO, 2014).

From a different perspective, in her article for “Luxury Society”, Fflur Roberts – Euromonitor International for global Luxury Goods industry – argues that, taking into account the wide territory of the Brazilian market, the luxury market underperforms once the major brands still restrict their presence to the three main cities of the country thus missing out on the fuelling demand from the new middle class concentrated in second- and third-tier cities. Furthermore, she discusses how the challenges of high import tariffs in an economic slowdown may call for a structural reform to improve both the infrastructure – fighting distribution challenge – and business environment to avoid creating barriers for both brands and consumers of luxury goods (Roberts, 2014).

Despite the economic slowdown and challenges hitting the Brazilian market, as previously

mentioned; the strong consumption leading the luxury market (McKinsey & CO, 2014) is due to a continuously growing middle class as the new consumer class which, according to IBGE – the Brazilian Institute of Geography and Statistics –, nowadays accounts for more than half of the 200 million people population.

Within this new context, considering that the number of luxury brands coming to Brazil from across borders has more than doubled since 2009, Massimo Mazza argues that it is essential for the success of these brands to understand the uniqueness of the Brazilian consumer and the specificities they bring to the Brazilian luxury market (McKinsey & CO, 2014). Moreover, the author discusses five commonalities of Brazilian luxury consumers that each brand should be aware starting for their characteristic of being “global and local consumers”. In details, he argues that the majority of Brazilians still choose to purchase their luxury goods while traveling overseas in order to get a better price and better selection – consequences of challenges in distribution and tax burdens forcing the cost up. In other words, Fflur Roberts also explains how the high operational costs and import tariffs may hamper the success of international brands in Brazil by exemplifying that the same luxury good in Brazil may cost 50% higher than it costs in the US (Roberts, 2014). Consequently, luxury brands must choose whether their stores in Brazil should be more of a showcase for the local consumers that would choose to buy abroad; or a generator of sales probably by squeezing margins to affordable prices or offering credit card instalments payments with no interest rate to increase the attractiveness of buying locally and widen the consumer base (McKinsey & CO, 2014).

Second commonality discussed by Mazza is the “immediate consumption” characteristic of the Brazilian consumer, implicating on the availability the luxury goods immediately. The main issue which may result from this immediacy regards to the pressure it may generate on luxury launches, for example, that may become susceptible to grey networks within the Brazilian market if not quickly available officially. The third one is the “service and convenience” commonality, in the sense that Brazilian consumers overall take this concept to the extreme by setting high expectations towards belonging to an exclusive and rarefied environment with no extra cost or even having private access to products, for example, within their homes. Fourth, “personalization” as the feeling of having a luxury product made for them personally or as part of a select group (McKinsey & CO, 2014). In regards to this personalization characteristic, a different study also highlights the experiential and emotional aspect of Brazilian consumers who seek to establish an affectionate relationship with the luxury brands in order to trust them and as a way of personally relating and identifying with them (Institut français d’opinion

publique, 2011).

Finally, the “credit at all costs” mindset – maybe the most critical one to this new consumer class – means being able to pay for the luxury goods in monthly instalments through credit card not even by necessity but because they can, as it is already true for 70% of the sales of luxury products in Brazil, according to the report (McKinsey & CO, 2014). Roberts also reinforces this credit culture which, according to her, is enthusiastically embraced by the new middle-class thus it is responsible for pushing the luxury expenditure growth even more rapidly (Roberts, 2014).

All in all, in order to appeal and reach to these emerging Brazilian consumers with such a unique profile and specific demands, the ways in which luxury brands are adapting are shifting the trend in this market towards a democratization of luxury goods (McKinsey & CO, 2014) or a “popularization” of luxury products (“Brasil tem o maior mercado de perfumes do mundo,” 2014).

Within the context of this luxury market and this consumer profile, it is essential to deepen the research to the sector of Perfumes in Brazil in order to understand the further specificities of the sector within the market as a whole.

The Perfumes Sector in Brazil

The performance of the sector of perfumes in Brazil has registered high stable growth rates for the last years and expectations are still high to keep this upwards trend for the next few years until 2018. In the five years between 2009 and 2013 this sector already registered a CAGR – Compound Annual Growth Rate – of 10,7% much higher than usually high performing countries such as US, which registered 2,5% in the same period (“MarketLine Industry Profile: Fragrances in Brazil,” 2014).

The importance of the Brazilian perfumes sector is not only relevant within the Brazilian market, but also across borders. Besides the fact that, according to IBGE, the sector for Personal Hygiene, Perfumes and Cosmetics (HPPC) accounted for 1,8% of the Brazilian GDP already in 2014; Euromonitor has ranked Brazil as the third biggest market for this sector in the world – following USA and China – registering 9,4% of the worldwide consumption (Gonzales, 2016).

Even further, according to ABIHPEC, perfumes are at the top of the list as the most consumed products within the HPPC sector in Brazil (Gonzales, 2016). This sector registered a 11% nominal growth with R\$ 101,7 bi in revenues in 2014 of which R\$17,1 bi were represented by the perfumes consumption alone (“Mercado brasileiro de cosméticos cresceu de 11% em 2014,”

2015).

Consequently, more importantly than being the third biggest market worldwide for the HPPC sector, Brazil is already ranked as the biggest consumption of perfumes in the world – where 89% of the 200 million people population owns at least one bottle. Even though Brazil is still 10th of the world in international premium fragrances – mainly due to high taxes and poor distribution – with 93% of the market being controlled by local distributors, the potential of the market has already attracted many big luxury groups such as LVMH, L’Oréal, Chanel, among others (“Brasil tem o maior mercado de perfumes do mundo,” 2014).

In consequence of local distributors having high power and control in this sector, the perfumes luxury sector in Brazil is identified as segmented in two main channels of distribution: department stores with the highest share of 53,6% of overall market value and specialist retailers still playing an important role with 28,3% of total value. Moreover, in terms of the category segmentation, Female fragrances still account for the largest share of the Brazilian market with 60,1% in total value, while Male fragrances represent 34,7% of the total market – the remaining 5,2% are categorized as unisex fragrances (“MarketLine Industry Profile: Fragrances in Brazil,” 2014).

In light of this segmentation, the potential of this market lies on the emergent middle class consumer who aspires to own a luxurious bottle of perfume; however, according to the perfumes specialist Renata Ashcar (as cited in “Brasil tem o maior mercado de perfumes do mundo,” 2014), this consumer still needs to understand and discover the DNA of each luxury brand such as Dior, Chanel, among others. Within this context, the Brazilian perfume sector goes through a `premiumization` process driving a strong middle class towards a more luxurious world specially through popular retailers – such as Lojas Renner and Magazine Luiza – boosting the distribution of luxury brands with long term payment deals to reach to these new consumers (“Brasil tem o maior mercado de perfumes do mundo,” 2014).

Moreover, the arrival of the international retailer, Sephora, with an aggressive expansion plan to open 30 points of sales until the end of 2017, has also been a new way of access of the Brazilian consumer to luxurious and international perfume brands. Together with its online sales and by giving credit for these new consumers to finance their purchases in long term payments – such as other national retailers –, Sephora offers Brazilian consumers an attractive combination which matches the emergent Brazilian consumer profile (Tucci, 2015).

Amidst the potential and growing trends of the sector, the Brazilian market still faces challenges and the number one is still distribution. In a wide territory of difficult access, the biggest popular retailers and specialized distributors investing in distribution are yet the winners in reaching to the growing consumer base – of the arising middle class – together with online sales country wise. A few examples in retail are the expanding network of Beauty Box – affiliate of O Boticario expecting to open 80 points of sales in five years; Lojas Renner increasing its number of stores to over 400 until 2021; and both Sephora and Belezanaweb with strong activity and sales online. (Tucci, 2015).

In conclusion, all theories and data presented in this review – from the luxury concepts and strategies to the emerging markets context, luxury market and perfumes sector – will support the analysis of the luxury brands within this market and, consequently, their luxury strategies as to contribute to the main objective of answering to the research question.

As to connect all inputs from the existing theory and the results to be presented furtherly in this research all data will be structured within the elements of the Marketing Mix – product, promotion and communication, price and distribution – as shown in Table 1 below.

Table 1: Theory Analysis - Marketing Mix

Marketing Mix	Theory	Author
Product	3) Ensure quality products and services plus pleasurable purchase and consumption experiences	Keller (2009)
	4) Brand elements besides brand names can be important drivers of brand equity for luxury brands	Keller (2009)
	2) Does your product have enough flaws?	Kapferer & Bastien (2012)
Product	3) Do not pander to your customer's wishes	Kapferer & Bastien (2012)
	23) Do not look for cost reduction	Kapferer & Bastien (2012)
Product	3) Do not pander to your customer's wishes	Kapferer & Bastien (2012)
	12) Luxury sets the price; price does not set luxury	Kapferer & Bastien (2012)
Product	3) Ensure quality products and services plus pleasurable purchase and consumption experiences	Keller (2009)
Promotion and Communication	7) Luxury brands must employ a premium pricing strategy with strong quality cues and few discounts and mark downs	Keller (2009)
Promotion and Communication	8) Protect clients from non-clients, the big from the small	Kapferer & Bastien (2012)
Promotion and Communication	1) Maintaining a premium image for luxury brands is crucial and controlling that image is a priority	Keller (2009)
	2) Create intangible brand associations and aspirational image by transferring brand's heritage, history, meaning and symbolic value	Keller (2009)
	10) Communicate to those you are not targeting	Kapferer & Bastien (2012)
Promotion and Communication	1) Forget about 'positioning', luxury is not comparative	Kapferer & Bastien (2012)
	9) Competition for luxury brands must be defined broadly, beyond a category or market	Keller (2009)
Distribution	6) Luxury brands must carefully control distribution via a selective channel strategy	Keller (2009)
	8) Brand architecture for luxury brands must be managed very carefully – exclusivity vs accessibility trade off	Keller (2009)
	5) Do not respond to rising demand	Kapferer & Bastien (2012)
	7) Make it difficult for clients to buy	Kapferer & Bastien (2012)
	4) Keep non-enthusiasts out	Kapferer & Bastien (2012)
	8) Protect clients from non-clients, the big from the small	Kapferer & Bastien (2012)
Distribution	24) Just sell marginally on the internet	Kapferer & Bastien (2012)
Price	7) Luxury brands must employ a premium pricing strategy with strong quality cues and few discounts	Keller (2009)

	and mark downs	
	1) Luxury sets the price; price does not set luxury	Kapferer & Bastien (2012)
	13) Raise your prices as time goes on in order to increase demand	Kapferer & Bastien (2012)
Price	1) Forget about 'positioning', luxury is not comparative	Kapferer & Bastien (2012)
	9) Competition for luxury brands must be defined broadly, beyond a specific category or market	Keller (2009)
Price	8) Brand architecture for luxury brands must be managed very carefully – exclusivity vs accessibility trade off	Keller (2009)
	7) Keep non-enthusiasts out	Kapferer & Bastien (2012)
	7) Make it difficult for clients to buy	Kapferer & Bastien (2012)
	11) The presumed price should always seem higher than the actual price	Kapferer & Bastien (2012)

METHODOLOGY

This aim of this chapter is really to define how exactly this research was conducted. So, first, the overall methodological approach will be discussed to be able to, after, go in details regarding the methods and analysis used and developed to, finally, answer to the research question proposed.

An exploratory research with a qualitative approach

According to Kumar (2011), one reason for choosing an exploratory research is when the objective of the research is to explore and better understand an area where little is known. Even further, Malhotra (2010) explains that the goal of exploratory researches is to provide new useful insights on how and why things are happening by exploring ideas and clarifications. In addition, the latter author characterizes exploratory researches as flexible and versatile.

In that sense, once the objective of this research is to understand in depth a specific topic from a specific angle, so as to develop and improve insights on how luxury strategies of perfume brands are established in Brazil, the exploration as the purpose of this research is considered to be the most adequate approach.

Regarding the type of research, because the unstructured mode of enquiry allows flexibility in all aspects of the process of the research and it is used to explore the nature of the phenomenon or its variation – Kumar (2011) –, this is the type that strongly matches with the purpose and objective of this research. In other words, we may correlate this unstructured approach to a qualitative type of research once “A study is classified as qualitative if the purpose of the study is primarily to describe a situation, phenomenon, problem or event; (...) and if the analysis is done to establish the variation in the situation, phenomenon or problem without quantifying it” (Kumar, 2011).

