

Giorgio Armani's Empire - Giorgio Armani the 'Master' of Luxury

Abstract

The luxury industry has undertaken some truly transformational changes over the past 20 years. Most luxury brands are now owned by big players like LVMH, being a part of their portfolio, always with a side-eye in their branding strategies to not cannibalize other brands of the company. Expansions are a popular tool to enter new markets and take new challenges. The increasing number of middle class consumers with high purchasing power triggered a shift in the industry: From many, traditional, mainly family-owned luxury brands, catering to the wealthiest individuals, to becoming global players trying to cater to as many consumers as possible. Therefore, price-entry products, like perfumes, became a common expansion strategy among luxury brands.

This has led not only to significantly increased diversification and democratization of the luxury industry, but simultaneously also to many challenges on the part of luxury brands who, in order to succeed in their brand extensions, needed to quickly identify the most suitable strategies for expansion. And it is at this crossroad, we ask a pertinent question: What makes a luxury company consistently successful? How did one man succeed where most other brands have not come close to his success till now? That man is Giorgio Armani, who is still the main decision maker in every aspect within his empire and controls 100% of Giorgio Armani SpA.

Through a combination of quantitative and qualitative research based on a survey and focused groups, and their analysis, this paper will provide detailed findings for future entrepreneurs, business leaders and academics showing an example of how to take the challenge of expanding the core of a brand and dare to create brand extensions.

Keywords: Brand extension; Brand strategy; Brand dilution; Success; Men with vision; Luxury empire; Brand recall; Longevity; Armani

Review Article

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Objective

At the turn of the 21st century, when the only new geographical markets left to be covered by luxury seem to be parts of South Africa, leaving aside Antarctica, luxury brands who have always been guardians of their brand DNA are forced to ask an important question: What is the limit of brand extensions and luxury? How much presence across multiple product categories is good enough to pivot on the pegs of marketing and alluring all possible consumers into the world of luxury? Does the recent departure of creative heads like Raf Simons at Dior Horyn [1] indicate a constant commercialization of the many collections per year? Does this one-minute celebrity status in the world of Twitter and Instagram rejoice the true nature of fashion and luxury? While masstige brands like H&M is constantly looking at extending their brands into "Balmania" White [2] like capsule collections stretching their positioning, should luxury brands retreat or work towards brand extensions in niche areas? This paper focusses on the journey of Giorgio Armani and his constant ability to keep his namesake brand relevant and still be able to create multiple businesses across categories. Is this success because he controls 100% of the direction the company? This question will be answered in this article with the help of a non-representative survey which was made in 2017. It explores if there is actually a

"secret recipe" for success in the fast evolving business of luxury and fashion. The objective is to look at this journey and discuss the possible reasons of success and its continuity as an essence of doing business in the luxury space.

Introduction

According to Bain & Co, the global luxury market grew from €77 billion in 1995 to an astonishing €224 billion in 2014 (2015) Global Luxury Goods Market expected to sustain steady momentum with 2-4 percent real growth in 2015 Bain & Company [3]. In this respect, two phenomena have been identified as being among the most important catalysts of this drastic change, both related to the desire of, many traditionally specialized luxury brands, to enlarge their luxury consumer base while also accommodating existing clients Kapferer [4] On the one hand, there have been attempts on the part of many brands to reach new customers in their already existing markets by simply introducing new lines at different price points, also known as vertical extensions. On the other hand, one could observe the same and/or other brands entering more diverse markets, outside the company's core business, through horizontal extensions which, to lesser or larger extent, allowed their existing and future consumers to gain an access to the brand's universe. This has naturally posed a big

challenge to luxury brands which, in order to retain their luxury status and pricing power while undertaking extension strategies, needed to preserve their brand identity and maintain certain level of exclusivity. In this respect, it is interesting to notice that no one has managed to successfully balance these acts to the same extent as Giorgio Armani. While some luxury brands, such as Pierre Cardin, could be said to have attempted to get to this level but failed by eventually diluting their brand past the point of no-return Pitt [5], other luxury brands (e.g., Louis Vuitton, Prada or Chanel), decided to play it rather safe and hence, equally, nor did they manage to attain the level of stretching and diversification present in Armani: apart from introducing 5 sub-brands, each catering to different segment of the fashion luxury market, Armani successfully entered also rather unusual sectors, non-adjacent to the core brand, offering a truly diverse portfolio of products and services ranging from chocolates, flowers, books, home furniture to even hotels, cafes, bars or spas Armani [6]. Clearly, Armani has gone out of his comfort zone by taking large risks which, nevertheless, seem to have paid off. And it is this phenomenon that has made us investigate the matter further. How did Armani manage to be prosperous, despite its extreme brand extensions? To what extent can a brand stretch and still be considered a luxury brand? Where exactly is the limit to brand stretching and does this vary according to the nation?

The luxury industry has known two types of vertical extensions, upward extension whereby a luxury or fashion brand complements the lines of its core business by introducing also a higher priced line, and downward extension, characterized by the introduction of one or more lines at lower price points Kapferer [4], for this research, the focus will be mainly on the vertical downward extension which naturally places a brand at risk of losing its luxury status. Furthermore, the term 'brand stretching' traditionally refers to vertical extension while the term 'brand extension' refers to horizontal extension Kapferer [4], in this paper we will be using the terms 'stretching' and 'brand extension' interchangeably and a clear distinction will be made only when necessary.

In the first part of this paper, the focus will be on providing a background into the impacts of brand stretching on the luxury parent brand. More precisely, secondary data will be used to discuss the positive as well as negative impacts of brand stretching on the luxury brand image.

In the second part, we will look at what makes a great leader by analyzing the case of Giorgio Armani. Here, we will highlight the characteristic defining Giorgio Armani as a successful entrepreneur, his past and the vision that has made the brand.

In the third part, we will offer a brief, yet, thorough insight into the used methodology aimed at finding an answer to our research questions and, subsequently, we will move onto revealing and discussing our findings. Lastly, we will provide a comprehensive, yet, not at all exhaustive, understanding of the managerial implications based on our primary data.

Brand extensions: Positive versus negative impact on the brand image

Strategically, both vertical as well as horizontal extensions can

have positive impact on the parent brand. Firstly, not only they provide a deeper understanding of the brand's meaning and of its key ethics but they can also refresh interest in the brand on the part of its existing consumers and, providing an extension proves to be successful, this can then lay a solid foundation for the brand's future extensions Keller [7]. Furthermore, if well-evaluated and enacted, a brand extension can also improve, or even further enhance, the consumer's perception of a brand as competent, trustworthy and attractive, and, subsequently, attract attention of even those consumers who, for various reasons, did not think of buying the brand before Keller [7]. The interest of new consumers can equally be aroused through a brand extension introducing a product benefit, not present in any of the previously introduced products of a brand Aaker [8]. Lastly, research has also been done in non-luxury sector and the results have shown that brand extensions lead to enhanced brand recognition Reddy [9].

The impact of brand extensions on the parent brand can be also negative. As mentioned above, the aim of both strategies is to cater to the large group of new and potential luxury consumers while accommodating existing clients. But up to what point can luxury brands stretch without compromising their success? Experts assert that if a brand extension does not fit the core brand and hence it appears inconsistent or even completely incompatible with the parent brand, consumer's perception of the brand as competent and honest can be drastically changed Kotler [10]. Furthermore, various extensions could eventually lead to an overextension resulting in the consumers no longer being able to identify themselves with any of the brand's core categories which, in turn, weakens the image of a brand Kotler [10]. Gucci, for instance, overextended its brand portfolio in 1980's Keller [7] by including in it thousands of different products and this, subsequently, led to a strong decrease of its brand equity Bashe [11]. As for the vertical downward extensions, aimed at catering to less wealthy individuals, these could cause profit loss on the part of those brands whose existing consumers would eventually decide to switch from the offerings of the core brand to those of its extension Keller [7]. The history has, moreover, demonstrated that pushing the vertical extension too far downwards places the brand at risk of losing its acquired allure and its pricing power, and if not reversed in time, this could eventually force the brand to exit the luxury industry all together Kapferer [4]. This fate befell also, previously mentioned, Pierre Cardin who with the aim of enhancing its profits, in the delay of 28 years, went from successful well-controlled licensing of its name to perfumes and cosmetics to unmanageable licensing involving over 800 licenses and as various products as cigarettes, pens, baseball caps or even toilet seats Pitt [5]. Hence, a brand extension can be a very risky strategy to employ for, if not well evaluated and enacted, it can seriously damage the brand equity. To prove our points further we decided to take on the Giorgio Armani case while highlighting each aspects of brand stretching and luxury perception.