In conclusion, through the inductive approach of an exploratory qualitative research based on the characteristics mentioned above, this methodology is considered to be the most valid for this research in order to answer to the research question proposed hereby.

Data Collection

To guarantee a high quality level of analysis, multiple sources of data were addressed for the data collection process. From primary data, the researcher conducted in-depth interviews with executives of specific LVMH brands acting in the Brazilian market. Regarding secondary data, the methods will be archival records and documents publicly available in the market.

Regarding the interviews, Malhotra (2010) mentions the importance of interviews to a qualitative research as being a way of the researcher to gather specific and rich information that may lead to identification of best practices or even to understand the interviewee's perceptions and reactions towards the questions. Therefore, to be as much insightful as possible, the type of interviews chosen was semi-structured interviews with open-ended questions. Thus, semi-structured in order to guarantee the flow of information linked to the topic, but open-ended questions to give freedom for the interviewee to develop his thoughts or also aggregate different relevant topics and insights – see Appendix 1 for the Guideline of the interviews. The idea was to maintain an informal conversation that was recorded and, later, transcript to be analysed. Also, the priority was to conduct the interviews one-on-one, only if not possible, they were carried out through conference calls.

For the secondary data, the archival records and documents were mainly collected through public sources such as trustful websites and newspapers, for example.

To conclude, the methods of research chosen in this case were archival and field research of the case study through documents, files records and interviews with brands' executives.

Interviews and participants

As mentioned in the section above, the interviews represented the most important method of data collection for this research. As the objective here is really to understand, from a strategic standpoint, how the brands establish their strategy in Brazil in order to keep its luxury positioning, the most relevant and capable people to answer to this question will be the executives of the brands in Brazil.

That being said, by executives we may understand all employees from managers to directors that are directly connected to the strategic decisions of these brands in Brazil. In detail, the aim was to interview executives ranging from Marketing Managers to Brand Managers, CFOs

or even General Manager/Director – varying the nomination from brand to brand.

Therefore, four interviews were conducted from which three were one on one, personal conversations and one online – due to unavailability of the participant to meet live with the researcher. The four participants were Fernanda Martinez (CFO of LVMH Parfums et Cosmetiques do Brasil), Raissa Allain (Brand Manager of Acqua di Parma in Brazil), Amanda Nascimento (Marketing Manager of Dior in Brazil) and Debora Oliveira (Brand Director of Dior in Brazil).¹

These participants were selected, first, because they are all involved in strategic decisions – specially linked to positioning within the market – and because they represent different angles of the strategy. In other words, this selection aimed at enriching the collection of information from different perspectives within the same strategic goal and, thus, widening the analysis of luxury perception linked to the strategy approach.

Also, the researcher previous working experience in one of the brands, facilitated the data collection for these brands especially due to the practical knowledge and access to the information.

The first one on one interview was with the CFO of LVMH, Fernanda Martinez, which lasted for about two hours – see Appendix Interview 1. One important reason to conduct the interview with an executive from LVMH regards to the fact that this luxury group not only comprises seven different luxury perfume brands in Brazil, but is also ranked first at the 100 top luxury group worldwide according to Deloitte (2015).

The second interview was an online conversation in Skype with Raissa Allain, the Brand Manager for Acqua di Parma. Considered as a luxury brand, which recently began its commercialization in Brazil, the choice to analyse this brand was to understand the perspective of a niche and high end imported brand that is still adapting and establishing its activities in this market. The interview lasted for one hour and twenty minutes – see Appendix Interview 2.

The third and last interviews were conducted as one on one conversations with the Marketing Manager (Amanda Nascimento) and the Brand Director (Debora Oliveira) both from Dior. The main objective with these two interviews was to observe two different perspectives within a same brand in order to analyse similarities and divergences among the challenges and opportunities stated by these two executives within the context of the Brazilian market. Nevertheless, it was two separate interviews lasting for one hour and forty-five minutes (Marketing

¹ Fantasy names were created for participants to respect confidentiality of information.

Manager) and one hour (Brand Director) – see Appendix Interview 3 and Appendix Interview 4, respectively.

Although open conversations, all interviews were conducted to follow on the structured guideline and cover the discussing points to be further analysed in the research.

The expected finding through these interviews is to understand the perception of these brands' executives towards the luxury market and consumers in Brazil and explore how they combine these perceptions to reach a unique luxury strategy to, then, be able to answer to the research question.

Data Analysis

After collecting all necessary data, the data analysis process will allow in depth understanding of the case study and the brands in order to be able to answer to the research question proposed by this paper.

There are six major steps of most importance for the process of data analysis: (1) verify the quality of the questionnaire, (2) edit the collected data, (3) if necessary, codify the data (4) transcript it, (5) filter and eliminate incomplete data and, finally, (6) choose the most adequate method of analysis (Malhotra, 2010).

The objective here was to follow these steps of the process – excluding step 3, which is not applicable to this research – as an appropriate method to found the credibility for the qualitative analysis. In other words, after gathering all the notes from the direct observation, all records from the interviews and all data from files and documents, all information was carefully verified, edited and transcript to make sure the data was valid enough to be explored, analysed and to answer to the question.

At the end of the data analysis process, the idea is to develop recommendations and best practices, based on the practical study, combining and comparing all literature previously researched to the practical information gathered from the brands. In that sense, the final expected contribution of this research is to provide guidelines for perfume luxury brands to structure an adequate luxury strategy to the Brazilian market of perfumes.

RESEARCH RESULTS

In order to organize and connect to the previously presented theories, all researched data whether through the interviews or market data collection will be presented and discussed in each specific element of a brand strategy: product, promotion and communication, distribution and price.

The objective is to go through all data and information collected in order to identify in each element of the strategy the practices of luxury brands in Brazil to later be able to analyse them in terms of the luxury strategy as previously presented in theory.

Product

The product itself is the element of the luxury strategy that requires the least adaptations to the Brazilian market, as it was possible to observe in the data collected.

The research confirmed that international luxury brands that import perfumes from their country of origin to Brazil do not make any adjustment or adaptation to the product itself in any physical aspect. As Fernanda Martinez – CFO of LVMH Parfums et Cosmetiques do Brasil – commented in the interview: *“we are not allowed to make any modifications on the products as they are imported ready-to-sell from each country to Brazil”*.

On the other hand, despite the final product being exactly the same for any market, including Brazil, the product portfolio is adapted to the market and the local consumers. Raissa Allain – Brand Manager of Acqua di Parma in Brazil – confirmed, *“regarding products, for Acqua di Parma, although we are not able to make any changes on the product itself, we adapt our portfolio to the Brazilian market according to the acceptance of the local consumer.”*

There are a few factors that were identified through the interviews as main drivers for the portfolio decision of these luxury brands specifically for the Brazilian market.

First, the main driver mentioned by all interviewees was the consumer preference for fresher fragrances. In all interviews, it was highlighted that due to the hot weather in Brazil, especially the female consumers – which represent the higher share of the market – show a stronger preference for light and fresh fragrances. For example, Fernanda Martinez mentioned how *“EDT² fragrances are much more representative here than it is overall in other markets – specifically for the feminine*

² Eau de Toilette

fragrances (...) first due to the market profile itself in the taste and preference of the consumer for these fresher fragrances". Consequently, for Acqua di Parma, Raissa clarified that *"the focus is on fresher fragrances and colognes that are better accepted due to the hot weather in Brazil"* and similarly for Dior, Amanda Nascimento – Marketing Manager – also explained that an important adaptation for the portfolio strategy is a *"stronger focus on fragrances nominated as Eau de Toilette"* in Brazil.

However, a second driver for portfolio adaptation that also motivates the luxury brands strategic focus on EDT fragrances in Brazil regards to *"lower tax implications for these lower concentration fragrances which allow the brands to profit from higher margins with these products rather than EDP ones"*, as explained by the CFO, Fernanda. In other words, any perfumes brands are obliged to pay a tax for industrialized products (IPI) in Brazil that impacts 12% over final cost of low concentration fragrances – EDTs – or 42% in the case of high concentration fragrances, therefore focusing on low concentration fragrances brings an important opportunity for luxury brands to maintain profitability on high cost of imported products. In addition, Amanda also identifies another example of opportunity as *"to access consumers' acceptance of a new launch by first introducing the EDT fragrance and strategically deciding on following up or not with the launch based on this response."* The main idea is that lower IPI rates will imply in lower costs and higher margins, so it would be less risky to launch an EDT product in Brazil as a test of viability and success before importing the entire line to Brazil – incurring in extremely high costs for importation of EDP fragrances, for example.

One interesting example of a successful practice in dealing with these two first drivers affecting a luxury brand portfolio management was discussed by Fernanda Martinez regarding one of LVMH brands in Brazil. A few years ago, Kenzo's managers in Brazil were able to negotiate with headquarters in France for them to develop the EDT version of the brand's bestseller feminine EDP in Brazil *"as a one shot exclusive offer for the local market to exploit the consumer preference at better margins."* The result was so successful that the perfume became part of the regular portfolio but still exclusive for Brazil.

All in all, considering both the consumer preference and the advantage of lower taxes – also to be discussed in its impacts for prices – for fresher fragrances, these two main drivers lead the first adaptation of luxury brands portfolio to the Brazilian market.

A third driver of adaptation, mentioned by Raissa for Acqua di Parma, relates to the size of perfumes bottles for luxury imported fragrances. In other markets, Acqua di Parma commercializes higher counts such as 180ml or 500ml, however in Brazil the brand restricts the portfolio to smaller

counts of 50ml and 100ml. The main reason for this adaptation according to her is due to the price structure of the market overall in the sense that these higher counts *“would be too expensive to be imported to Brazil and are not common counts for the market”*. In visiting the stores, it was possible to notice that all luxury brands also focus on lower counts ranging from 30ml to 100ml – besides different counts for promotional and non-saleable items such as samples or miniatures.

Finally, the last adaptation in the strategy of luxury brands product portfolio is a consequence of the fact that Brazil is considered as a highly promotional market where price discounts are a regular practice among popular and premium brands within the perfumes sector. Therefore, Raissa explains that it is a common practice of luxury brands – Acqua di Parma and competitors – to offer products such as *coffrets* as an alternative for price discounts, once this latter is incompatible to the exclusive and selective image of a luxury brand perfume.

On the retailers' online channel, it was possible to identify packs on sale for luxury brands – for examples of the packs see Appendix Figure 1 and Figure 2.

Also for Dior, there is a similar scenario as Amanda mentioned that *“the representativeness of coffrets within the portfolio of the brand is higher in Brazil than it is for other markets on average”*. Lastly, Fernanda also agrees, *“Brazilian consumers place a very high importance and preference for this kind of offer – higher than other markets worldwide – because they are perceived as a special offer, exclusive and, more importantly, limited.”*

Furthermore, the focus on *coffrets* for the Brazilian luxury consumer is not only a product portfolio adaptation for luxury brands in Brazil, but also a promotional suitability for this market, as it will be furtherly discussed next.

Promotion and Communication

Within the promotion and communication element of the luxury strategy there were different drivers of adaptation identified.