Giorgio Armani's empire: a case study

Giorgio Armani is well known across the world for his empire, however his background is nothing but ordinary. Armani was not born with a silver spoon in mouth. Born in a small-town Piacenza, suffered the hardship of World War II when he was in the army, nothing could have predicted Armani's future. His formative years

are the essence of his vision. During the war the movie theater was his escape where he would dream. He dreamed of the glamorous lifestyle of Hollywood, fell in love with its stars and idealized the displayed women and their beauty. Giorgio Armani worked his way up, starting as a window dresser and as a stylist before founding Giorgio Armani SpA. in 1975. Armani was popular in Europe at the time for introducing "a more natural fit and using a subtle color palette." Giorgio Armani stated that his vision was clear: "I believed in getting rid of the artifice of clothing. I believed in neutral colors," [12]. Then his long-life dream came true in 1980 when he entered the American market, and Hollywood stars wore his designs in movies and on the red carpet. Giorgio Armani had a vision as a child and he stuck to it, he worked for it. Nothing slowed down Armani in his quest, neither the loss of his dear friend and co-worker, nor his legal tax related troubles. In 1989, Giorgio Armani opened the first of many restaurants. By 1990, Giorgio Armani had 200 stores worldwide and about \$2 billion in annual sales. In 1998, there were discussions between LVMH and Armani about a possible partnership, which never materialized as he felt it would have been the end of creativity as he would be managed by someone else. It was then that the brand started taking even more control buying out factories, old partners and in a way handling the entire business cycle on its own. It's only in 2005 that Armani launched his haute couture line called Armani Privé, which is the perfect example of a successful upward vertical brand extension. Why was this extension especially successful? Because classic and elegant gowns built a small market, with plenty of space. Right from the beginning Armani started working with testimonials and celebrity endorsement. The same strategy as for any of his other sub-brands, but this time the results were displayed in glossy magazines. Repeating testimonials are Nicole Kidman, Anne Hathaway or Kate Blanchet in Figures 1 & 2.



Figure 1 : Anne Hathaway in Armani Privé at the Golden Globes in 2006 (Source: Getty Images).



Figure 2: Nicole Kidman in Armani Privé at the Oscars in 2017 (Source: Getty Images).

In 2010, he opened his first hotel in Dubai followed by one in Milan. With the aim of not only fighting the dying markets and increasing numbers of competitors but also catering to a wider audience and leaving his footprint in every sector imaginable, Giorgio Armani has slowly introduced several sub-brands: Armani Collezioni, Emporio Armani, Armani Exchange, Armani Jeans, Armani Junior, Armani Casa, Armani Privé, EA7, Giorgio Armani Beauty, Armani Dolci, and Armani Fiori. Giorgio Armani is unstoppable, building and expanding his empire in every direction. In a recent interview to *Business of Fashion* while celebrating 40 years of the brand, *Fashion* [13] he summed up his love towards creating something new and exciting that is a big part of everyone's life and the continuous challenge he faces to do better than before. He cares about how he can contribute yet outdo his last achievements almost consistently. Giorgio Armani has remained in 100% control of his company from day one, which is part of his incredible success. The company never went public, which can be explained by Giorgio Armani's extreme controlling ways. Till this date, the company does not have an official spokesperson except Mr. Armani. No one in the company is allowed to give a statement without being authorized to do so by Giorgio Armani. It's known that when well established architect Jean-Michel Gathy was negotiating his terms while building a new Armani hotel in Marrakech, at first Mr. Armani refused to acknowledge his work and him being part of the project, but after lots of discussion they came to an agreement and the architect was accredited to the project. This leads us to an important question that everyone is afraid to ask - what will remain of Giorgio Armani's empire once he is gone? Does the man make the empire or does the empire make the man? He mentions he thinks of it almost every other day. Perhaps he will make a foundation that will continue to handle the affairs of the brand with its group

of senior management WSJ [14] Time will tell. What one can be assured of is that he had single handedly and independently managed to create a world of Armani that is distinct yet sparkles of the brand DNA in its entirety. Though this comes at a cost of not growing as fast as some of his competitors and certainly more difficult to keep the identities of the various brands distinct, he is confident of the road ahead.

For a better visual explanation of the described brands, a hierarchy was developed. Directly under the company's brand, the business brands can be found, like Armani Privé which was described above. On the level of product-group brands, like the baby collection of Armani, or the more famous Armani Jeans. Also, the Hotel Brand was categorized here. Below this, on the smallest scale are product brands. Here we have perfume brands like 'Acqua di Gio', since there is only one product in various forms from this brand in Figure 3.

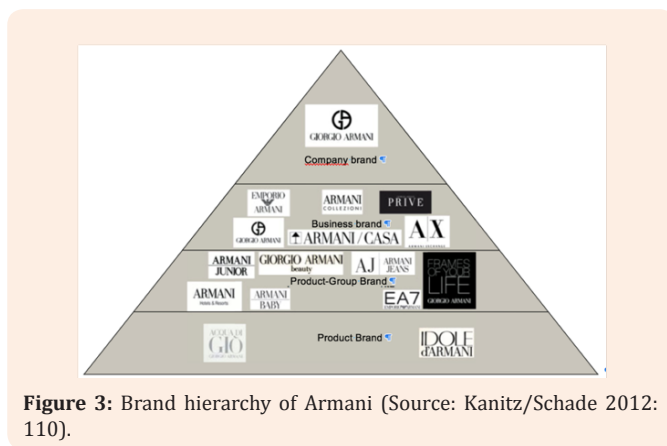


Figure 3: Brand hierarchy of Armani (Source: Kanitz/Schade 2012: 110).

Findings

The aim of the survey, specifically designed for this study through the use of Qualtrics®, was to find answers to the following questions: How did Armani manage to be prosperous, despite its extreme brand stretching? To what extent can a brand stretch and still be considered a luxury brand? Where exactly is the limit to brand stretching and does this vary according to the nation? The following section summarizes the findings based on the responses obtained from 125 respondents (n=125).

In the survey one of the main questions that had a very relevant meaning into the research was; how people perceive luxury. What does it entail for them? Let's remember first that luxury is just a matter of perception. Some factors, however, are prominent. Quality, excellent services and uniqueness all ranked in the top three. Price ranked in fourth position yet, during our focus groups, people insisted that the more expensive the goods or services the more they wanted it as shown in Figure 4. Interestingly, the heritage of a brand or its handcrafted products, were not perceived as important factors, even though they are part of the 8 luxury parameters of Dubois (1992).

In conjunction with the above, when asked whether they prefer well-known brands (mass-market/global companies) or unique

specialized type of boutiques (small traditional companies) 14% answered they prefer well-known brands, 18% unique specialized type of boutiques and 55% liked both in Figure 5. Therefore, almost contradicting the uniqueness factor. How can a product be unique if it's mass-market?

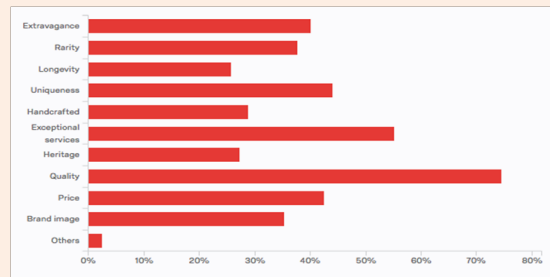


Figure 4: How would you define luxury? Luxury characteristics and their level of importance according to the respondents.