First, still connected to the portfolio adaptation, the main driver relates to the fact that – especially for the perfumes sector – *“Brazil is considered as a highly promotional market, among other markets abroad, even for luxury brands”* (Fernanda Martinez). As Fernanda continues to discuss in the interview, the so called ‘discounted seasons’ along the year are rapidly gaining strength within the Brazilian market – Black Friday and Christmas are still the most important events – and, as a consequence, there are already competitors from the luxury perfume sector promoting specific products

as discounted at these times of the year. Moreover, the CFO explains that, although some of LVMH brands used to offer permanent discounts for specific items, nowadays they adapted their strategy as to preserve their exclusivity by exterminating any discounts and finding other alternatives that do not hurt their luxury positioning. For example, as discussed in the product portfolio adaptation, offering *coffrets* is also an adequacy to the promotion element of the luxury strategy, such as in the case of Dior: *“especially for the festive events, the brand focuses on offering coffrets which are not discounted but offer an advantage for the consumer of buying special items – usually two or three – for one single price, as a kit”* (Amanda Nascimento). In addition, Raissa mentions about Acqua di Parma’s promotion strategy: *“in times of promotional events, an attractive alternative to giving discounts is offering coffrets because they are special kits that combine exclusive products of Acqua di Parma which are not available on regular portfolio so consumers’ perceive as a good opportunity for a special offer.”*

Furthermore, besides the packs offered at discounted seasons, other promotional materials are also common for luxury brands to offer on a regular basis although linked to a specific promotional activity. For example, the Marketing Manager for Dior exemplified that *“To protect our brand image and still adapt to such a promotional market, Dior strategy is to offer promotional material such as gifts or samples, for example, for buying consumers to feel like they are being rewarded, they are special and part of a selective and differentiated group.”*

One practical example found along the research in one of the main retailers’ website was the offering of free miniatures of Fahrenheit and J’adore perfumes for consumers who purchased selected items of counts above 30ml – see images of the miniatures promoted on Renner’s website on Appendix Figure 3.

A different example of promotional gift was also found on Renner’s website for another perfumes luxury brand. In this case, Givenchy was offering a bag for consumers purchasing items of 30ml or above – see Appendix Figure 4.

Besides miniatures and other types of gifts, samples are also very well received by the Brazilian consumer, according to Raissa for Acqua di Parma. She argues that not only *“It is very specific of the Brazilian consumer profile this motivation towards promotional products – the perfume becomes more attractive to be purchased if it comes with a small gift*, but also agrees with the other brands executives that *“it is a very good alternative for luxury brands to adapt to such a promotional market without offering discounts, that usually harm the image of the brand.”*

All in all, this first driver brings an important challenge for luxury brands in the sense of finding

the balance between adapting their strategy to a discounted market and still maintaining its luxury positioning without vulgarizing the brand image.

The second main adaptation that luxury brands implement in their local strategy in terms of promotion and communication is clearly discussed by Dior's Marketing Manager: *"a very important adaptation is the total focus of investments in actions at the points of sales, which is extremely uncommon in other markets and very specific for Brazil."*

In other words, once it was clarified through the interviews that in other markets abroad the focus of investments of these brands is mainly on media, there were a few factors identified as Brazilian specificities acting as main drivers for this specific strategy adaptation of shifting the investments focus from media to direct actions at the points of sales.

The first driver for this adaptation is also consequence of an adaptation in distribution within the Brazilian market – this latter will be discussed further in the research. Therefore, because luxury brands in Brazil depend on the retailing channel and on big retailers – popular stores that also sell other popular and premium brands among luxury ones –, they also need to adapt the communication and promotion element of their strategy as to reinforce their brand image despite being distributed through a non-selective nor exclusive channel.

Moreover, in order to fight the conflicting image of the retailers versus the brand, Dior shifts its investments towards POS as the Manager goes on to explain that: *"The idea is really to reinforce the brand image and promote our products by reaching directly to the final consumers and educating them about the brand history, its luxury differentiation and positioning not to mislead their perception due to the retailers' positioning or location."*

In addition, these strategic POS investments mainly translates into hiring expenses of Beauty Consultants as brands' specialists placed within the retailers' stores to directly communicate to the final consumer. For LVMH brands, the CFO, Fernanda, confirms: *"nowadays the highest and strategic investment of the brands is in Beauty Consultants³, either fixed employees allocated in specific stores or temporary free lancers for specific events, launches or POS actions."* Although not all retailers in the market are open to this type of agreement, Dior negotiates with top retailers such as Renner or Dufry since *"The only way to access the consumer directly is by allocating our Beauty Consultants in the retailers' stores to guarantee that the brand will be correctly presented and exposed."* (Dior Marketing

³ On or off payroll employees hired as sales persons and specialists working directly in the points of sales (allocated by the brands in each retailer based on negotiation and importance of each store).

Manager).

The second driver for the strategic focus on points of sales investments relates to the consumer acceptance towards these initiatives. In details, the main motivation for brands to shift to POS initiatives is due to the fact that *“the Brazilian market and consumer responds much better to actions directly in the points of sales rather than media”* (CFO, Fernanda Martinez). To exemplify this scenario and in terms of competition, Fernanda argues that Lancôme – the fastest growing brand in the Brazilian market – proved its success by transferring all investments completely from media to points of sales initiatives such as spraying actions and gifts. Another interesting example of this adaptation regards to the strategies of launches in Brazil, which are also directed to POS actions – spraying, freelancers Beauty Consultants –, thus *“very different from other markets where usually media is the total focus.”* (LVMH CFO).

Finally, the last adaptation in terms of promotion and communication is driven by the fact that the Brazilian luxury market is still in development and a new consumer base is frequently emerging as an important potential for the perfumes sector, therefore these aspirational consumers still need to be educated in determined aspects.

Furthermore, the specific strategy to adapt to this market specificity is *“to remain where luxury competitors are and do not expose the brand close to premium or popular perfumes – so it does not generate any confusion in the consumers’ perception.”*, as stated by Raissa Allain, Brand Manager Acqua di Parma. In other words, she mentions that the real challenge is to educate the Brazilian consumer not only about the brand and its positioning, but actually the price in terms of the value being delivered. Therefore, being close to competitors may help establishing a communication with the consumer to explain the positioning and differentiation of the brand and how it is delivering the value considered in that price.

In conclusion, the main adaptations in terms of communication and promotion are closely connected or even consequence of the adaptations in distribution, as it will be discussed next.

Distribution

From all the elements of the luxury strategy of perfume brands in Brazil, distribution should be considered as the most challenging one. All the brands’ executives interviewed in the data collection unanimously classified this topic as a challenge within the context of the Brazilian market.

Through the discussions with each interviewee, it was possible to identify different drivers that,

combined, motivate one inevitable adaptation given the local specificities implied by an emerging country where the luxury market is still in development.

Thus, differently and even opposing to the strategies in other markets, in Brazil, luxury brands of the perfumes sector need to adapt their distribution to the retailing and online channels of the local market characterized by big players not specialized in the luxury market or sometimes not even in the perfumes sector exclusively.

The first driver forcing this adaptation regards to the lack of luxury department stores in Brazil as there are in other markets: *“the concept of department stores in Brazil is very different from the luxury concept in other markets. In Brazil, most of the department stores are not specialized in perfumes and cosmetics and are usually big and popular stores such as Renner, for example.”* (Raissa, brand manager of Acqua di Parma).

Both Fernanda (LVMH CFO) and Debora (Dior Brand Director) have rated the distribution of the Brazilian luxury market, specifically for the perfumes sector, as one of the most outdated worldwide. First, Fernanda classifies the perfumes sector of Brazil as highly fragmented in terms of distribution *“with big retailers just recently consolidating their presence in the luxury market and traditional perfumeries still playing a large role in total market sales.”* However, despite the fact that these retailers are still new at the luxury market, thus still have to tune in their strategy and approach to this market, the issue is that they have their own existing concept and positioning that in general are not in line with the luxury positioning and strategy of these perfume brands. In this context, Debora evaluated that *“Although department stores have been growing their share of the market over the traditional perfumeries, the concept of these stores is highly different from the concept of a department store abroad”*.

Therefore, within the same direction as the other interviewees, the Marketing Manager of Dior also describes retailers of perfumes in the Brazilian market as *“in general big popular stores not specialized in perfumes that sell all types of brands from popular to luxury and are spotted all over the country, more frequently in popular locations than in luxury areas”*. More importantly, as a consequence of the lack of luxury department stores for perfumes – only Sephora which is very recent in this market versus other markets abroad – *“luxury brands must rely on big retailers not specialized in the perfumes sector to sell their products to final consumers.”* (Amanda Nascimento). These retailers are more clearly identified by Dior Brand Director, Debora: *“In Brazil the top retailers for luxury perfumes of imported brands currently tend to be stores such as Sephora, Renner and Dufry, so besides*

Sephora that as an international retailer maintains a similar concept of luxury department store worldwide, the other two are usually popular megastores in Brazil not specialized in perfumes.”.

The other usual strategy of luxury brands of the perfumes sector in terms of distribution in other markets – besides the luxury perfume retailers – is to open their own stores. However, the local context and specificities of the Brazilian market also strongly hinders this second option, therefore, it is here considered to be the second driver of the adaptation, which forces luxury brands to depend on the previously mentioned type of distributors.

This driver was extensively discussed in the interview with Dior Brand Director, especially considering the challenges faced by this brand who recently opened one owned store in Rio de Janeiro, Brazil. She mentioned that the boutique was launched in 2015 focusing on getting closer to the consumers and sharing with them the history and purpose of the brand in order to reinforce the image of the brand as selective, exclusive, luxurious.

The Director mentioned that in terms of opening brand’s own stores *“the costs to operate in Brazil are higher than the average for other markets. (...) This so called “Brazil cost”⁴, mainly in terms of bureaucracy and taxes, forces the brands to adapt their strategy to the local specificities.”* Furthermore, she also argues that the main cause to this specific driver comes from the fact that Brazil is still an emerging market going through constant changes within both the economic and social environments influencing the levels of unemployment, bureaucracy, taxes and costs as an even bigger challenge for imported brands. Finally, still in the interview, Dior Brand Director concluded: *“because it is extremely expensive, even for luxury brands, to open their own boutiques in Brazil – due to high taxes, very expensive labor costs and poor infrastructure – also due to the lack of retailers in this market with a luxury concept and specialized in perfumes, it is inevitable for the brands to call upon the big retailers and online channel as the only way of being profitable in this market.”*

In sequence, not differently from Dior, in the interview with Brand Manager of Acqua di Parma, Raissa, also identified distribution as a major challenge for the brand in Brazil. First, she described the worldwide strategy of the brand as to restrict the distribution of perfumes only through owned stores and luxury department stores therefore initially the brand strategically chose to enter the Brazilian market limiting its distribution to Sephora, *“the only retailer that maintains the luxury concept of the department stores in Brazil such as in Europe.”* (Raissa, Brand Manager Acqua di Parma). Thus, at the first moment, Acqua di Parma did not adapt its distribution to the local context and tried to maintain the

⁴ A combination of high labor costs, over-regulation, poor infrastructure, heavy bureaucracy and low productivity.

worldwide strategy also within Brazil, however, as Raissa continues to explain in her interview, *“because the Brazilian market is highly fragmented, it is a high risk to become dependent on one single retailer and it strongly limits sales growth and profitability of the brand.”* – both issues previously discussed by LVMH CFO and Dior Brand Director.

After some time struggling with the worldwide strategy in an emerging market such as Brazil, the brand decided to react and adapt by expanding its distribution, first, to one of the big retailers mentioned by Dior as well. *“The main objective with Dufry – besides going where the competitors are – is to reach to a new share of consumers because differently from Sephora, where the consumer has a “shopping mall profile”, Dufry is much more of a “convenience profile” where consumers buy to kill time at the airports”* (Raissa, Brand Manager Acqua di Parma).

Overall, in the data collection, by interviewing executives from different brands it was possible to collect examples of different brands reacting to these specificities of the distribution channels in Brazil in similar ways. In this sense, not only Dior, also Acqua di Parma had to adapt their selective distribution strategy to the local market context.

More specifically in the interview with Brand Manager of Acqua di Parma, she also commented on the expansion of distribution through online sales of the Brazilian retailers as a strategy to reach a third type of consumer profile where *“The online consumer is more sensitive to prices so on the website the best sellers are usually the perfumes of lower counts – smaller than 100ml – (...)Also, online sales are stronger for male fragrances while in store are driven by female perfumes (85% of sales in Sephora are for women).”*

Ergo, in this case, it is clear how one adaptation leads to another once that due to differences among consumers profiles and expectations depending on the channel, the brand also needs to adjust its communication and promotion strategy *“One good example is the fact that the offer of miniatures is much more effective online than in the store: on the website we can notice that the consumer may buy the product specifically to get the miniature, but in the store, although it is an interesting approach, it does not influence the purchase decision.”*

Overall, all elements are connected in terms of their adaptations for the Brazilian market – as it will also be discussed for prices. Nevertheless, the connection between the communication and promotion adaptations to the ones of distribution are crucial for luxury brands in this context to find the balance between a strategy of distribution that brings profitability – although not selective as usually in luxury – and a communication which maintains the luxury positioning and brand image – not to allow

misunderstanding or wrong perception by consumers due to wide distribution.

Following the discussion, prices are also determinant for the alignment between preserving the luxury positioning at the same time as reacting to the local context.

Price

The last element of the luxury strategy to be discussed regards to the pricing of imported perfumes. There are four main drivers of adaptation identified in the interviews with each executive: taxes and additional costs of the Brazilian legislation for imported perfumes; price relativity versus travel retail and competitors; exchange rate fluctuations and current economic scenario; and the denominated “credit culture” of the Brazilian consumer.

First, the driver of most influence in adapting the prices specifically to the Brazilian luxury market regards to the taxes and additional costs paid by each brand in the process of importation and commercialization of these items in the local market. From all the incurring taxes over the final cost of each perfume, there is one specific tax - IPI⁵ - that most directly affects prices and varies according to the concentration of each fragrance. The Marketing Manager of Dior clearly discusses this issue as a main challenge requiring adaptation. *“for example, the highest tax paid is IPI and, according to the Brazilian legislation, perfumes with low concentration are charged with 12% tax rate over the final cost and perfumes with high concentration are charged with a 42% tax rate. This high incidence of taxes over our final costs pressures our price positioning to be proportionally higher than in general – considering other markets – in order to compensate costs and reach our products margins.”*

As well as for Dior, the Brand Manager of Acqua di Parma also agrees, *“the high taxes of importation for perfumes force us to adapt our prices and margins in selling the same products as in Italy in the Brazilian market.”* Even further, she also points out other significant costs, which also impact the final price related to the importation process of bringing the perfumes from Italy to Brazil. Thus, one example highlighted were the high costs that all luxury brands are susceptible to regarding sanitary registration in local authorities – ANVISA⁶ – for all launches and new products imported to the local market.

Concerning directly the IPI incidence of 12% or 42%, as mentioned before in the product element of the strategy, this issue connects both price positioning and portfolio adaptations once the

⁵ IPI stands for “*Imposto sobre Produtos Industrializados*”

⁶ ANVISA: Agencia Nacional de Vigilância Sanitária

fresher fragrances preferred by Brazilian consumers, in general, have the lower rate of 12%. Thus, again, these fragrances offer a better opportunity for brands to offer perfumes on higher margins improving the brand's profitability overall.

Moving to the second driver, because it is necessary for the brands to adapt their prices to compensate the costs on importation and local taxes in Brazil and reach their margins, the Brand Manager of Acqua di Parma also suggests that they should remain consistent to the market. Moreover, she stated: *“so the main strategy is to position the prices at the balance between delivering the expected margins of a luxury brand and remaining consistent to the market by setting an approximate difference from competitors' prices”*.

Also for Dior, the Marketing Manager classifies the Brazilian market as highly competitive, thus agrees that *“although the luxury market in Brazil is still in development, it is a highly competitive market and strategic for international luxury brands as we see more and more traditional brands entering the market every year. For this reason, when reviewing our prices we also take into consideration the positioning of the brands which we consider as direct competitors within the Brazilian market.”*⁷

Finally, although the brands take into consideration the positioning of direct competitors when establishing new prices, the high taxes and local costs force them to position their prices higher on average than in other markets, therefore luxury brands reach for an even more selective and niche consumer target in Brazil comparatively to overall markets.

Connected to the previous driver, the third one relates to the motivation of Brazilian consumers to buy perfumes abroad depending on the effect on exchange rate fluctuations on prices mainly due to a constantly changing economic scenario of an emerging market. In other words, LVMH CFO, Fernanda gives an example of the current situation of the economic crisis in Brazil: *“luxury brands in this sector are not being hit by this crisis and are able to maintain double-digit growth as expected. This is mainly because with the devaluation of the exchange rate, consumers are travelling abroad less frequently – consequently increasing their purchases within the Brazilian market – and the price difference in dollars and reais decreases and makes it more attractive to buy perfumes in Brazilian reais.”* Therefore, for the imported brands of luxury perfumes, the local economy crisis may actually help the performance as consumers change their focus of purchase to the local market rather than abroad.

Because the inverse scenario could harm luxury brands' margins with the appreciation of the Euro or Dollars, Raissa also agrees that *“any brand in the Brazilian market should be aware of the*

⁷ No further details on pricing strategy were presented to respect the confidentiality agreed with the brands.

economic and political crisis in the country as an important challenge bringing instability and uncertainty also to the perfumes sector.” In other words, an appreciation of other currencies versus the Real could also force luxury brands to review their prices in order to compensate their margins due to the increase in costs – all products are imported in dollars or euros from their countries-of-origin.

However, at this moment, the economic crisis in Brazil has a positive effect for imported luxury brands because *“it became much more expensive for consumers to keep traveling abroad so they increased their purchases of perfumes in the local market – as a growth opportunity for Acqua di Parma that has been registering double-digit growth in the Brazilian market.”* (Raissa, Brand Manager Acqua di Parma).

Lastly, the final driver of adaptation and most characteristic of the Brazilian market regards to the “credit culture” of the Brazilian consumer as it was recognized by all the interviewed executives. As the LVMH CFO explained: *“All consumers whether with high purchasing power or not expect to be able to buy with the advantage of paying for their purchases in up to 10 monthly credit card instalments.”* In addition, the Brand Manager of Acqua di Parma also clearly identified this consumer’s characteristic *“This is a very specific aspect of the Brazilian consumer that always demand having the possibility of paying in instalments no matter the value of the purchase and the purchasing power of each consumer.”* Still describing this specific consumer habit, the Marketing Manager of Dior also mentioned: *“in Brazil there is a very strong culture of purchasing any kind of item on credit card and breaking down the total value of the purchase in small monthly installments – from 2x to 12x, for example, depending on the retailer”.*

Within this context, once all executives stated that this is a cultural characteristic of Brazilian consumers in general not exclusive to middle or high-income classes nor solely to the perfumes sector, it is consequently inevitable the need for all retailers in the market to adapt. *“For this reason, all kinds of retailers in Brazil offer these payment conditions – from our big retailers like Renner, Dufry, Beauty Box, Sephora to luxury brands’ owned stores even in other sectors such as Tiffany’s, Louis Vuitton, etc.”* (Dior Brand Director).

Although these payment conditions are permanently demanded by consumers, thus offered by retailers, they may become even more flexible during the “discounted events” – as previously mentioned. For Acqua di Parma, the Brand Manager commented that *“Specifically for the promotional times of the year – Christmas, Mother’s Day, Black Friday – the number of instalments becomes even higher – instead of 5 months, consumers’ are able to pay in 10 times in Sephora”.*

Even though the adaptation is inevitable, it brings an important challenge specifically to luxury brands in terms of the accessibility to the products by different types of consumers. In details, the Marketing Manager of Dior shared her concern: *“Although Dior focuses on a selective and luxury consumer target that is aligned with the brand strategy and its price positioning, in Brazil (...)the credit payment in small shares per month is what may make luxury products accessible to a growing middle class in Brazil who is eager to be part of the luxury market.”* Still for Dior, the Brand Director also clarified: *“luxury products become more “accessible” not because of price reduction in the Brazilian market but only because consumers may choose to pay a small portion of the price per month.”*

From all four drivers of price positioning adaptations of perfume luxury brands in Brazil, the latter one may be considered as the most challenging for the fact of being inevitably necessary to attend the demand of high-income, luxury consumers, but, at the same time, allowing the access of selective and exclusive products to a wider base of consumers – non-targeted by these brands.

In conclusion, through the analysis of all interviews with the brands’ executives various specificities of the Brazilian market and the Brazilian consumers were identified to which luxury brands already adapt their luxury strategy within the context of this perfumes sector. Following, the discussion will provide an analysis confronting the previously presented theories to all data researched in order to first, argue that luxury brands of the perfumes sector in Brazil in fact must adapt their strategy to the local market context and, finally, present the successful practices and adaptations of the studied brands.

DISCUSSION AND ANALYSIS

All researched data from the interviews and observations presented in the latter chapter of this research were analyzed and will be presented in comparison to the existing theories previously outlined in the beginning of the paper. Therefore, remain consistent in terms of the structure of presentation of the data, this analysis will also be divided by each element of the strategy – product, promotion and communication, distribution and price.

As the main objective of this research is to provide a guideline to brands and executives towards how specificities of the Brazilian luxury market affect the strategy of perfumes brands, the researcher has developed a comparative analysis confronting theory and practice to outline by each strategic element which adaptations are in line with theory and which may not be.

Following on the previous structure of the research data presented, the discussion will start from the product until the price strategy guideline. Each guideline was structured as a table of five columns in order to list all strategic adaptations (Local Strategy) and the drivers related to each adaptation (Drivers) compared to all propositions within the existing theories related to the specific element (Theory) and the referred authors of the theory (Authors). Having all the inputs, the last column defines whether the strategic adaptation is in line with the luxury strategy as in theory (Parity), if it resembles the theory with some differences (Partially) or if it opposes to theory (Disparity).

Product Strategy Analysis

From all four elements, the product strategy might be considered as the least affected by local specificities, thus it has minor impacts in the local strategy and is overall in line with the proposition of the existing theories.

First, it was confirmed that luxury brands make no adaptations in the product itself, thus none of the products have any physical modifications throughout the markets and one perfume sold in Europe, for example, is the exact same as it is sold in Brazil. However, the main adaptations related to the product strategy regard to portfolio differences due to Brazilian consumers' preferences and demands or even local market requirements – such as taxes –, which impact the costs and consequently the profitability of the brands (see Table 2).

Table 2: Product Strategy Guideline

Local Strategy	Drivers	Theory	Author	Practice x Theory
Imported products from countries of origin ready to sell - no physical adaptation	No product adaptation required by local specificities	3) Ensure quality products and services plus pleasurable purchase and consumption experiences	Keller (2009)	Parity
		4) Brand elements besides brand names can be important drivers of brand equity for luxury brands	Keller (2009)	Parity
		2) Does your product have enough flaws?	Kapferer & Bastien (2012)	Parity
Stronger prioritization of EDT fragrances and colognes within local portfolio	Brazilian consumers' preference for fresher fragrances – due to hot weather, for example	3) Do not pander to your customer's wishes	Kapferer & Bastien (2012)	Partially
	Lower tax implications/costs	23) Do not look for cost reduction	Kapferer & Bastien (2012)	Partially
Portfolio mainly restricted to counts in between 30ml and 100ml	Brazilian consumers low acceptance to higher counts of perfume bottles	3) Do not pander to your customer's wishes	Kapferer & Bastien (2012)	Partially
	Maintain price consistency within price levels of the local luxury market overall	12) Luxury sets the price; price does not set luxury	Kapferer & Bastien (2012)	Disparity
Higher representativeness of <i>coffrets</i> within the local portfolio versus other markets	Brazilian consumers place high importance on <i>coffrets</i> due to the perception as a special offer, exclusive and limited	3) Ensure quality products and services plus pleasurable purchase and consumption experiences	Keller (2009)	Parity

Source: Elaborated by the author

As it is analysed in the table, there are three main components from both studied theories – Keller (2009) and Kapferer & Bastien (2012) – that directly relate to the physical product itself and the offered service or experience around this product. All three components together reinforce the importance of quality, character, image and authenticity of the product to the luxury strategy. Therefore, by importing ready to sell perfumes with no modifications to the Brazilian market, the luxury brands guarantee its authenticity and quality of original manufacturing in all elements of the perfume. Even further, by maintaining the original scent, bottle and packaging, luxury brands in Brazil remain consistent to all original brand elements thus sell the same proposition and dream as anywhere else reinforcing a unique brand image and product personality. Finally, in this case the local strategy is considered to be fully aligned to all theoretical components of the luxury strategy – Parity between practice and theory.