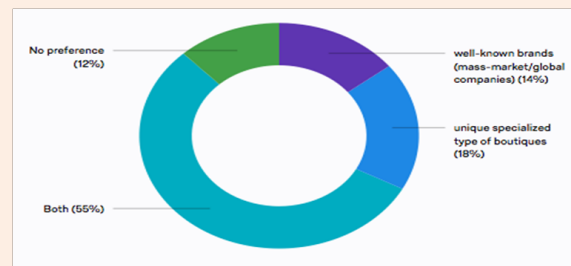


Figure 5: Do you prefer well-known brands (mass-market/global companies) or unique specialized type of boutiques (small traditional companies)?

When asked if expanding a luxury brand into non-fashion related categories (e.g furniture, hotels and cafés) has a negative impact on the brand image, 39% of the respondents answered yes and 61% answered no in Figure 6. For the 39% who stated that it does impact the brand their feedback was that it would make the product less rare, it would dilute the brand, the consumer would be confused, the company would lose its niche and expertise because they cannot multitask, give the impression that the brand tries to make money instead of focusing on what really matters. On the contrary, majority of the 61% of the respondents who said 'no' commented that if these extensions are well-managed and project the same level of luxuriousness as the core brand they can only enhance the brand's image and not dilute it. It can have a positive impact on the core brand, or the introduction of new line could be pricier therefore bringing in more money to the company, if the core brand is popular over the product itself a majority of the public will want to buy it just because of its affiliation, it's always better to grow and expand, because people have more interests than just fashion for example. Many of these respondents further added that they would love to have furniture from their favorite designers - "I love MK and if they offered furniture and accommodation I would trust them to be awesome and classy and luxurious", confirming that diversification can empower the brand, as displayed in the word cloud below in Figure 7.