The second item analysed is the first portfolio adaptation to the local market, which regards to the prioritization of EDT fragrances. Although luxury brands still maintain focus on their leading EDP fragrances, it was possible to conclude from the interviews that in Brazil the representativeness of EDT perfumes is comparatively higher both due to a local consumer preference for lighter fragrances and a ‘cost opportunity’ of lower taxes paid due to lower concentration of these fragrances. By adapting to consumers’ preferences, the local strategy might only be considered as partially in line with the theory that, although agrees that brands should listen to consumers’ demands, states that they should maintain prioritization of its own identity – “Do not pander to your costumer’s wishes”. In addition, the prioritization of EDTs due to lower costs on taxes suggests that brands adapt their strategy to profit from cost reduction in the local market, which is not recommended in the theory stating that the strategy should always be founded on added value rather than cost reduction – “Do not look for cost reduction”. On the other hand, although the strategy of prioritizing lower cost fragrances diverges from the proposition in theory, the decrease in final cost does not affect the value being delivered and is solely an extra cost from local authorities, therefore the practice versus theory analysis is rated at partial parity.

The third strategic adaptation is also related to the brands’ portfolio, which specifically for Brazil is restricted to bottles between 30ml and 100ml due to both consumer’s preference for lower counts and the fact that higher counts would imply in higher costs demanding a different price positioning outlying the overall existing market. Again, the adaptation due to consumers’ preferences has partial parity with the most related theory, which agrees that it is strategic to give importance to client’s demands as long as it does not threaten the brands’ authenticity. The main disparity of this adaptation to the luxury

strategy as in theory regards to the driver of price positioning. While theory argues that luxury price should not be based on the market – but rather on the consumers’ perception –, locally the brands avoid importing high counts because they would be priced at higher levels inconsistent to the overall counts of the local market – Disparity between practice and theory.

Finally, the last adaptation relates to the higher representativeness of *coffrets* within the Brazilian portfolio versus other markets overall. The main reason for this adaptation within the product strategy is the fact that Brazilian consumers’ have a strong luxury perception towards these packs, thus as a reinforcement of the brand image, the quality of the products – perceived as exclusive and limited – and a pleasurable purchase it has full parity with the luxury strategy as in Keller’s (2009) theory.

As a conclusion to the product strategy guideline, most of the adaptations to the local strategy are considered to be aligned with components of both theories previously presented – with some exceptions that still relate to the luxury strategy as in theory to some extent. Overall, the product strategy for the local market is mainly focused in adaptations of product portfolio, however as the analysis progresses to other elements of the strategy – promotion and communication next – it will be possible to notice that these adaptations are intertwined as well as the theoretical components will also be applied to different elements within the overall strategy.

Promotion and Communication Strategy Analysis

Among all four adaptations of the luxury strategy due to the local market specificities, in terms of the promotion and communication guideline, only one of them was rated as having a disparity to the luxury strategy as in theory. Therefore, overall among all elements of the strategy of luxury perfume brands in Brazil, promotion and communication – alike the previously analyzed product strategy – is strongly aligned with the theories presented (see Table 3).

Table 3: Promotion and Communication Strategy Guideline

Local Strategy	Drivers	Theory	Author	Practice x Theory
Offering of <i>coffrets</i> as a promotional item to replace price discounts or mark downs	Highly promotional market with strong ‘discounted seasons’ and permanent discounts for competitors’ luxury perfumes	7) Luxury brands must employ a premium pricing strategy with strong quality cues and few discounts and mark downs	Keller (2009)	Parity
Non-saleable items promoted as gifts to reward buying consumers	High expectations of Brazilian luxury consumers towards being recognized as part of a select group with exclusive advantages Pressure of local market towards price discounts	8) Protect clients from non-clients, the big from the small	Kapferer & Bastien (2012)	Parity
		1) Maintaining a premium image for luxury brands is crucial and controlling that image is a priority	Keller (2009)	Parity
Shift from media investments to points of sales investments: professionals at the POS, events, spraying actions, etc.	Distribution through third parties harms direct contact to final consumers Better acceptance and response of Brazilian consumers to POS actions	2) Create intangible brand associations and aspirational image by transferring brand’s heritage, history, meaning and symbolic value	Keller (2009)	Parity
		10) Communicate to those you are not targeting	Kapferer & Bastien (2012)	Parity
Be where the direct competitors are	Brazilian luxury market is still in development Emerging and aspirational consumer base to be educated towards luxury perfumes	1) Forget about ‘positioning’, luxury is not comparative	Kapferer & Bastien (2012)	Disparity
		9) Competition for luxury brands must be defined broadly, beyond a category or market	Keller (2009)	Disparity

Source: Elaborated by the author

As previously discussed, there are specific adaptations of the luxury strategy to the local market that might be analyzed as affecting two different elements of the overall strategy at the same time. One important example is the *coffrets* prioritization in Brazil better than in other markets of the studied brands, which was already discussed as an adaptation of portfolio as part of the product strategy guideline and now to be included as part of the promotion and communication guideline. This first initiative of the local strategy for promotion and communication is of most importance in adapting to a highly promotional market such as Brazil with a specific strategy that avoid prices mark downs and discounts thus it not only protects but also reinforces the brand image of a luxury brand. In details, the luxury brands offer these items mainly during ‘discounted seasons’ in Brazil by promoting them as a special and limited offer combining different and exclusive luxury products in the same pack for a single price. In this sense, luxury brands are able to avoid vulgarization of brand image through price discounts and mark downs and actually reinforce the luxury image of the brand by maintaining the premium price and offering an attractive alternative for luxury consumers during these promotional seasons. For this reason, this adaptation might be considered to have full parity with Keller’s (2009) proposition that luxury brands should not pander to price discounts, but should employ a premium pricing strategy at all times.

In alignment to this first initiative, another adaptation to the local strategy of promotion and communication is to also offer non-saleable promotional items – not exclusively during ‘discounted seasons’ – but exclusively to consumers’ after completing a purchase. Similar to the first strategic adaptation, this initiative also works as a promotional activity alternative to discounts or price reductions that ensures the brand image by offering special and exclusive gifts only for consumers. Even further, this strategic adaptation is of most importance for luxury brands to fulfill the need of Brazilian consumers to be recognized as part of a select and differentiated group. Moreover, the promotion of gifts, samples and miniatures – as observed in department stores and online sales websites – is fully aligned with the two related components from both theories. As Kapferer & Bastien (2012) argue that luxury brands should protect clients from non-clients, this strategy helps in differentiating them and offering an exclusive benefit to the loyal consumers of the brand. In addition, the adaptation has also parity with Keller’s (2009) priority of maintaining and controlling a premium image for the luxury brand once these gifts are a successful alternative to avoid vulgarization of brand image with price discounts, for example.

As previously mentioned that all adaptations across the elements of the overall local strategy are to some extent intertwined, the third local adaptation for the promotion and communication strategy is also a consequence of the main adaptation in the distribution strategy guideline, to be discussed next. For this third local strategy, unlike other abroad markets, in Brazil the luxury brands of perfumes have been shifting all of communication investments from media to points of sales investments such as spraying actions at the POS, events or even allocating specialists to act as consultants/sales persons at these POS. The main reason why this adaptation in communication is also a consequence of local strategy for distribution is that by selling through retailers, the brands have low access to final consumers. Moreover, investing at the points of sales is determinant to be able to communicate directly to the final consumers not only to educate these emerging consumers towards luxury but also to reinforce the brand image, convey the brand history and meaning. Furthermore, the acceptance of local consumers is better for POS actions and the response is more effective than through media investments. As well as for the other adaptations, this strategy is also considered as parity to the luxury strategy as in theory – both Keller (2009) and Kapferer & Bastien (2012) – once both theories reinforce the importance of communicating to a non-target audience – by POS investments the brand is also able to reach to aspirational consumers – and creating the brand's aspirational image – by conveying the history, heritage of the brand.

Lastly, the final local strategy listed in the above guideline is the only one evaluated as a disparity from the related theories. In the data collection, the brands' executives interviewed also highlighted as a strategy the initiative to place the brand where competitors are, which is divergent from the argument of both theories where the authors discuss that luxury brands should not act in comparison to their competition once luxury should be superlative rather than comparative (Kapferer & Bastien, 2012); and another author defines luxury competition to go beyond a single category or market (Keller, 2009). At the same time, brands argue that once Brazil is an emerging market where the luxury market is still in development the environment is highly competitive and consumers are still emergent and need to be educated towards luxury on the perfumes sector. In this context, placing the brand close to competitors facilitates the perception of consumers and understanding of luxury positioning and value being delivered by luxury products with premium pricing. Nevertheless, even with valid objectives to a specific context of the local market, this strategy is still in disagreement with the luxury strategy as presented in both studied theories.

Distribution Strategy Analysis

In analyzing each element of the local luxury strategy, the adaptations of the distribution strategy are the most challenging ones mainly due to the fact that it is the element with most local specificities and higher impact to the brands' strategy. For this reason, it will be explained that all local strategies identified were considered as having the most disparities with all components of both theories (see Table 4).

Table 4: Distribution Strategy Guideline

Local Strategy	Drivers	Theory	Author	Practice x Theory
Distribution through local retailers – department stores	<p>One of the most outdated markets worldwide, in terms of distribution – highly fragmented</p> <p>Different concept of department stores – except for Sephora – not specialized in luxury or perfumes</p> <p>“Brazil cost” – bureaucracy, labor cost, taxes – harms the opening of owned stores</p>	6) Luxury brands must carefully control distribution via a selective channel strategy	Keller (2009)	Disparity
		8) Brand architecture for luxury brands must be managed very carefully – exclusivity vs accessibility trade off	Keller (2009)	Disparity
		5) Do not respond to rising demand	Kapferer & Bastien (2012)	Disparity
		7) Make it difficult for clients to buy	Kapferer & Bastien (2012)	Disparity
		4) Keep non-enthusiasts out	Kapferer & Bastien (2012)	Disparity
		8) Protect clients from non-clients, the big from the small	Kapferer & Bastien (2012)	Disparity
Online sales through retailers’ websites	Emerging potential consumer base	24) Just sell marginally on the internet	Kapferer & Bastien (2012)	Disparity

Source: Elaborated by the author

Although only two main adaptations were listed in the distribution strategy guideline, both of them englobe the entire distribution strategy of luxury brands in Brazil and have a major impact for the overall strategy of these brands. First, three main local specificities force luxury brands in Brazil to depend on local retailers to distribute their perfumes to final consumers. Starting from the fact that the Brazilian market is considered, by our interviewees, as one of the most outdated markets in terms of distribution once the market is still highly fragmented and just recently big retailers have been gaining share over traditional perfumeries. Consequently, as an outdated market where the luxury market is still in development, Brazil lacks luxury department stores focused in perfumes – exclusively Sephora which recently entered the market – and the existing department stores refer to big, popular retailers which are currently the main distributors of luxury perfumes. Finally, the last local specificity regards to the “Brazil cost”, thus as an emerging market, Brazil has still high levels of bureaucracy, expensive local taxes and high costs of labor force that prevent imported brands to open their own stores in Brazil – only case of Dior was discussed during the brand’s Director and Manager interviews.

In addition, interrelated to the main strategy, luxury brands of perfumes also depend on the online sales channel of these same retailers to reach to an emerging consumer base – aspirational middle-class consumers that are entering the luxury market of emerging countries such as Brazil.

By comparing both strategies of distribution to the related components of the luxury strategy as stated in theory, it was evaluated that the entire distribution strategy of these brands of perfumes in Brazil has fundamental disparities to both theories. Keller (2009) clearly argues that luxury brands must, not only limit the distribution of their products to a selective channel strategy, but also carefully manage their brand architecture in order to find the balance between exclusivity and accessibility. Regarding this specific theory, it is clear that the wide distribution strategy in Brazil does not allow brands to control the physical accessibility to the brands’ perfumes, thus practice strongly diverges from theory. In addition, from the above guideline, various components of the luxury strategy according to Kapferer & Bastien (2012) directly relate and all diverge from the distribution practices of luxury strategy in Brazil. For example, their main arguments explain that in luxury strategy brands should always reinforce a limited distribution with low accessibility ensuring to have more people who dream and aspire the products than people who are able to buy them – “Make it difficult for clients to buy”, “Keep non-enthusiasts out”, “Just sell marginally in the internet”. All these strategic initiatives have clear disparities to the strategy which luxury brands are forced to adapt in Brazil.

In conclusion, in order to balance the overall luxury strategy in the local Brazilian market, once

the entire distribution strategy is adapted and in practice favors accessibility, the main strategic adaptations of the promotion and communication strategy are focused in reinforcing the brand image towards a luxury, selective and exclusive positioning.

Next, the price strategy guideline will be presented as the last – also highly connected – element of the local luxury strategy.

Price Strategy Analysis

In terms of the pricing strategy for the luxury brands in the local Brazilian market, three main adaptations were identified of which the first, the core of the strategy, presents parity with the related theories while the other two adaptations as very specific reactions to local market specificity, thus are not in line with the theories discussed (see Table 5).

Table 5: Price Strategy Guideline

Local Strategy	Drivers	Theory	Author	Practice x Theory
Periodically adjust prices to reach margins within local market – fixed local costs and exchange rate fluctuations	High impact on costs due to local taxes – specially IPI High importation costs – such as ANVISA registration Imported products in dollars or euros are susceptible to exchange rate fluctuation impacts on final local cost	7) Luxury brands must employ a premium pricing strategy with strong quality cues and few discounts and mark downs	Keller (2009)	Parity
		1) Luxury sets the price; price does not set luxury	Kapferer & Bastien (2012)	Parity
		13) Raise your prices as time goes on in order to increase demand	Kapferer & Bastien (2012)	Parity
Benchmark competitors prices and position accordingly	Luxury perfumes sector still in development – high expectations and potential Increasing number of imported brands entering the market – highly competitive	1) Forget about ‘positioning’, luxury is not comparative	Kapferer & Bastien (2012)	Disparity
		9) Competition for luxury brands must be defined broadly, beyond a specific category or market	Keller (2009)	Disparity
Payment method includes credit card payments in monthly instalments	Culture of breaking down the payments in smaller monthly values in credit card englobes Brazilian consumers overall – even high income or high purchasing power	8) Brand architecture for luxury brands must be managed very carefully – exclusivity vs accessibility trade off	Keller (2009)	Disparity
		7) Keep non-enthusiasts out	Kapferer & Bastien (2012)	Disparity
		7) Make it difficult for clients to buy	Kapferer & Bastien (2012)	Disparity
		11) The presumed price should always seem higher than the actual price	Kapferer & Bastien (2012)	Disparity

Source: Elaborated by the author

By analyzing the guideline proposed above, the first local strategy adaptation describes the core objective of the pricing strategy as one where luxury brands elaborate or revise prices in order to reach the margins by covering any local fixed costs – such as importation costs or taxes – or even exchange rate fluctuations due to import prices in dollars or euros. Although it is clearly a market adaptation, at the same time, luxury brands prioritize their margins and employ a premium pricing which is frequently higher in Brazil than in other comparable markets once the local costs demand a higher positioning. Therefore, this premium price strategy favors the inaccessibility by targeting the highest level of selective and niche luxury consumers focusing on no price discounts or mark downs – due to promotion strategies alternative to these issues – and according to its own margins and authentic brand image within the local market. Even further, by suggesting the periodically revision of prices to maintain profit margins, this strategy is also aligned to the last component of the theory, which states that these brands should foster price increases in order to increase demand over the time.

Despite the first core strategy of the price guideline being aligned to luxury strategy as in theory, the other two adaptations react to important specificities of the local market and are classified as divergent to the related theories.

The second adaptation regards to the fact that the local market is still in development, consequently there is an increasing number of international brands entering the market and boosting competition. In this sense, luxury brands of the perfumes sector adapt their pricing strategies as to benchmark with other direct competitors in the market thus positioning their prices accordingly to others. Thereafter, the strategy opposes two main theories' arguments of both authors – Keller (2009) and Kapferer & Bastien (2012): first, that luxury is superlative rather than comparative so brands should never position themselves according to others; second, that within the luxury market competition is not only related to the same sector or market but truly to any other alternative to which consumers may choose to invest their purchasing power.

Finally, the last adaptation is the most specific of the local market to which luxury brands are forced to adapt once it regards to the so called 'culture of credit' of Brazilian consumers overall. In other words, luxury brands are forced, through sales in retailers, to offer payment conditions of monthly instalments on credit card that any Brazilian consumer whether high or low income demands at the time of purchase of any type of product – luxury or not. As a consequence, all the components of the theories which relate to this adaptation diverge from this strategy mainly due to the fact that it might favor accessibility once any enthusiast or aspirational consumer may be able to afford a luxury perfume by

splitting the payment in smaller values month by month.

Finally, the pricing strategy adaptations to the local specificities of Brazil are also considered as highly challenging for luxury brands to maintain and reinforce their image as an exclusive and selective imported brand of perfumes.

Overall, essential adaptations to the strategy in practice were identified in the analysis of all elements versus the previously studied theories. Therefore, the following conclusion will present the final answer to the research question of the research.

CONCLUSIONS AND LIMITATIONS

The main objective of the research was to understand how the international luxury brands of perfumes in Brazil adapt their strategy to the specificities and challenges of this emerging market and its consumers.

Therefore, the research was structured to begin with the study of the existing theories around the concept of luxury overall, luxury strategy more specifically and finally emerging markets, luxury markets and the perfumes sector. Following on the theory, all researched data – mainly from the in depth interviews with the brands executives – was presented in details divided by each element of a brands' strategy (product, promotion and communication, distribution and price). Finally, the analysis of the data confronted the existing theory with the identified practices in order to structure a specific guideline for each strategic element comparing the theory versus practice in each similarity and divergence identified.

Consequently, throughout the analysis of the luxury brands and their practices within the Brazilian market, it was identified in all elements of the strategy important divergences from theory to practice driven by the specificities and complexities of, either the market overall or the Brazilian consumers as well.

Therefore, this study concludes that the international brands in Brazil must shape their luxury strategy through specific adaptations to their core strategy, which are essential to their successful performance in a complex emerging market such as Brazil.

Moreover, all drivers of adaptation identified are intertwined, to some extent, among all elements of the luxury strategy in the sense that one adaptation leads to the other and all together, they provide the balance to a luxury strategy adequate to the Brazilian market.

In resume, although Kapferer and Bastien (2012) recognize that, as a category, the perfumes' luxury strategy may demand two main adaptations – mass communication and volume distribution – this study's conclusion opposes to their main idea that the luxury strategy in its original is applicable to any market – “the luxury strategy (...) is a specific original strategy that can be applied in any market” (Kapferer and Bastien, 2012, pg 113).

As previously mentioned, these dynamic emerging markets are changing the global luxury landscape with the shift in wealth towards a rising middle-class eager for new brands and luxury products. However, despite the potential rapid growth of the luxury market within countries such as Brazil, specific complexities also demand adaptations in the traditional luxury strategy of the

brands entering this market. Therefore, understanding the uniqueness of both the local market and consumer is crucial for international luxury brands to be able to adapt to the local specificities.

Within this context, the guidelines developed in this research propose specific adaptations to the overall luxury strategy of an international perfumes brand in Brazil considering each driver of complexity to the respective element of the strategy. In details, although the adaptations in price and distribution were identified as the most challenging once are the most defying ones to the paradox in luxury of exclusivity versus accessibility, these adaptations should not be resembled to a *masstige* strategy – previously discussed as an adaptation to the democratization phenomenon around luxury market.

In other words, even considering that some of the necessary adaptations suggested in the proposed guidelines facilitate the access of the burgeoning emerging middle-class of Brazilian consumers to luxury perfumes – such as the ‘credit culture’ or the wide distribution – other adaptations reinforce the luxury positioning of these traditional brands and provide a balanced luxury strategy specific for the Brazilian context.

The adaptations to the theoretical luxury strategy still allow luxury brands in Brazil to reinforce their exclusive and selective image of high quality products and premium pricing to a niche and high-end consumer base within this market.

Therefore, once the luxury concept is discussed by various authors as context specific and dependent on the country and culture, the adaptations in the local strategy of luxury brands that diverge from the original strategy as in theory are coherent to the Brazilian context and consumers, thus they still allow brands to be recognized by their luxury positioning. Furthermore, the conclusion here is that, even though the brands in Brazil do not follow the theoretical luxury strategy as previously studied, because the recognition of exclusivity of the brand is in the eyes of the consumer, once these brands maintain the perceived exclusivity, their luxury, exclusive brand image will not be harmed.

Managerial Implications

The present study explored the ways in which luxury brands in Brazil need to shape their local strategy to adapt to the specificities of the local market and consumers. The findings presented that there are adaptations that maintain the alignment with the luxury strategy as in theory at the same time as other adaptations completely diverge from the theoretical proposition.

The most important local challenge found as one case where theory and practice strongly diverge regards to distribution in the sense that within the Brazilian market there is only one retailer considered as a luxury department store – Sephora – which demands international brands to adapt their strategy and distribute luxury products through local mass and wide distribution.

Another implication to the local strategy of international brands in Brazil was identified within their price strategy once the local taxes applied to imported perfumes either hinders the luxury products margins in this market or force brands to reposition their perfumes differently than any other market abroad – also diverging from the recommendations in theory.

Still concerning prices one important characteristic identified as specific from the Brazilian consumer which demands adaptation from international brands regards to their ‘credit culture’. As previously discussed, Brazilian consumers – even high income and high purchasing power – demand from retailers the ability to pay any amount in smaller instalments on the credit card, consequently, even luxury brands are forced to offer these payment conditions, which, in turn, strongly diverge from the recommendations in theory regarding exclusivity, for example.

Among other implications and adaptations, the results from the developed guidelines presented that it is essential for international luxury brands entering the Brazilian market to understand the specificities of the market, its perfumes sector and its consumers in order to identify the complexities to which they need to adapt their overall local strategy.

Finally, the discussion and results of this study present specific guidelines for each element of the luxury strategy that the managers and leaders of international luxury brands should consider in shaping their local strategy in Brazil

Limitations and future research

The present research purposely restricted its scope to the Brazilian market and perfumes sector as to be able to study its complexities in depth within the context of the commercialization of luxury brands. In addition, the research was restricted to specific brands, also with the goal of focusing the analysis to go through the details of each brand’s strategy.

In that sense, future researches could propose the study of other emerging markets to provide insights of different local complexities related to different consumers, cultures or country wise. Or, still concentrating in the Brazilian market, future studies might broaden this study to research other luxury brands and evaluate complementing insights of local adaptations.

Finally, the results of this research in the way that it challenges the existing theory of luxury strategy might also raise new questions in regards to the consumers or retailers perspective, for example. Therefore, a new approach might also be of important relevance for future studies to explore this overall subject in light of the final consumer and the retailers within this luxury chain.

APPENDIX

Guideline for interviews

SCRIPT	OBJECTIVES
1. Contextualize the topic of the research and the main motivations of the researcher for the study	- Give an overview of the objectives and research question of the study
2. Understand the main aspects of the organization/brand and main responsibilities of the executive	- Validate the brand as a luxury, imported brand of perfumes - Confirm by the position and the job description of the executive the responsibility and participation in the brand's local strategy
3. Ask the respondent to broadly discuss any challenges of an international luxury brand of perfumes doing business in Brazil	- List main challenges specific to luxury brands entering the Brazilian market
4. Discuss any specificities of the market that may be identified as differing from other markets where the brand is also present	- Identify main differences between Brazil and other markets where the brand also commercializes its perfumes, which might explain the previous listed challenges
5. Discuss about the need of the brand to shape its luxury strategy according to the local market and if the brand already has specific local adaptations	- Confirm the need for local adaptation by each brand - Confirm the possibility of current local adaptation by each brand
6. Identify specific challenges or strategic adaptations of the brand within this market.	- Identify specific adaptations already in practice for each brand
7. Specifically discuss specificities of the Brazilian consumer and local culture impacts for the brand	- Identify specific complexities that the Brazilian culture or consumer might bring to the strategy of international brands
8. Focus on distribution and price challenges for the brand in Brazil (wide territory, big retailers, discounted market)	- Verify specific complexities related to the distribution and price strategies of the luxury brand
9. Discuss the current social and economic scenario of Brazil if there are any consequences for the brand	- Verify if any specific adaptation previously discuss might also be consequence of the broad social and economic scenario of the country
10. Ask about any implications for the brand of specific issues of Brazil as an emerging market (infrastructure, bureaucracy, taxes)	- Relate any previously identified adaptations as consequence of an emerging market characteristics and challenges

Interview 1

Fernanda Martinez

CFO LVMH *Parfums et Cosmétiques do Brasil*

Job position and responsibilities:

“As the CFO of the Perfumes and Cosmetics division of LVMH in Brazil, I am currently responsible for supporting seven different international brands not only in regards to all financial and auditing activities but also in leading the shared services division – common to all brands – which implies administrating all logistic, IT, importation and warehousing activities as well.