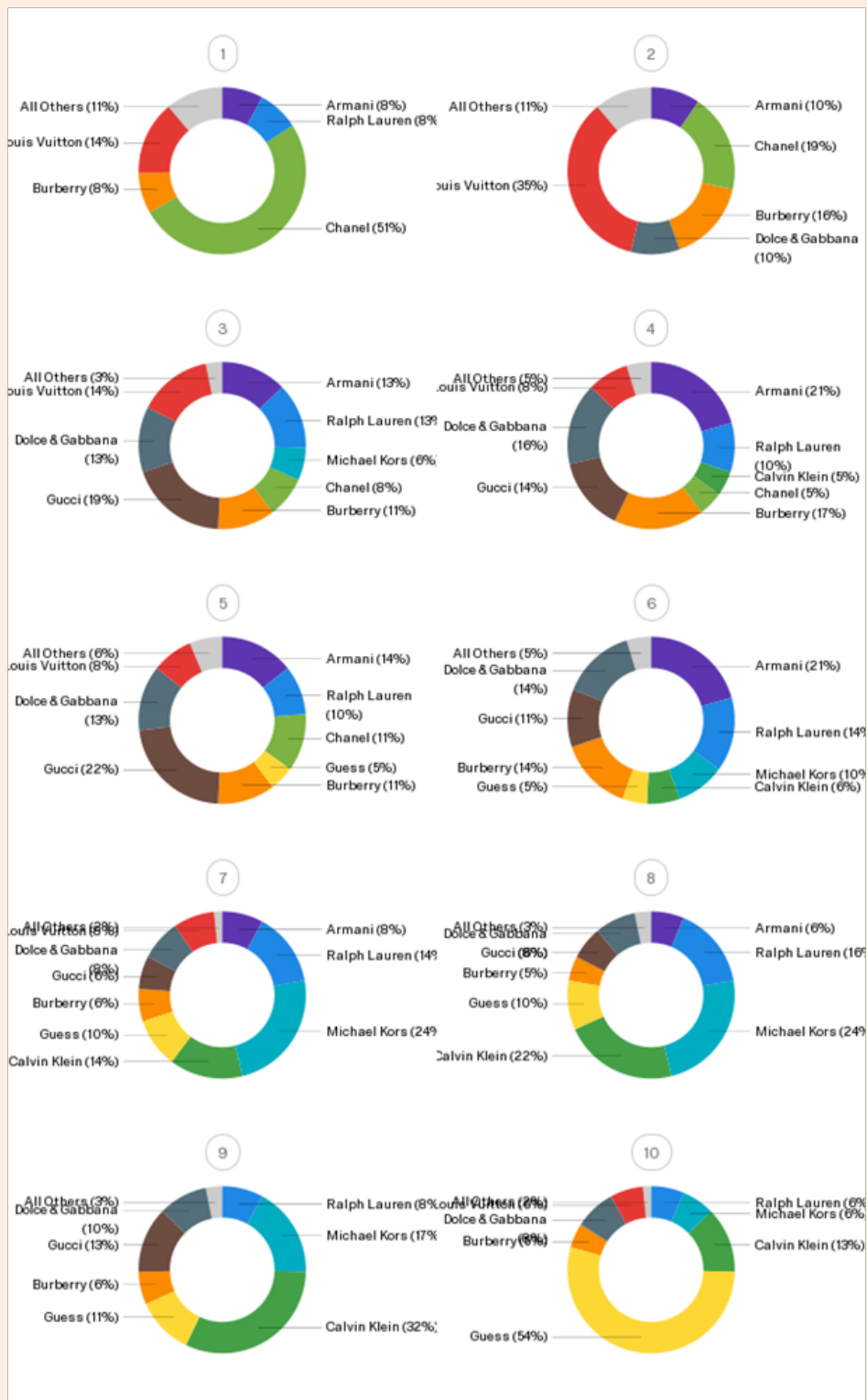


Figure 10: Graph - Rank the following luxury brands from the most luxurious to the least luxurious one, according to your perception of luxury. (1 being the most luxurious and 10 being the least luxurious).

set of shared values, which makes Armani recognizable and gives the brand coherency.

- b. Yet, it helps if these extensions are in distinct sub categories which are not self-competing or have the potential to cannibalize the main line of business. They must be well thought of and shouldn't be guided by commercial interests alone. In fact, they should be done after assessing or creating a latent need keeping the sub contact of the consumer base in mind. Because of the subjectivity involved in the perception of luxury, brand extensions are a double-edged sword, so should be a slow well thought of process.

- c. Overall it can be said, that only a strong brand should be expanded. Otherwise the brand will lose some of its authenticity and even its perceived quality and uniqueness which were both very important parameters to the asked test group. As our study has shown, consumers want 'their' brands to stay high in value and true to themselves. Downgrading the portfolio is not really appreciated by consumers. In total, every brand needs to seize on its own what expansions could make sense for its identity. Giorgio Armani was this successful because he never let an expansion 'water' the values of his brand.

Table 2: Cross table of definition of luxury and revenues.

S. No		0-10 000€	10 001-20 000€	20 001-30 000€	30 001-40 000€	40 001-50 000€	50 000€ and above
1	Extravagance	12.8%	0%	4%	0.8%	1.6%	0.8%
2	Rarity	8%	2.4%	4%	0.8%	1.6%	0.8%
3	Longevity	10.4%	1.6%	1.6%	0%	0.8%	0%
4	Uniqueness	11.200%	5.600%	4%	0%	0.8%	1.6%
5	Handcrafted	12%	0%	3.2%	0%	0.8%	0%
6	Exceptional services	12.8%	4.8%	4%	2.4%	2.4%	1.6%
7	Heritage	8%	3.2%	1.6%	0%	0.8%	0.8%
8	Quality	17.600%	5.600%	8%	3.2%	1.6%	0.8%
9	Price	14.400%	1.6%	4.8%	1.6%	1.6%	0%
10	Brand image	13.600%	0.8%	3.2%	1.6%	0.8%	0.8%
11	Others	0%	1.6%	0.8%	0%	0%	0%

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Conflict of Interest

There is no conflict of interest.

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