I report directly to the LATAM CFO based in our regional office in Miami although each brand has its own Finance structure and CFO Worldwide with whom I maintain close communication too.”

Organization and brands:

“LVMH is a French group of international luxury brands acting in six sectors: Wine and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, Selective Retailing and Other Activities. The group is divided in 70 different houses, as we call it, which are split between the six sectors.

In Brazil, the division of Perfumes and Cosmetics comprises seven separate brands – the majority original from France, one from Italy and two from the US – from the nine total brands owned by LVMH in this sector – two are not commercialized in Brazil.”

Challenges of the Brazilian market and perfumes sector:

“For example, in terms of products, we are not allowed to make any modifications on the products as they are imported ready-to-sell from each country to Brazil. However, there are portfolio differences between markets, so while in Europe we see a stronger focus on *Eau de Parfum* (EDP) fragrances⁸, in the Brazilian market we still focus on EDPs because it is in general the strategic priority of the brands, but the EDT⁹ fragrances are much more representative here than it is overall in other markets – specifically for the feminine fragrances. Two main reasons are: first due to the market profile itself in the taste and preference of the consumer for these fresher fragrances and, second, because of lower tax

⁸ Perfumes with higher concentration, fixation and more intense fragrances

⁹ Eau de Toilette

implications for these lower concentration fragrances which allow the brands to profit from higher margins with these products rather than EDP ones. One important strategy from one of the brands of LVMH – Kenzo – that happened a few years ago and clearly exemplify this scenario in Brazil of focusing on EDT fragrances was that the managers in Brazil negotiated with headquarters in France to develop the EDT version of their top performing feminine EDP fragrance in Brazil as a one shot exclusive offer for the local market to exploit the consumer preference at better margins. The case was such a success that instead of one shot, the EDT fragrance became a regular item of the portfolio, exclusive for Brazil.

For masculine perfumes, this is not true, so the brands usually focus on EDPs because the male consumer prefers more intense fragrances. However, despite the Brazilian market patterns, the consumer preferences also vary from one region to the other within the country, for example, consumers in the Northeast tend to choose stronger, more intense and long lasting fragrances – EDPs are much more representative for both female and male perfumes.

Another aspect is the current moment of the economic crisis in Brazil, although the luxury brands in this sector are not being hit by this crisis and are able to maintain double-digit growth as expected. This is mainly because with the devaluation of the exchange rate, consumers are travelling abroad less frequently – consequently increasing their purchases within the Brazilian market – and the price difference in dollars and *reais* decreases and makes it more attractive to buy perfumes in Brazilian *reais*. Also, the constant growth of the retailers selling the perfume luxury brands also reinforces the point that the crisis does not hit this sector specifically.

Another interesting difference in the strategy of luxury perfume launches specifically for Brazil is that these launches happen with none or very little investment in media, which turns the focus of the strategy away from media and towards high investments directly in the points of sales (POS) – very different from other markets where usually media is the total focus. This is specifically because the Brazilian market and consumer responds much better to actions directly in the points of sales rather than media and the main example is Lancôme that is currently the fastest growing brand in the Brazilian market and it has transferred completely all investments from media to points of sales (spraying actions, gifts, etc).

Also because of the importance of the brand presence in the point of sales, nowadays the highest and strategic investment of the brands is in Beauty Consultants¹⁰ either fix employees allocated in specific

¹⁰ On or off payroll employees hired as sales persons and specialists working directly in the points of sales

stores or temporary free lancers for specific events, launches or POS actions.

Concerning distribution, especially for the luxury market and perfume sector, Brazil is still considered as one of the most outdated markets worldwide. This market is still highly fragmented with big retailers just recently consolidating their presence in the luxury market and traditional perfumeries still playing a large role in total market sales. Besides that, the department stores in Brazil have an extremely different concept than in other markets, once here – a few of the top sellers such as Dufry and Beauty Box – do not dispose counters and displays as we can always notice overall in other countries. Regarding territory, although Brazil has a vast area to be reached – much bigger than European countries, for example – the income and population is mainly concentrated within the South and Southeast regions of the country directing the distribution focus for the luxury brands.

For promotional activities, discounts and price promotions may occur in special occasions or with a specific strategic purpose such as lowering stocks and days of inventory, for example. These special occasions are actually gaining importance and strength in Brazil even within the luxury market called ‘discount seasons’ such as Black Friday – already institutionalized as the second highest selling event of the year – still behind Christmas but already more important than Mother’s Day. Also for this reason, Brazil is considered as a highly promotional market, among other markets abroad, even for luxury brands, consequently we see competitors of the sector frequently playing with permanent discounts for luxury perfumes as well. However, that is not the case for LVMH brands that used to offer permanent discounts for a few products but interrupted these price promotions in exchange for other alternatives to attract consumers in these promotional events. For example, one important demand specific for the Brazilian perfume sector regards to *coffrets*¹¹. Brazilian consumers place a very high importance and preference for this kind of offer – higher than other markets worldwide – because they are perceived as a special offer, exclusive and, more importantly, limited.

Lastly, what I see as a very specific characteristic from the Brazilian consumer, also directly affecting the local luxury market, is a strong “credit culture”. All consumers whether with high purchasing power or not expect to be able to buy with the advantage of paying for their purchases in up to 10 monthly credit card instalments. So, we can see all kinds of stores and retailers offering these payment conditions – from big and popular retailers selling luxury perfumes like Renner or online channels to selective and brand owned stores such as Dior, Tiffany, etc. This last characteristic is very challenging to luxury

¹¹ Special offers that either combine two or more products into one selling price or match one product with one gift (necessaire, miniature, etc) also for one single price.

brands because it is given by the market and it is not exclusive to luxury consumers nor the perfumes sector.”

Interview 2

Raissa Allain

Brand Manager *Acqua di Parma*

Job position and responsibilities:

“I have been the Brand Manager for Acqua di Parma in Brazil for 5 years now. I am responsible for the entire operation and commercialization of the brand in Brazil and I report directly to the brand structure in Italy.

qaccording to the positioning of the brand in Brazil by negotiating with retailers and agencies (PR, for example) or even coordinating all internal processes such as purchase orders of products from Italy, reporting all brand’s results to Italy, etc.”

The Brand:

“Acqua di Parma is an Italian brand that restarted its operations in Brazil in 2012 and positions itself as a luxury and niche brand within the perfumes sector of the luxury market.

Today the brand only commercializes the perfumes through an exclusive agreement with Sephora retail and online in Brazil. Over the last year the brand has registered double digit growth following up the increase in number of stores of Sephora in the market.”

Challenges of the Brazilian market and perfumes sector:

“The first important challenge that comes to mind regards to the importation process and costs that a brand like Acqua di Parma has to deal with in bringing the perfumes from Italy to Brazil. First, the high taxes of importation for perfumes force us to adapt our prices and margins in selling the same products as in Italy in the Brazilian market. Second, other costs besides taxes are very high when it comes to sanitary registration, for example, of new products and launches to be imported to Brazil. Third, because the products are imported through sea freight – airfreight is even more expensive – the process itself already takes a long time from the moment you order the products to Italy until they arrive in Brazil, when it gets even more complicated because there is extra time required for the local authorities to release the shipments in the customs. This is a big challenge for us because due to the issue on the timing until the perfumes are actually shipped to retailers, we have a time of response that may be too long in cases such as a shorten of stock or even a new launch – reason why all launches in the Brazilian market

usually happen with a delay of a few months after Italy.

Due to these taxes and higher costs on importation, it is necessary for Acqua di Parma to adapt its prices to the Brazilian market, so the main strategy is to position the prices at the balance between delivering the expected margins of a luxury brand and remaining consistent to the market by setting an approximate difference from competitors' prices.¹²

Another challenge in the Brazilian market, specifically for Acqua di Parma is still to educate the Brazilian consumer about the brand especially in terms understanding the price as the value that is being delivered. So one important aspect of the luxury strategy in Brazil is to remain where luxury competitors are and do not expose the brand close to premium or popular perfumes – so it does not generate any confusion in the consumers' perception. In this sense, there is a good and bad side of competition entering the Brazilian market: bad simply for being competition and good because it helps to familiarize the Brazilian consumer with luxury and differentiate their perception around these expensive and exclusive brands.

Regarding the current moment of the market, any brand in the Brazilian market should be aware of the economic and political crisis in the country as an important challenge bringing instability and uncertainty also to the perfumes sector. However, luxury consumers are not the ones affected by this crisis, so Acqua di Parma is not impacted as well. In fact, once the crisis brought the devaluation of the currency, it became much more expensive for consumers to keep traveling abroad so they increased their purchases of perfumes in the local market – as a growth opportunity for Acqua di Parma that has been registering double-digit growth in the Brazilian market.

Another big challenge in Brazil relates to distribution. The positioning of Acqua di Parma worldwide is to restrict its distribution to department stores and boutiques owned by the brand, however the concept of department stores in Brazil is very different from the luxury concept in other markets. In Brazil, most of the department stores are not specialized in perfumes and cosmetics and are usually big and popular stores such as Renner, for example. For that reason, the strategy of Acqua di Parma to enter the Brazilian market was to limit its distribution to Sephora – the only retailer that maintains the luxury concept of the department stores in Brazil such as in Europe. However, because the Brazilian market is highly fragmented, it is a high risk to become dependent on one single retailer and it strongly limits sales growth and profitability of the brand. So in order to adapt, specifically for the Brazilian market, Acqua di Parma will soon expand its distribution to other big retailers, such as Dufry still in 2016. The main objective

¹² No further details on pricing strategy were presented to respect the confidentiality agreed with the brand.

with Dufry – besides going where the competitors are – is to reach to a new share of consumers because differently from Sephora, where the consumer has a “shopping mall profile”, Dufry is much more of a “convenience profile” where consumers buy to kill time at the airports. Even further, Dufry was the first choice for expanding the distribution because it offers a higher range of consumers in the sense that people from all over Brazil – and even foreigners – at least go through the airport from time to time.

Another way to expand distribution to reach a third type of consumer profile is through online sales in Sephora’s website. The online consumer is more sensitive to prices so on the website the best sellers are usually the perfumes of lower counts – smaller than 100ml – while in the stores the sell out is stronger for bigger counts. Also, online sales are stronger for male fragrances while in store are driven by female perfumes (85% of sales in Sephora are for women). All these differences have a big impact on the strategy of Acqua di Parma in terms of communication and promotion – different focuses for different channels and consumers. One good example is the fact that the offer of miniatures is much more effective online than in the store: on the website we can notice that the consumer may buy the product specifically to get the miniature, but in the store, although it is an interesting approach, it does not influence the purchase decision of the consumer.

In terms of communication and promotion, Acqua di Parma cultivates its worldwide positioning as a luxury and niche brand in the perfumes sector so any type of adaptation to the Brazilian market needs to be aligned with the headquarters in Italy. For example, worldwide the brand does not focus on investments in media, however one important adaptation to Brazil is the focus on investments in promotional products – biggest investment for Acqua di Parma in Brazil – such as samples and miniatures that are very well received by the Brazilian consumer. It is very specific of the Brazilian consumer profile this motivation towards promotional products – the perfume becomes more attractive to be purchased if it comes with a small gift – and it is a very good alternative for luxury brands to adapt to such a promotional market without offering discounts, that usually harm the image of the brand.

Regarding products, for Acqua di Parma, although we are not able to make any changes on the product itself, we adapt our portfolio to the Brazilian market according to the acceptance of the local consumer. Therefore, the focus is on fresher fragrances and colognes that are better accepted due to the hot weather in Brazil and smaller counts of 50ml and 100ml that fit the price positioning of the market – sizes of 180ml and 500ml would be too expensive to be imported to Brazil and are not common counts for the market.

Lastly, although the brand is not allowed to give any discounts in prices, one inevitable adaptation is the

payment conditions given by retailers – including Sephora – in which consumers can pay the total value of their purchases in many months installments. Specifically for the promotional times of the year – Christmas, Mother’s Day, Black Friday – the number of installments becomes even higher – instead of 5 months, consumers’ are able to pay in 10 times in Sephora. This is a very specific aspect of the Brazilian consumer that always demand having the possibility of paying in installments no matter the value of the purchasing and the purchasing power of each consumer.

Also in times of promotional events, an attractive alternative to giving discounts is offering *coffrets* because they are special kits that combine exclusive products of Acqua di Parma which are not available on regular portfolio so consumers’ perceive as a good opportunity for a special offer.”

Interview 3

Brand Director Dior

Debora Oliveira¹³

Job position and responsibilities:

“I have been working with Dior for many years and currently I am in the position of Brand Director in Brazil. I have the sales, marketing and PR teams reporting directly to me and I report directly to the CEO LATAM for Dior in the regional office in the US.

In Brazil, I am responsible for the entire commercialization of the brand, strategy implementation and delivery of target results.”

The Brand:

“Dior is divided in different segments in Brazil, haute couture and perfumes and cosmetics. The perfumes and cosmetics division has been present in Brazil for many years as a French luxury brand of imported products.”

Challenges of the Brazilian market and perfumes sector:

“Two main challenges we face in Brazil as a luxury brand of imported perfumes are the need to adapt to the local distribution and to respond to all fast changes of an emerging market.

In terms of distribution, Brazil is as a very specific and outdated structure if compared to other markets. Although department stores have been growing their share of the market over the traditional perfumeries, the concept of these stores is highly different from the concept of a department store abroad. In Brazil the top retailers for luxury perfumes of imported brands currently tend to be stores such as Sephora, Renner and Dufry, so besides Sephora that as an international retailer maintains a similar concept of luxury department store worldwide, the other two are usually popular megastores in Brazil not specialized in perfumes.

In fact, Dior has opened one boutique in Brazil in 2015 to get closer to consumers and reinforce the image of the brand as exclusive and luxury by sharing its history and purpose with these luxury consumers. However, because it is extremely expensive, even for luxury brands, to open their own boutiques in Brazil – due to high taxes, very expensive labor costs and poor infrastructure – also due to the lack of retailers in this market with a luxury concept and specialized in perfumes, it is inevitable for

¹³ Fantasy name to protect the identity of the respondent

the brands to call upon the big retailers and online channel as the only way of being profitable in this market.

So, besides distribution, the Brazilian market has other challenges that luxury brands with imported products face. As I mentioned, the costs to operate in Brazil are higher than the average for other markets, for example, as we discussed in the case of opening own stores. This so called “Brazil cost”¹⁴, mainly in terms of bureaucracy and taxes, forces the brands to adapt their strategy to the local specificities.

I believe these difficulties are mainly consequence of Brazil as an emerging market where the economic and social environment frequently goes through constant changes as for example the Brazilian consumer has been rapidly changing due to the rise of a middle class who now aspires to luxury products.

However, one very important characteristic of Brazilian consumers that also affect sales of luxury products is the culture of the Brazilian people of purchasing every kind of item – big or small, luxury or not – by paying in many installments on the credit card. Consequently, luxury products become more “accessible” not because of price reduction in the Brazilian market but only because consumers may choose to pay a small portion of the price per month. Important to say that this is not an exclusive characteristic of consumers from the middle class but also high level luxury consumers who are used to dividing their expenses in smaller values.

For this reason, all kinds of retailers in Brazil offer these payment conditions – from our big retailers like Renner, Dufry, Beauty Box, Sephora to luxury brands’ owned stores even in other sectors such as Tiffany’s, Louis Vuitton, etc.

To conclude, the Brazilian market is highly strategic for the luxury brands especially of perfumes and cosmetics once it is necessary for these brands to fight against the tax barriers and bureaucratic challenges while creating brand awareness and educating the Brazilian consumer to the day these issues may be overcome in the – still in development – luxury market.

¹⁴ A combination of high labor costs, over-regulation, poor infrastructure, heavy bureaucracy and low productivity.

Interview 4

Marketing Manager Dior

Amanda Nascimento¹⁵

Job position and responsibilities:

“Currently I work as Marketing Manager for Dior in Brazil specifically for the perfumes and cosmetics division. I am in charge of all marketing activities – except PR – such as trade marketing, merchandising, product management and specialists training.

As Marketing Manager I report directly to the Brand Director in Brazil although I have intense interaction with both regional and headquarter marketing teams.”

The Brand:

“Dior is an exclusive brand of luxury perfumes for both women and men. The brand is centered around its history and the history of Christian Dior, its creator.”

Challenges of the Brazilian market and perfumes sector:

“The Brazilian market is extremely challenging for luxury brands especially in the perfumes sector which is highly competitive with many different types of brands from national popular brands to international luxury brands, such as Dior.

The main challenges I see regards to prices and distribution. First for prices, because all of our products are imported directly from France, there is a very expensive tax rate to be paid in Brazil depending on the concentration of perfumes – specifically because they are classified as superfluous items under the Brazilian law. So, for example, the highest tax paid is IPI¹⁶ and, according to the Brazilian legislation, perfumes with low concentration are charged with 12% tax rate over the final cost and perfumes with high concentration are charged with a 42% tax rate. This high incidence of taxes over our final costs pressures our price positioning to be proportionally higher than in general – considering other markets – in order to compensate costs and reach our products margins.

Another issue on prices regards to the positioning of travel retail, because in Brazil there is a strong culture of consumers buying perfumes on travels and more specifically on Duty Free stores in order to

¹⁵ Fantasy name to protect the identity of the respondent

¹⁶ IPI stands for “*Imposto sobre Produtos Industrializados*”

profit from better prices and offers. In consequence, there is a strategic initiative for the brand to position its prices in the local market at higher price levels than in Duty Free – which usually is a natural effect due to local taxes and exchange rate impacts.

Therefore, this higher price positioning in the Brazilian market versus other markets or travel retail leads the focus of Dior to an even more selective and niche consumer target comparatively. However, at the same time, although the luxury market in Brazil is still in development, it is a highly competitive market and strategic for international luxury brands as we see more and more traditional brands entering the market every year. For this reason, when reviewing our prices we also take into consideration the positioning of the brands which we consider as direct competitors within the Brazilian market.

Although Dior focuses on a selective and luxury consumer target that is aligned with the brand strategy and its price positioning, in Brazil there are two specific challenges that affect the accessibility of our products. First, there is a peculiar situation imposed by the Brazilian consumer in terms of payment conditions. So, in Brazil there is a very strong culture of purchasing any kind of item on credit card and breaking down the total value of the purchase in small monthly installments – from 2x to 12x, for example, depending on the retailer. It is very interesting that this is true for low income social class consumers as it is for high income luxury consumers, which means it is really a cultural matter of the Brazilian consumer overall who seeks to avoid the full disbursement at once even if they have the money available at the time of the purchase.

The second challenge is distribution in Brazil, since there are no options of department stores as we may find it in other markets abroad, besides Sephora, which is extremely recent in this market, luxury brands must rely on big retailers not specialized in the perfumes sector to sell their products to final consumers. The main issue is that these retailers are in general big popular stores not specialized in perfumes that sell all types of brands from popular to luxury and spotted all over the country more frequently in popular locations than in luxury areas.

To fight these issues on the Brazilian market, a very important adaptation is the total focus of investments in actions at the points of sales, which are extremely uncommon in other markets and very specific for Brazil. The idea is really to reinforce the brand image and promote our products by reaching directly to the final consumers and educating them about the brand history, its luxury differentiation and positioning not to mislead their perception due to the retailers positioning or location. The only way to access the consumer directly is by allocating our Beauty Consultants in the retailers' stores to guarantee that the brand will be correctly presented and exposed.

So, besides the wide distribution, the credit payment in small shares per month is what may make luxury products accessible to a growing middle class in Brazil who is eager to be part of the luxury market. The strategy of Dior remains on targeting the selective luxury consumers, however, the market specificities and context of the perfumes sector in Brazil enable these new consumers – middle class women mainly – to become part of a wider consumer base.

Together with a growing middle class, another aspect of the Brazilian market is that it is considered as a highly promotional market for items such as perfumes and cosmetics. As a luxury brand, Dior positions its products with no discounts or price promotions with rare exceptions in festive events such as Christmas, Mother's Day or Black Friday. To protect our brand image and still adapt to such a promotional market, Dior strategy is to offer promotional material such as gifts or samples, for example, for buying consumers to feel like they are being rewarded, they are special and part of a selective and differentiated group. Also, especially for the festive events, the brand focuses on offering *coffrets* which are not discounted but offer an advantage for the consumer of buying special items – usually two or three – for one single price, as a kit.

The representativeness of *coffrets* within the portfolio of the brand is higher in Brazil than it is for other markets on average; however, it is not the only adaptation to the overall portfolio. Another important adaptation for the Brazilian market regards to a stronger focus on fragrances nominated as *Eau de Toilette* not only because they are fresher fragrances that are better accepted due to the hot weather of the country, but also they have a lower concentration which leads to lower IPI rates. In this sense, these fragrances are strategic in Brazil because might bring a better profitability of higher margins for the brand and also an opportunity for Dior to access consumers acceptance of a new launch by first introducing the EDT fragrance and strategically deciding on following up or not with the launch based on this response.

As a Marketing manager, it is a great challenge to analyse the portfolio and negotiate with our headquarters what actually makes sense within such a specific context as for Brazil and the local consumers.”

Figure 1

Gentleman Only – Givenchy Coffret



The screenshot displays the product page for the 'Gentleman Only – Givenchy Coffret' on the Beauty Box website. The page features a navigation bar at the top with the 'THE beauty BOX' logo, a search bar containing the text 'Hoje eu quero...', and icons for user account and shopping cart. Below the navigation bar, the breadcrumb trail reads: 'HOME / PERFUMES / KIT PERFUMES E COFFRETS / KIT PERFUMES MASCULINOS'. The main content area is divided into two sections. On the left, there is a product image showing the 'Gentleman Only' perfume bottle, two tubes of 'Loção para Banho' (Body Lotion), and the product's packaging box. The box is black with gold and white accents, prominently displaying the 'GIVENCHY' logo. On the right, the product name is written in a serif font: 'Coffret Givenchy Gentlemen Only Masculino Eau de Toilette e Loção para Banho 75ml - Coffret Givenchy Gentlemen Only Masculino Eau de Toilette e Loção Para Banho 75ml'. Below the name, the item code 'CÓDIGO DO ITEM: 810956' is shown. The price is listed as 'R\$ 468,90', with an alternative payment option of 'OU 12 X DE R\$ 39,07'. A black button with white text 'COMPRAR AGORA' (Buy Now) is located at the bottom right of the product information section.

Source: Beauty Box website at <http://www.thebeautybox.com.br/coffret-givenchy-gentlemen-only-masculino-eau-de-toilette-e-locao-para-banho-75ml-810956-p/p>

Figure 2

Insolence – Guerlain Coffret

SEPHORA

GUERLAIN > KITS DE PERFUMES PARA ELA > PARA ELA

GUERLAIN

COFFRET INSOLENCE FEMININO EAU DE TOILETTE II



Coffret Insolence Feminino Eau de Toilette II
0048523

R\$ 380,00
10x R\$ 38,00

Source: Sephora website at <http://m.sephora.com.br/produto/Coffret-Insolence-Feminino-Eau-de-Toilette-II/PRD22604>

Figure 3



Source : Renner website at http://www.lojasrenner.com.br/brindes?s_icid=Interno-Perfumaria-Pagina-Brindes-01Nov16%20&ref_click=banner%7Ccategoria%7Cinterno-perfumaria-pagina-brindes-01nov16

Figure 4**Promotional gift - Givenchy**

GANHE Bolsa Feminina Givenchy

Source: Renner website at http://www.lojasrenner.com.br/brindes?s_icid=Interno-Perfumaria-Pagina-Brindes-01Nov16%20&ref_click=banner%7Ccategoria%7Cinterno-perfumaria-pagina-brindes-01nov16

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